

THE BUSINESS OF POWER
Canadian Multinationals in the Postwar Era

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ABSTRACT

The modern corporation is the dominant institution of the Canadian political economy. Does this imply that ‘corporate power’ is a meaningful concept in the Canadian context? What role has globalization played in restructuring the corporate sector? Are large firms controlled by salary-oriented managers or profit-seeking proprietors? Do mergers and acquisitions fuel the expansion of large firms? Why has Canada experienced slower GDP growth in recent decades? And how can we account for the level and pattern of Canadian income inequality? These and other questions are probed in this dissertation using tools from a variety of heterodox political-economic perspectives, including Nitzan and Bichler’s ‘capital as power’ framework, Institutionalism and Post Keynesianism. The reader will be introduced to some of the assumptions, concepts and theoretical claims that steer the research. The history of Canadian business will be reinterpreted and scholarship on the modern corporation surveyed. This will set the stage for an examination of large firms, or ‘dominant capital’, in Canada over the postwar period. This study provides the first long-term estimates for aggregate concentration and for corporate amalgamation. It devises metrics to capture the distributive struggle between capital and labour and for the globalization of merger activity. The structure of corporate ownership is laid bare, linkages between amalgamation and concentration are established and the association between the growth of large firms and GDP stagnation is charted. The dissertation closes by establishing points of contact between the amassment of corporate power and income inequality.

*To my loving parents, Chris and Wayne,
for their inexhaustible support.*

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That which is true or valuable in the pages to follow is partially attributable to those named above. Only the errors, inconsistencies and omissions are exclusively mine.

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PREFACE

On the eleventh of September, 2001, the scales fell from my eyes and I awoke into political consciousness. As a North America born under the protective blanket of postwar security, the carnage of that historic day was emotionally and psychologically destabilizing like nothing I had ever experienced. In hindsight, it was not so much the fact that airplanes were deliberately steered into the World Trade Centre and the Pentagon that shook me; it was the meaning of the event that I could not comprehend. Why would human beings be motivated to undertake such a horrendous act? Nothing in my experience prepared me to assimilate that event into a broader map of meaning.

The terror of that fateful day demonstrated to me more clearly than any scholastic lecture ever could how little I understood about the world around me. As a consequence I became determined to learn how the world works, but as a major in economics, accounting and finance my studies did not seem to adequately prepare me to understand human activity outside of business. I began to read the newspaper as a way of getting in touch with broader events, and this helped somewhat, but even the language used in ordinary news reporting was outside my grasp. People used terms like ‘globalization’ and ‘solidarity’, spoke regularly of ‘liberalization’ and referred to institutions like the World Bank and IMF, but I had great difficulty navigating the torrent of information that was coming my way. I soon realized that if I was to understand something as straightforward as the daily news I needed a broader intellectual frame within which to view the micro activity of daily events.

I started expanding the scope of my readings to include scholarship in a broad array of fields, including philosophy, politics, history and psychology. After receiving my B.A., I took a job as a researcher at an economic policy think tank. Even though I felt fortunate to have secured such a stimulating job, the most exciting part of my day was the time spent outside the office, voraciously reading whatever I could get my hands on. One short year after completing my undergraduate studies I re-enrolled in a year's worth of political science courses — a field I had managed to entirely avoid as an undergraduate. I was unsure of what I wanted to learn, but politics seemed to be a broad enough area to hold my interest. A course in the history of Western political thought seemed particularly promising. Reading Plato's *Republic* had a profound effect on me. It was captivating and beautiful. It asked big questions about justice and the meaning of human life. It blended philosophy with politics by exploring the linkages between knowledge and power. It advertised a life of virtue and packaged its message in a compelling dialogue. I had found what I was looking for. Reading Plato's dialogues made me want a future that included contact with big ideas.

The following year I enrolled in a Master's program in political science, specializing in the history of political thought, with the objective of graduating to a doctoral program and then, more distantly, a career in academia. My early years in the doctoral program brought me to Professor Jonathan Nitzan's graduate courses. Political economy was a subject that I found mildly interesting, but I could never get overly stimulated about trade agreements and industrial policy. Professor Nitzan's teaching and his writings with Shimshon Bichler brought the subject to life for me.

Instead of inflation being a mysterious process pertaining to increases in the price level, Nitzan and Bichler argued that inflation could be a power process nourished on social conflict which systematically redistributes income between different groups. Instead of mergers and acquisitions being a dull activity pertaining to the combination of businesses, Nitzan and Bichler claimed that corporate amalgamation could play a key role in restructuring broader social institutions. Instead of warfare in the Middle East being a phenomenon outside the domain of 'economics', Nitzan and Bichler made the accumulation of capital and mechanized warfare aspects of a broader social process. In short, instead of political economy being a subject whose historical significance resided in the past, when the Cold War struggle between capitalism and socialism raged, Professor Nitzan made the subject deeply contemporary in its significance.

Despite the appeal of his approach, I was apprehensive of working with Professor Nitzan. His ideas seemed extreme and yet I could not deny their appeal, to say nothing of their explanatory power. As a way of resolving this intellectual tension I made an agreement with myself: I would utilize Nitzan and Bichler's ideas (along with other Institutional and Post Keynesian thinkers) for my dissertation research without committing myself to them. The ideas would have to demonstrate their usefulness to me in practice. In a loose sense I would 'test' the validity of the ideas by putting them to work and seeing what they could help me uncover. I decided to probe the history of Canadian capitalism from the standpoint of 'dominant capital' — one of the core concepts in Nitzan and Bichler's toolkit.

This study explores the postwar development of large Canadian-based firms from the standpoint of institutional power. Examining business behaviour and performance from a power perspective is unorthodox, but it is not without precedent. Thorstein Veblen, Gardiner Means, Adolf Berle, Michal Kalecki, J.K. Galbraith and other heterodox political economists in the twentieth century incorporated power into their explanatory picture. Nitzan and Bichler, of course, put power at the centre of their analysis. In what follows, I will utilize some of the ideas of the thinkers mentioned above, but I do not claim any allegiance to them. Nor do I endorse any normative vision or political program that may be associated with these ideas.

Over the past decade, my academic life has been largely devoted to studying intellectual systems. As a consequence, I have grown cautious of commitment to any particular ideological belief. This is not to say that epistemological relativism, ethical relativism or nihilism is an endorsable position. Rather, ideological and utopian thinking itself can be a danger. This study is a dual exploration: the explicit object of inquiry is the development of large firms, but the implicit object of inquiry is the validity of the multiple heterodox political-economic perspectives that are employed. To my mind, there is explanatory utility in studying the development of large firms from the standpoint of institutional power, but this is a judgement best left to the reader.

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May, 2014
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**Introduction:
Problematizing Canada's Fiscal Fiefdoms**

It isn't merely the origin of a city that we're considering, it seems, but the origin of a luxurious city... [So] let's study a city with a fever, if that's what you want.
- Socrates in Plato (1992)

In their joint investigation of the nature of justice, Socrates and his interlocutors agree that they should first look for it in an ideal city — a 'city in speech' or *kallipolis* — because, given its larger size, it will be easier to find there than in the human soul. The first step in this rather strange undertaking is to identify the founding principle of the *kallipolis*: lacking self-sufficiency, individuals are compelled to cooperate in order to survive. From there, Socrates claims that the city in speech will require agricultural surplus and a division of labour in order to meet the requirements of life (only later will they speak of the *good life*). After adding a few other categories of employment, namely tradesman and merchants, Socrates suggests the ideal city is complete. Each individual has an occupation which contributes to the harmonious working of the whole and the *kallipolis* is structured to meet its material needs.

Content to begin searching for the feature of this city which makes it just, Socrates is interrupted by Glaucon, who objects to the Spartan structure of Socrates' linguistic metropolis. Glaucon protests that, lacking delicacies, Socrates has created a

city 'fit for pigs', as it is almost entirely without culture and so unsuitable for civilized life. Socrates absorbs the criticism and proceeds to address Glaucon's objection, but not before qualifying the nature of their undertaking: it isn't the origin of a city they're investigating, but the origin of a *luxurious* city, a city *with a fever* (Plato 1992: 47-48).

Modern people normally attribute the observation that material surplus and social conflict are necessary complements to that most famous of political pamphlets. When Marx and Engels claimed that 'the history of all hitherto society is the history of class struggles' (1848: 219), they were not making a novel claim, at least from an analytical point of view. Plato recognized that the ceaseless pursuit of material wealth begets social pathology ('fever'). The brilliance of Marx and Engels' claim was that it wasn't just a heuristic starting point; it was a historical truth claim which is supported by contemporary anthropology (Diamond 1999) and interpretive history (Wright 2006).¹ Before a society can have a recorded history it requires a class of people who have been freed from direct food production and can devote their time to literary pursuits. Societies without material surplus cannot sustain a divided class structure and so have no 'history' in the literary sense of the term.

Contemporary scholars are thinking and writing in the imposing shadow cast by Plato, not least because most researchers are stationed in his Academy. As the inventor of political philosophy, Plato was the first to write of the political world in a systematic way, fusing *logos* with *mythos*, a practice which has since been instituted in our

¹ Historical sociologists like Mann (1986: 216) claim that economic power has existed in all known civilized societies. Domination of one group by another through control over the production, distribution or exchange of resources is a civilizational universal. However, it was only in Classical Greece that class struggle is first observed as a stable feature of political life.

civilization. Part of the task of political philosophy is to fashion intellectual *kosmos* out of political *khaos*. Perhaps unsurprisingly, many of the great works of political philosophy have come at a time of crisis and disintegration. As the established orders of meaning begin to wither and the major institutions of society rupture, a great thinker emerges to explain, critique and occasionally rebuild the political world.

If institutional decay and disintegration have tended to attract the attention of political thinkers, institutional growth and development requires explanation as well. This study will explore the evolution of the largest corporate units in Canada, treated as a bloc, over the postwar era. This is an unusual object of inquiry. As a discipline, political science tends to confine its attention to the state and government, political parties and elections, citizens, their rights and other unambiguously 'political' phenomena. Economics includes business performance and markets in its domain of inquiry, but it is very rare for economists to examine business development from the standpoint of institutional power. If power is probed by mainstream economists at all it is often treated as residing outside the ordinary functioning of markets and business. Even Canadian political economy, for its part, has tended to concentrate its efforts on the transformation of the Canadian State and public policy. Few Canadian political economists have examined corporate development, even fewer from the standpoint of institutional power.

This study will explore the growth of one of the most important institutions in contemporary Canada: the large corporation. It will chronicle its origins and chart its development. Given the centrality of the corporate form in shaping social and political life, other institutions and processes (aside from large firms) will also be examined. By

the end of the study it is hoped that the reader will have a clearer picture of the evolution of postwar Canadian capitalism.

The present chapter has three parts. The first outlines some of the key questions to be addressed in this study, the second provides a condensed version of the argument and the third outlines the path that the argument will follow.

1.1 The Questions

The overarching question to be addressed in this study is whether corporate power is a meaningful category in the Canadian context.² This question presupposes another: is corporate power a valid concept to begin with? Some would argue that putting the two words together — ‘corporate’ and ‘power’ — is nonsensical. After all, *states* generate laws and enforce compliance in a given territory. *States* have a monopoly on the legitimate use of violence. *States* project military power abroad. Corporate institutions do not have the authority to legislate, nor can they compel obedience through the use of force. Corporate units operate through voluntary contracts, not coercive laws. Given this consideration, it is not obvious that ‘corporate power’ is a valid concept, especially if power is understood to be bound up with rule-making, rule-enforcement and the lawful use of violence. Accordingly, before we explore the meaning of corporate power in Canada we will have to explore the meaning corporate power as such. Once corporate power has been defined

² American-based multinational corporations played an important role in the development of Canadian capitalism. However, their inclusion in this study would significantly expand its scope, pushing it to unmanageable proportions. Accordingly, the focus will be on the universe of Canadian-based firms.

and analyzed, we will be prepared to explore the evolution of this form of power in Canada.

Jonathan Nitzan and Shimshon Bichler (N&B hereafter) have forged new concepts and developed new measurements to better understand the power-rootedness of contemporary capitalism. 'Dominant capital' is a concept they have developed to capture an entity encompassing the largest firms and key government organs that stand at the centre of the political economy. In what follows, 'dominant capital' will denote the largest Canadian-based firms, thus retaining a more conventional notion of the state. Large firms developed in historical time, so can we put an approximate date on the emergence of 'dominant capital' in Canada? When examining the history of large firms in Canada, does it make sense to separate economics from politics? Can state power be easily distinguished from corporate power? Did the development of large firms bear any relationship to the development of the Canadian State? And what role did large firms play in shaping the development of Canadian society more generally?

Liberals, Marxists, Institutionalists, Managerialists and scholars working in other schools of thought tried to make sense of the development of the modern corporation in the twentieth century. How have the various schools of thought defined corporate power? What measurements have been developed to quantify corporate power and what is their explanatory utility? The growth of large firms in Canada has attracted the attention of historians, journalists, sociologists and political economists. There is a sizeable literature in the economic sociology of Canadian corporate power, debating subjects as broad as the role of foreign-based firms (mainly American) in steering

Canadian industrial development to subjects as focused as the attributes of Canada's business class. How have Canadian scholars understood the development of large firms? What remains to be understood?

If dominant capital is a meaningful category in Canada, how many units comprise this entity? If differential accumulation is the generative process of the modern political economy, as N&B maintain, how has it unfolded over the postwar era? Managerialists would have us believe that large firms are controlled by salary-oriented managers as opposed to profit-seeking proprietors. Is this true for Canada? Who owns and who controls the largest firms in Canada? And how globalized is Canadian corporate ownership?

At this point, an important caveat must be stated. Corporate power manifests itself in multiple domains. The power of large firms is (perhaps) most visible in the direction and pace of industrial development, but another forum in which corporate power is apparent is public policy. At various points in this study we will explore how large firms have shaped (and benefitted from) Canadian public policy, but this will not be the focus of the research. The impact of dominant corporations on the evolution of Canadian public policy resides in the background of the analysis; rarely will it occupy the foreground. The cohesiveness of dominant corporations as a public policy bloc is a subject sufficiently expansive to warrant its own study.

Large firms have multiple accumulation pathways open to them. N&B (2002; 2009) specify four: green-field investment, mergers and acquisitions, cost-cutting and stagflation. Which accumulation pathways have large firms historically traversed in

Canada? More specifically, what does the history of corporate mergers and acquisitions tell us about the development of large firms? Intuitively, we would suppose there to be a linear relationship between firm size and market power. Is this true for Canada?

Legislators, policy makers, economists and many other groups in Canada (including the citizenry at large) have expressed concern with the level and trend of GDP growth. Why did the Canadian political economy grow at a relatively rapid pace between 1940 and 1980 only to grow at a sluggish pace in subsequent decades?³ Does the slower growth of recent decades bear any relationship to the development of large firms?

Relatedly, inflation has been relatively low and stable in Canada for two decades. However, previous decades witnessed relatively high levels of inflation. Does the history of Canadian inflation shed any light on the development of large firms? Numerous heterodox scholars would have us believe that inflation is generated through distributive conflict between competing income groups. Does Canadian inflation tend to appear alongside social conflict? If yes, does Canadian inflation produce distributive 'winners' and 'losers'? In short, can Canadian inflation be thought of as a power process that systematically redistributes income between different income groups?

J.K. Galbraith (1952) would have us believe that labour unions act as a 'countervailing power' to large firms, at least in the American context. Is this relationship true for Canada? Has the institutional strength of organized labour played a role in mitigating income inequality? Relatedly, can the evolution of Canadian corporate power

³ Canada's growth path has not been unique. As we shall see, many OECD countries grew rapidly during the early postwar decades only to grow at a slower rate in recent decades. Despite this fact, we will concentrate on the Canadian growth experience and examine domestic causes, bearing in mind that there may be an international aspect to Canada's growth rate.

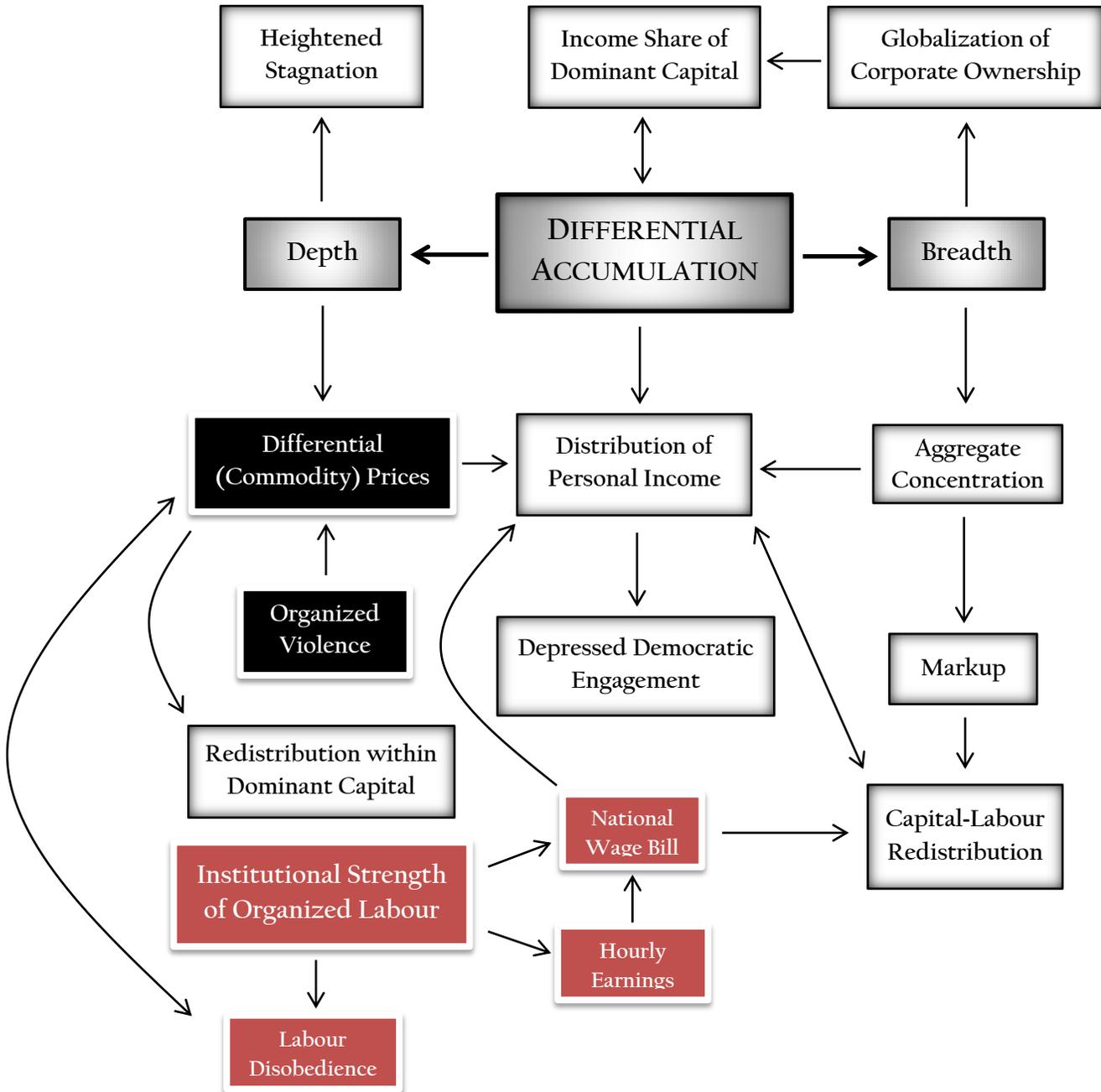
help explain the distribution of factor and personal income? And finally, if corporate power has grown in recent times does this threaten Canadian democracy in any way? These and other questions are addressed in the chapters that follow.

1.2 The Argument

An attenuated version of the argument, schematically represented in Diagram 1.1, runs as follows. Using Veblen's (1904; 1923) conceptual scheme, the modern corporation should be viewed as a business institution, not an industrial unit. 'Business' is distinguishable from 'industry' in the same way that the legal, organizational and institutional structure of the political economy is distinct from its material, productive and technological apparatus. Business centres on distribution and is institutionally embodied in the modern corporation. Industry centres on production and is most clearly manifest in the 'machine process'. Industry involves the utilization of socially generated and transmitted knowledge to control natural processes for the purpose of efficiently satisfying human needs. Business involves the utilization of social power to organize and control industrial activities for the purpose of private pecuniary gain. From this theoretical vantage point, the modern corporation is *not* a productive unit; it is a legal and organizational vehicle that enables proprietors to *control production* for the purposes of distribution.⁴ N&B build on Veblen to tell us that capital is finance *and only finance*. 'Capital accumulation', they say, does not entail the amassment of machinery, equipment or technological 'know how'. Instead, it involves the growth of capitalization.

⁴ This conceptual scheme implies that the term 'manufacturing capital' is a contradiction in terms while 'financial capital' is redundant.

Diagram 1.1
A Schematic Representation of the Argument⁵



⁵ At the centre of this study is differential accumulation — the drive by large firms to beat the average. The two main ‘regimes of differential accumulation’ — breadth and depth — form the twin tips of the study. Processes that grow out of differential accumulation are shaded in grey, processes that pertain to labour unions are shaded in red and processes which originate outside Canada are shaded in black (ignoring the fact that many of the processes that are ‘internal’ to Canada have international analogues as well).

'Differential accumulation', N&B continue, is the central process of the modern political economy and it involves large firms or 'dominant capital' striving to 'beat the average' and exceed some financial benchmark. This understanding of capital enables us to view the development of Canadian capitalism from an alternative perspective. Changes in technology, innovation, productivity and the like are important, but they are decidedly secondary to the way such changes are controlled and harnessed by major social organizations, including large firms, labour unions and the Canadian State. From this perspective, the development of Canadian capitalism is not primarily about the growth of the 'capital stock' (a fictitious entity) or the development of the 'forces of production' (which has little to do with 'capital'), but about the way business institutions (and other competing or complementary organizations) strategically control shifts in production, technology and broader social processes.

Viewing capital from the standpoint of institutional power alters the meaning of key junctures in Canadian history. Whether we examine the Act of Union in 1841, Confederation in 1867 or the North American Free Trade Agreement (NAFTA) in 1994, we find that state power and governance institutions were often generated by and for dominant commercial interests. Take Confederation, for example. It is customary to view Canadian-based corporations as emerging out of Canadian 'society', but it is historically defensible to argue that the Canadian State itself was the offspring of Canadian business, with the British Crown and British capital markets playing a partnering role. Comparable turning points in Canada's political-economic and governance structures were often initiated by, and served to bolster, dominant commercial interests.

Moving from the deep history of Canadian business to the postwar evolution of Canada's largest firms, we find that, when properly defined, corporate power is not only a valid concept; it is an indispensable tool to help us understand contemporary capitalism. 'Dominant capital' is a meaningful concept in the Canadian context. Though numerically small, the top 60 firms dominate and drive the Canadian political economy. Using numerous metrics, including the profit share of national income, aggregate concentration and differential accumulation, the power of these firms was low and/or lessening in the Keynesian era (1945 to 1980, roughly) and soared in the neoliberal era (1980 to the present). To a remarkable extent, the largest Canadian-based firms have controlling owners, contrary to managerial suppositions. This means that what is sometimes referred to as the 'capitalist class' (as opposed to a purely managerial class) is a coherent social entity in Canada. The relative growth of the largest corporate units in Canada implies that capitalist power has reached a historic extreme in recent times.

The main pathway that large firms take in their quest for differential accumulation is mergers and acquisitions. Corporate amalgamation has been a key driver of both asset concentration and differential accumulation. The merger waves of recent decades appear to have played a role in globalizing Canadian corporate ownership to a historically unprecedented extent. Evidence also suggests that Canadian firms have been acquiring foreign firms faster than the Developed Country average, thus challenging Arthur's (2000) claim that corporate Canada is being 'hollowed out'. The increased corporate concentration associated with mergers and acquisitions appears to have led to increased market power amongst large firms (as registered in the profit markup).

The four decades to 1980 witnessed rapid GDP growth and the three decades since 1980 brought comparatively slower growth for Canada. The shift from robust growth in the Keynesian era to the stagnant growth of the neoliberal era bears some proximity to the development of large firms. Both employment and business spending on fixed assets among the largest firms grew at a rapid pace between 1950 and 1980 and slowed considerably in the decades that followed. This may be part of the reason for sluggish growth after 1980. The income share and cash held by the largest firms remained relatively low in the Keynesian period and soared in the neoliberal period. Part of the slowdown in GDP growth may be due to the fact that large firms stockpiled cash on their balance sheet instead of investing it in growth-enhancing industrial projects. The motivation to 'hoard' cash includes the stabilization of earnings and dividend payments, which reduces risk and elevates equity market capitalization, and the enhanced ability to make strategic acquisitions.

Evidence suggests that as firms grew in relative size, their earnings margins increased and their income share deepened (as a percent of GDP). With a greater share of national income, large firms increased the extent of their control over private investment decisions. And because growth is driven, in part, by green-field investment, and the latter drastically fell in the neoliberal era as a consequence of heightened merger activity, it is logical to suppose that an increase in the relative size of the largest firms is associated with the deceleration of GDP growth. In other words, sluggish GDP growth may be the 'flip side' to greater aggregate concentration.

This dissertation offers an alternative understanding of Canadian inflation. Over the long-haul and in the aggregate, the rate of inflation tends to accelerate with global warfare-fuelled social crises. Inflationary episodes in Canada also tend to appear with social conflict of another kind, namely domestic worker revolts against proprietors. Long waves of labour disobedience appear to produce two outcomes: higher average wages and a higher rate of consumer price inflation. The institutional growth of labour organizations in tandem with the extent of workplace action appears to shape the average rate of worker compensation. Changes in the latter, in turn, help shape the overall price level. Canadian labour disobedience and worker wage gains are strongly inflationary.

When we shift from absolute to differential terms (and in so doing, embrace N&B's approach), we find that Canadian inflation has tended to redistribute income from large firms to small firms, from large firms to labour groups and from segments of capital to segments of labour. The 1970s may be an exception to this trend. In that decade, inflation tended to redistribute income from labour to capital and to dominant capital. Canadian inflation appears to be the product of a power struggle that is nourished on social conflict and which systematically redistributes income between different income groups such that we can meaningfully speak of distributive 'winners' and 'losers'.

Base commodity and producer price inflation also tends to increase with outbreaks of internationally organized violence. This type of inflation has systematically redistributive consequences within the corporate sector: because the Canadian equity

market is over-represented by firms operating in the base material and energy sectors, inflation of this kind has tended to redistribute profit and equity value to energy and base materials firms. This type of inflation has also tended to redistribute equity value between national equity markets, such that the Canadian corporate universe outperformed global benchmarks during episodes of global violence and underperformed during outbreaks of peace.

This interpretation of Canadian inflation has a number of public policy implications. Beginning in the late 1970s, the Canadian State and the Bank of Canada embraced an anti-inflationary monetary policy. If inflation is good for the working and middle classes and for smaller firms, and if inflation is harmful to large firms and the top income group, then one way of understanding the shift towards anti-inflationary monetary policy is to view it as the use of state power (presumably on behalf of large firms and the Canadian Establishment) to redistribute income from labour to capital, from small to large firms and from the lower to the upper echelons of the social hierarchy.

This dissertation measures factor income in a way that takes account of the class-based distribution of personal income. Corporate profit is divided by an *adjusted* national wage bill. The latter is measured as national wages and salaries less the wages and salaries portion of the top percentile income share. Using this metric, and in the light of J.K. Galbraith's 'countervailing power' argument, there is a tight and persistent relationship between the distributive struggle among capital and labour over profits and wages and personal income inequality. Corporate power and income inequality declined together from the 1940s through the 1980s. This was a period in which Canadian

unionization expanded rapidly. All three processes went into reverse after the 1980s: unionization declined, corporate power increased, and as a partial consequence, Canadian income inequality surged.

Finally, the growth of large firms in recent decades in tandem with the decline of labour unions has not only led to an increase in income inequality, but there is evidence to suggest that the overall level of Canadian income inequality plays a role in shaping the extent of democratic participation, such that higher levels of inequality are associated with lower levels of political participation and vice versa. If this is correct, then the growth of corporate power in recent decades not only exacerbates income inequality; it depresses the quality of Canadian democracy by lessening political participation.

These research results offer us an unconventional way of interpreting the broad political-economic meaning of neoliberal globalization in Canada. Rather than characterizing the neoliberal program as an ‘unleashing of market forces’ or as a ‘retreat of the state’, the evidence suggests that neoliberal globalization in Canada is primarily about the utilization of state power by dominant business groups to reconfigure the political economy. The alteration of corporate ownership and investment rules, the generation of anti-inflationary monetary policy and the reduction in personal and corporate income taxes, all amidst the institutional decline of labour unions and erosion of the fiscal and redistributive aspects of the Canadian State, have served to transfer national income from labour to capital and from the lower to the upper echelons of the income hierarchy. Far from reducing the application of power, neoliberalism in Canada has involved a concurrent increase in corporate power alongside the instrumentalization

of state power for corporate ends. This shift in power is registered in greater income inequality and reduced democratic participation, or so it is argued.

1.3 The Roadmap

The argument is built up through ten chapters, delivered in three sections. Section I comprises Chapters 2 to 4 and it lays the theoretical, historical and literary foundations for the research-based chapters in Sections II and III. Chapter 2 reviews, analyzes and elaborates some of the guiding assumptions, concepts and theoretical claims that inform the research. Because this research draws extensively on the institutionalism of Thorstein Veblen and N&B's approach to political economy, Chapter 2 sketches an outline of their respective thinking on capital. The chapter begins by presenting the reader with the neoclassical definition of capital. It then takes the reader through Veblen's critique of the neoclassical definition, Veblen's alternative vision of capital and some of the organizing concepts that Veblen deployed to make sense of the specifically American capitalism that was maturing in his lifetime. The latter half of the chapter introduces the reader to some aspects of N&B's approach to political economy. Because N&B's writings are relied upon extensively, subsequent chapters will review other aspects of their approach where they are relevant.

Chapter 3 reviews the development of Canadian business, examining how key transformations in Canadian society were driven by changes in the organization and behaviour of dominant commercial entities. The chapter explores the growth of Canadian business from Canada's pre-colonial status, through its colonial incarnations

— including Canadian State formation — and finally the ascent of the modern corporation in the twentieth century. It argues that a sharp separation of economics from politics is an analytical hindrance if we are to understand key junctures in the development of Canadian capitalism. Crucially, it maintains that an entity that could be classified as ‘dominant capital’ emerged with the railroad corporations and financial institutions in the latter half of the nineteenth century. Relatedly, the chapter argues that the emergence of the Canadian State can be understood, in part, as the offspring of Canadian business, with the British Crown and British capital markets playing a partnering role.

In Chapter 4 we assess how various schools of thought have understood the evolution of the modern corporation. The chapter begins by introducing the reader to the various approaches to Canadian political economy. This acts as a prelude to a review of how corporate power has been defined, analyzed and measured by scholars working in competing theoretical traditions. The chapter closes by reviewing what questions Canadian scholars have asked about the evolution of corporate power, what is valid in their answers and what remains to be understood.

Section II comprises Chapters 5 through 7 and it maps the growth of large firms in Canada over the postwar period. Chapter 5 begins to add substance to the concept of ‘dominant capital’ by chronicling the structure, numeric composition and the differential performance of the largest Canadian-based firms. The chapter provides the first continuous, long-term estimates for Canada’s aggregate concentration and it maps the aggregate and disaggregate history of corporate profitability in Canada and the United

States. Importantly, Chapter 5 addresses the managerial thesis by determining who owns and who controls the largest firms in Canada. The chapter closes by benchmarking the performance of Canadian equities globally and by determining the extent of Canadian corporate ownership abroad.

Chapter 6 explores one of the main accumulation pathways that large firms have historically navigated: mergers and acquisitions. This chapter provides the first continuous, long-term estimates for Canadian corporate mergers and acquisitions. It also explores the history of green-field investment. These processes are interesting in their own right, but the objective is to understand what role (if any) amalgamation has played in fuelling the growth of large firms. The chapter establishes linkages between amalgamation, concentration and market power. The history of Canadian cross-border amalgamation is explored and an alternative measure is developed — ‘differential cross-border amalgamation’ — to help address the question of whether corporate Canada is being ‘hollowed out’.

The early decades of the postwar era in Canada exhibited rapid growth while the decades since 1980 exhibited comparatively sluggish growth (stagnation). Chapter 7 maps the history of Canadian GDP growth and examines some of its determinants. Three variables are emphasized: the unemployment rate, green-field investment and government spending. The chapter questions whether rapid growth in the aggregate is something that large firm’s should, theoretically speaking, desire. Assembling claims made by Nitzan and Bichler, Veblen and Kalecki, an argument is developed as to why moderate stagnation is optimal for large firms. While Chapter 7 tries to understand some

of the long-term drivers of growth, the primary objective is to sort out what role large firms have played in propelling growth/stagnation in postwar Canada. Three aspects of large firms are highlighted: first, their size and income position; second, their decision to 'hoard' cash; and third, what bearing changes in the corporate income tax regime may have had on the first two aspects. There is evidence to suggest that stagnation may be a partial consequence of increasing corporate concentration.

Chapters 8 through 10 make up Section III and they provide a conceptual and empirical investigation of income and asset inequality in Canada. Chapter 8 builds on the research of others, notably that of Wilkinson and Pickett (2010), to argue that income inequality is of great importance in determining the overall well-being of a society. Using the data generated by Emmanuel Saez and Michael Veall (2005; 2007), Chapter 8 also maps the history of income inequality in Canada and tries to establish connections between inequality and democratic engagement. With the broad sweep of facts in the background, the chapter interrogates some of the main hypotheses advanced in recent times to account for the heightened inequality in some OECD countries. Using the ideas of Aristotle, Veblen, Kalecki, Galbraith, N&B and others, Chapter 8 also tries to conceptualize how an alternative explanation for the distribution of Canadian income might be generated. This alternative explanation emphasizes how shifts in the institutional environment — especially (but not only) the relative size of the largest firms, governmental organs and labour organizations — shape the conditions of exchange, and ultimately, the distribution of income and assets.

Chapter 9 probes some of the history of Canadian inflation and tries to determine what role increases in the price level may have had in redistributing income between different income groups. While the ultimate causes of inflation loom in the background, the focus of the chapter is on the intersection between social conflict, rising prices and the redistribution of income. This target is reached in a series of steps. The reader is given a tour of some of the thinking done on inflation by contrasting how some of the major schools of thought responded to the overt appearance of stagflation. Rather than power operating at a distance from market prices, the chapter argues that broad power processes have a bearing on price formation and on inflation. The chapter concretizes the relationship between power and prices by zeroing in on one commodity — labour power in Canada — to see if, or in what way, its price relates to power. The chapter also explores the points of contact between the internationally organized violence embodied in regional and global wars and various measures of inflation. Importantly, the chapter probes what role inflation has played in the development of large Canadian-based firms.

Whereas Chapter 8 lays out the problems to be solved — the distribution of factor income and personal income inequality — and tries to forge an interpretive framework, Chapter 10 empirically demonstrates that increasing corporate power is associated with a redistribution of factor income from labour to capital and from the lower to the upper echelons of the personal income hierarchy. Conversely, the institutional growth of labour unions is historically associated with the redistribution of factor income from capital to labour and from the upper to the lower echelons of the personal income hierarchy. The chapter unpacks the relationship between

unemployment and income inequality by exploring the dramatic redistribution of personal income during the Second World War. Chapter 10 closes by honing in on the top income share to discern if there are any long-term patterns which govern the distributive gains made by the superrich in Canada.

The objective of this dissertation is to empirically map and quantitatively document the postwar rise of large Canadian-based firms. A variety of theoretical tools are used in the service of this objective, most importantly the capital as power framework developed by N&B. It being a relatively new approach, we may wish to know how useful it is. N&B have used their theory to explore the power underpinnings of capital in Israel and the United States; does their theory hold in the Canadian setting? The eleventh and concluding chapter reflects on the aspects of N&B's approach that are (dis)confirmed by the Canadian evidence. As we will see, the capital as power framework is useful in the study of corporate power, and while some crucial hypotheses survive refutation in the Canadian case, others do not.

Theory and Method: A Power Approach to Political Economy

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.¹

- Gardiner C. Means (1983)

In 1955 Adolf Berle posited that ‘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). Instead of economic activity being coordinated through the push and pull of market forces, and instead of business decisions unfolding under conditions of fundamental uncertainty, Berle claims that large firms plan supply and demand, shield themselves from market discipline through internal financing, make decisions under fairly predictable conditions and administer prices. The modern corporation, he concludes, should be treated as a ‘non-statist political institution’ (1955: 44).

Berle goes on to issue a series of questions to political science, the discipline nominally concerned with power: first, what is the relationship between property and power; second, what are the main elements of power; and finally, which institutions organize power and how are they related to the state (1955: 11-12)? Mainstream political

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).

science has not offered a response to the questions (the *challenge*) Berle posed. Half a century later, Chandler and Mazlish (2005: 11) echoed Berle when they claimed that the multinational corporation is the 'new Leviathan of our time' and yet political science has systematically managed to 'ignore the subject'. This omission is all the more inexplicable, they say, when we consider that multinationals are beginning to personify core political ideas such as sovereignty and transparency. And while Chandler and Mazlish claim that multinationals do not pose a threat to the authority of states, they recognize that they are contesting state control over political-economic development (2005: 8-11).

The reason for the invisibility of 'corporate power' in mainstream social science is articulated by Robert Gilpin (1975: 5), who argues that economists are unwilling to concede the reality of power while political scientists tend to ignore markets. In other words, those who study the corporation do not believe that power is germane to their domain of inquiry, while those who study power think the corporation is outside the boundaries of 'politics'. There exists an academic blind spot, then, insofar as the multi-unit, vertically-integrated, globally-scaled corporation is simultaneously a power institution that often operates through markets. As a consequence of this blind spot, we understand very little of the ways in which large firms develop.

It appears that we are in something akin to uncharted territory in the endeavour to study the corporate form of power. Accordingly, we will need to begin with some basic questions. What is corporate power? Can corporate power be measured? If it can, what do the various measures tell us about the development of this form of power in Canada?

This inquiry will direct itself to the evolution of large firms or ‘dominant capital’ in Canada. ‘Dominant capital’ is a concept developed by Jonathan Nitzan and Shimshon Bichler (2002; 2009). Although they are not the only scholars to have examined contemporary capitalism from the standpoint of power, Nitzan and Bichler (N&B) have done some of the clearest thinking on the subject. Through decades of joint research, they have developed a framework for understanding capitalist development that puts power at the centre of the analysis. Because this inquiry will draw on N&B’s power approach to political economy, the present chapter will sketch a broad outline of some of the main aspects of their thinking. The review will be neither comprehensive nor argumentative; instead, it will survey some of the elements of N&B’s approach that are utilized in this study. Subsequent chapters will unpack N&B’s ideas in greater detail.

In building their approach, N&B draw on the ideas of other thinkers, including Michal Kalecki, Gardiner Means, and perhaps most importantly, Thorstein Veblen. Some of the assumption and concepts developed by Veblen, Kalecki and Means will also be used in this research, though not necessarily in the same way as they are used in N&B’s framework. Because his ideas will feature heavily in this study, the present chapter will also review and elaborate some of main assumptions and concepts developed by Veblen. Subsequent chapters will articulate and explore some of the ideas generated by Means, Kalecki and others.

The chapter will begin by briefly summarizing the neoclassical definition of capital. This will act as a springboard to Veblen’s writings on capital and political economy. This, in turn, will set the stage for a review of the broad contours of N&B’s approach to political economy.

2.1 Capital as a Gateway to Political Economy

The capital as power (CAP) framework grows out of a dual dissatisfaction, one theoretical (philosophical) the other practical (political).² N&B would have us believe that mainstream and radical approaches to capital are deeply flawed. This is significant because without an adequate understanding of capital we are liable to fundamentally misconstrue contemporary capitalism. Capital is at the centre of capitalism and our in/ability to accurately define this single institution has a bearing on other important theoretical and practical matters such as the price system and the distribution of income, for example. This study will explore the development of the Canadian political economy through an investigation of the largest Canadian-based firms ('dominant capital'). Accordingly, it will be impossible to understand the development of dominant capital in Canada if we do not have a clear idea of what capital is. So why not accept the mainstream conception of capital?

The most common understanding of capital today is neoclassical in origins. Rooted in the ideas of John Bates Clark (1891; 1899) and Irving Fisher (1896; 1906; 1930), for three generations Paul Samuelson was among its most influential exponents. For Samuelson and the neoclassicists, capital is produced means of production, or artefacts (output) used in the production process (as inputs). This definition has been revised to include intangible assets such as software, patents and brand names, so the materiality of

² N&B claim that the dominant approach — neoclassical economics — is inherently ideological. Neoclassical economics is 'an ideology in the service of the powerful' because the capitalist class uses it to 'conceal its own power' from plain view. The supposed scientific status of neoclassical economics doubles as its social function, for it legitimizes the institutions underpinning capitalism. The essentially political function of *Capital as Power* is to tear down the veil, laying bare relations of power so that people may act to bring about 'a new social reality' (2009: 3). The normative and political undertones in *Capital as Power* will be dissociated from the socially scientific ideas utilized in this study.

capital has been broadened to include immaterial items as well (Samuelson and Nordhaus 2010: 352). When we push this idea to its end point we find that something is deemed 'capital' if it helps produce goods and services that generate 'utils' or units of pleasure (Nitzan and Bichler 2009: 126-30).

But this is only one 'side' of capital, according to neoclassical economics. The other side consists of financial assets, which represent monetary claims by one party against another. The former kind of capital stands in the 'real' economy, coming in the form of material-productive entities that have the capacity to augment output and satisfy human desire. The latter stands in the 'nominal' economy and comes in the form of pieces of paper or electronic records that facilitate exchange and act as legal claims on 'real' capital. In other words, financial assets are 'backed up' or 'supported' by 'real' assets. 'Capital goods' as physical things are mirrored by 'capital value' or financial wealth, the latter conceived as a stream of future earnings discounted to present value. So what's wrong with this understanding?

2.2 Veblen on Neoclassical Capital

Veblen is among the earliest political economists to generate both a rigorous criticism of the neoclassical definition of capital and a substitute definition. Veblen begins by indicting the neoclassical orthodoxy on methodological grounds. The objective of neoclassical thinkers, he says, is to arrive at a classificatory and taxonomic scheme of economic life through pure ratiocination or deduction of concepts from 'primordial metaphysical postulates' (1908d: 150). Veblen argues that this is a hopelessly unscientific

way of arriving at a definition of capital. Instead, he works towards a definition from observation of its usage by modern business people. At a minimum, this method has the chance of passing the test of usefulness because any definition of capital should be measured against how the term is actually used.

This methodological difference leads Veblen to make an important observation about capital: when one looks at its usage in business practice, one finds that it is not a physical category and cannot be specified in material-productive terms. Instead, it is a pecuniary term pertaining to investment (1908d: 151). But his criticism goes deeper than this. Veblen makes two arguments which shake the neoclassical definition of capital to its core. First, the assertion that capital is a material-productive entity breaks down when we face the fact of 'capital mobility'. Veblen's acute vision noted that when capital 'moves' from one location in the industrial geography to another, this does not entail the movement of physical objects. The continuity of capital is not predicated on a transfer of stuff, but is derived from the maintenance of ownership — something which is not a physical fact. The continuity is of an *immaterial* character, for it centres on legal rights and control (1908c: 196-7). The second argument centres on the recognition that 'capital goods', understood as physically abiding productive entities, cannot be aggregated because they lack a homogeneous quality. Capital as a monetary magnitude may be homogeneous, but physical equipment is heterogeneous. This fact makes the aggregation of capital impossible. This indictment is very serious, for if it is true it undermines much of the thinking of political economists since Adam Smith.

Political economists have conditioned themselves to think of capital as a stock of physical goods used in the production process. Neoclassical economics goes further when it posits that this stock of physical equipment is measurable in material-productive units. Veblen's indictment of the neoclassical is this: the neoclassical definition of capital as tools, machines and factories — material-productive equipment — might have had some validity in the eighteenth and early nineteenth centuries, but by the early twentieth century capitalists no longer think or act as if capital has a material-productive basis. He estimates that the usage of the term had changed fifty years prior, a fact which his contemporaries failed to note and which made their notion of capital as material-productive entities outdated (1908d: 161).

Beyond Veblen's damning criticism of the neoclassical definition of capital, N&B (2009: 77-83) argue that the Cambridge capital controversies made apparent the very serious technical difficulties associated with the neoclassical conception.³ What the controversies showed is that if 'economic output' relies on capital, classified as a factor of production and plugged into an aggregate production function, we need to be able to quantify and aggregate capital in material-productive terms. Without a material quantum of capital we have no production function, no convincing way of explaining (and for some, justifying)⁴ returns to capital and no marginal productivity theory of distribution. And because 'distribution theory is a special case of the theory of prices', as Samuelson and Nordhaus (2010: 288) say, we lose other concepts that are central to

³ Initiated by Robinson (1953-54) and named by Harcourt (1969), the Cambridge capital theory controversies unfolded from the mid-1950s through the mid-1970s and encompassed a theoretical debate between economists stationed in Cambridge England and their opponents in Cambridge Massachusetts.

⁴ Moseley (2012a; 2012b) is an exponent of this position.

mainstream economics. A survey of the Cambridge capital controversies claims: ‘on a theoretical level, the “English” Cantabrigians won the round over aggregate production functions’ (Cohen and Harcourt 2003: 206). The impossibility of measuring and aggregating heterogeneous capital goods in physical units led economists since Wicksell to use capital valuation, an untenable move, the writers claim, because of its circularity.

If the neoclassical definition of capital is invalid for the reasons that Veblen spelled out, and if its measurement poses insurmountable technical obstacles as the Cambridge Capital Controversies showed, is there an alternative conception of capital that does not exhibit these limitations?

2.3 Veblen’s Conception of Capital

Veblen not only dismembers the neoclassical definition of capital; he outlines an alternative conception in the form of a speculative history.⁵ The starting point for this story builds on the recognition that, from an economic standpoint, human beings have never led a solitary, self-sufficient existence. The phenomenon of human life always unfolds within communities. Veblen’s question is this: what makes the continuity, coherence and development of community life possible? His answer: the conditions of the possibility of group continuity, now or at any time in the past, rest on *immaterial* foundations. What does this mean?

One interpretation runs as follows: Veblen would have us believe that the ‘life activity’ of a community is made up of relations between individuals and between

⁵ ‘Speculative’ because Veblen never documents his claims historically. His ideas are generated in the course of a thought experiment. The following account is extracted from Veblen (1908a; 1908b).

individuals and the world of objects. In order to satisfy the requirements of life, human beings must transform natural objects and processes to suit human needs. The taming of brute nature requires knowledge, mainly practical and habitual, but eventually theoretical and abstract. This knowledge or *technology*, which Veblen refers to as 'immaterial equipment', is the cumulative knowledge of 'ways and means' and represents the accumulated wisdom of previous generations (1908a: 525).

Part of this 'immaterial equipment' is the knowledge required to transform non-human nature into socially useful objects, but another part is the making of social needs in the first place, something which varies over time. Mobile phones, for example, would be about as useful for securing group continuity in a hunting-and-gathering society as a spear would be for securing comforts in a modern city. Both objects are of human invention and both are technological achievements, but their usefulness comes in relation to what Veblen calls the 'state of the industrial arts', i.e., the socially accumulated wisdom of previous generations. From a Veblenian perspective, it is community life or 'culture' which makes something an instrument of needs satisfaction to begin with.

Veblen did not develop a theory of valuation even though he was deeply critical of neoclassical conceptions of value. But if we are to speak about 'needs' or 'wants' and their satisfaction we are effectively speaking about the domain of values. Peterson (1999: 33) would have us believe that the positive or negative valence associated with an object is generated through culture, not just nature. Modern people are accustomed to thinking of needs and their satisfaction in biophysical terms, i.e., as having a transcultural basis. Using the methods of science, Peterson tells us, we can gain an understanding of what an

object is, i.e., we can examine its sensory apprehensible qualities. But that does not address the question of value. From a phenomenological standpoint, Peterson continues, the motivational and emotional *significance* of an object is a consequence of cultural development. Different cultures can assign different values to the ‘same’ object (e.g., think of the cow in contemporary Canada — a farm animal, a mammal, a commodity, etc. — versus a cow in Hindu India). The cultural significance of an object cannot be reduced to its sensory apprehensible qualities, i.e., physical facts. Whereas Veblen roots knowledge in the ‘life history’ of the community, what his vision lacks, and what political economy still lacks, is a more encompassing understanding of human values, both how they are generated and why they evolve over time. What we need to understand, for now, is that appraisals of value are culturally mediated.

Veblen tells us that all knowledge is created as a result of the life activity of the community and all invention and innovation add to the immaterial foundations which support the group. This knowledge is beyond the capacity of any one individual to master or acquire and the history of its growth is the history of the development of material civilization (1908a: 521).⁶ As the immaterial equipment grows in size and complexity — here comes the speculative part — a larger unit of material equipment is required to carry on productive activity. Private ownership of material equipment, Veblen says, effectively enables an individual member to ‘corner’ the accumulated knowledge of ‘ways and means’ that become embodied in physical objects.

⁶ When it comes to technological change, Diamond (1999: 245-6) argues that it develops cumulatively rather than in isolated ‘heroic acts’. What’s more, he claims that the adoption of new technologies is dependent upon many factors, including ‘compatibility with vested interests’, a most Veblenian assertion!

One of Veblen's core contentions is that private ownership of industrial objects and land effectively enables a member of the group to control the community's technological inheritance through the limitation of access. An institutional arrangement of this kind gives a small portion of the community effective control over the group's industrial possibilities. In Veblen's words:

...any person who has a legal right to withhold any part of the necessary industrial apparatus or materials from current use will be in a position to impose terms and exact obedience, on pain of rendering the community's joint stock of technology inoperative to that extent. Ownership of industrial equipment and natural resources confers such a right legally to enforce unemployment, and so to make the community's workmanship useless to that extent. This is the Natural Right of Investment (1923: 65-66).

In a similar vein:

...under the regime of capital, the community is unable to turn its knowledge of ways and means to account for a livelihood except at such seasons and insofar as the course of prices affords a differential advantage to the owners of material equipment. The question of advantageous — which commonly means rising — prices for the owners (managers) of the capital goods is made to decide the question of livelihood for the rest of the community (1908b: 108).

Veblen supplies the example of rent to clarify the meaning of his contention before dealing with capital proper.

Rent, he says, is a pecuniary concept based on 'differential gain' and relying upon 'differential advantage' (1908a: 529). The ultimate grounding of rent is conditioned by the productive efficiency of the land. We should understand his use of the term 'productive efficiency' as being synonymous with the 'state of the industrial arts' — the accumulated wisdom allowing individuals to convert natural objects and processes to human need. The landlord's sociological position as a claimant on the net product of the land is conditioned by his legal right to decide if, to what extent and on what terms other people will employ the community's immaterial equipment to extract something of use from the

land. It would be a near impossibility, Veblen says, to assert that the landlord's privileged position rests upon expert knowledge or productive activity. Instead, the landlord's elevated social position relies upon his relation to the property regime. The latter is rooted in the coercive apparatus of society.

If we transpose this argument onto what neoclassical economists call 'capital goods', Veblen continues, we arrive at similar conclusions. Each piece of industrial equipment is the product of individual labourers. But the productivity of any individual labourer is conditioned by the immaterial technological equipment, which is accumulated over the community's life experience and initiative (1980a: 531).⁷ Veblen notes that when Adam Smith was writing it could safely be assumed that the person who owns the physical equipment ('capital goods') had a hand in directly producing it. In Veblen's time this assumption no longer held. Capital goods are controlled by the 'capitalist-employer', who no longer plays an industrially productive role in economic life, but who shapes the industrial process through the ownership and control flowing from business enterprise. With business consolidation, more and more of the community's technological knowledge is effectively controlled by fewer people. Capitalist-employers become de facto owners of the community's aggregate store of technological knowledge. Control over access to this knowledge is secured through business institutions and practice, which puts the business owner in a position of power in relation to the industrial community.

⁷ One reason Veblen rejects Marx's notion that labour is the ultimate source of value, and so the basis of business profitability, is that the 'productivity' of any given labourer is a function of the state of the industrial arts, which belongs to the community as a whole. Just as a piece of industrial equipment is 'productive' in relation to the community's immaterial equipment, so too the work of any given labourer is 'productive' in relation to that same immaterial equipment.

If this is true then the 'returns on investment' that the capitalist collects is withdrawn from the aggregate material productivity of the industrial community's workmanship. Veblen argues that we cannot assume proportionality between 'returns on investment' and the industrial productivity of 'capital goods', as the neoclassicists are in the habit of doing (1908b: 106). The use of physical equipment contributes to the creation of goods and services, but the extent of this contribution cannot be determined. In short, the outcome of the industrial process is not a direct consequence of the owner. Instead, it is a product of the workmanship of the industrial community. The latter, however, grows out of the immaterial-technological situation, i.e., the accumulated practical and theoretical wisdom of previous generations.

This assertion is in stark contrast to the neoclassical doctrine espoused by one of Veblen's teachers, J.B. Clark. Clark's theory set out to show how, under certain conditions, the distribution of income between the various 'factors of production' and the income of any agent of any factor is in proportion to the marginal productivity of that factor or agent. In Clark's words:

...the distribution of the income of society is controlled by a natural law, and that this law, if it work[s] without friction, [will] give to every agent of production the amount of wealth which that agent creates (1899: 1).

The marginal productivity theory of distribution, as it came to be known, contends that capital goods are productive and that a portion of earnings are therefore attributable to the capitalist. This theory offers both a positive explanation for distributional reality and a normative theory of distributive justice. Clark's theory is still cited by the neoclassical thinkers as key in the development of the neoclassical theory of income distribution (Samuelson and Nordhaus 2010: 302, for example).

But if Veblen's claims have validity then the neoclassical theory crumbles because ownership of physical equipment is not an industrially productive activity. Indeed, inhibition and withdrawal of access to physical instruments may generate an income which can be capitalized. Veblen's seemingly bizarre claim is that the inhibition of industrial efficiency — the withdrawal of access or restriction of output — may alter the flow of income to the owners of physical equipment in a way that can be capitalized, and indeed, elevate capitalization. But Veblen warns that the curtailment of industry would only be expedient on pecuniary grounds, never on industrial grounds. The retardation of industry might confer a differential business advantage to the owner of physical equipment, but this comes at the expense of the industrial serviceability and efficiency of the community's workmanship (Veblen 1908b: 107).

A simple example drawn from an ordinary reporting of business affairs will illustrate. The headline reads 'Potash producers slash output to protect prices'. Fearful that potash prices could collapse, major potash firms like Russia's OAO Uralkali and Canada's Potash Corporation are cutting output 'amid record volumes and an investor view that more fertilizer will be needed over the long term to feed the world's growing population'. An executive from Uralkali notes: 'our strategy is that price is much more important than volumes' (read: industrial considerations [*volume*] are subordinate to business considerations [*price*]), adding 'it's a strategy for most of the big players in the market'. Saskatchewan-based Potash Corporation is the world's largest potash producer (read: *controller* of potash production). It announced that, despite doubling its dividend and maintaining its earnings power, the company was temporarily shutting down some

of its Canadian mines, the total of which represent approximately 10 percent of its operating capacity. For reasons like this Potash Corporation is taken to be an ‘industry disciplinarian’ since ‘it will bear much of the burden of cutting production to balance industry fundamentals and mitigate the scale of inventory gains which could otherwise occur’ (Bouw 2012).

In this example we get a taste of what Veblen had in mind. Production is becoming too efficient and must be curtailed in order to defend the profit-pricing structure that serves the differential business goals of the owners. Industry is restricted by management (in the name of owners) not because farmers do not need the product — projections are that farmers will need even more potash in the future; rather, Potash Corporation wants to discharge the product at higher, more profitable prices. Too much industrial efficiency leads to larger inventory, which puts downward pressure on prices. From the farmer’s point of view and from that of the rest of society the latter is desirable.⁸ But from the owner’s point of view, too much efficiency is a threat to their differential pecuniary goals. Through management, owners curtail industrial efficiency with a view to price inflation and enlarged profits (read: redistribution).

According to Veblen, the capitalist-employers’ quest for ‘differential advantage’ wins out over the ‘economic advantage’ of the industrial community (1908b: 107). In sharp contrast to J.B. Clark and the entire neoclassical edifice of capital and distribution theory, Veblen contends that:

...the substantial core of all capital is immaterial wealth... if such a view were accepted...the ‘natural’ distribution of incomes between capital and labour would ‘go up in the air’... The returns actually accruing to [the capitalist]... would be a measure of the differential

⁸ On this point we ignore the potentially negative environmental impact of increased potash production.

advantage held by him by virtue of his having become legally seized of the material contrivances by which the technological achievements of the community are put into effect (Veblen 1908c: 200).

If this is true then we do not have reason for assuming some proportionality between gains from investment and the industrial serviceability flowing from physical equipment. The link between production and distribution is tenuous at best and non-existent at worst. Instead, the distribution of income is shaped by (and so partially manifests) socio-institutional power.

N&B agree with Veblen when they argue that capital is finance (*immaterial wealth*), but before we review their approach we need to review two more aspects of Veblen's approach to political economy because they will play an important role in the organization and interpretation of this research.

2.4 The Business Regime and Modern Political Economy

The study that brought Veblen scholarly repute and popular fame was his *Theory of the Leisure Class* (1899). In it, Veblen not only set out to establish the manners and motives of the leisure class in America; he also explored the broader conditions which make a leisure class possible as well as the general interplay between the class structure and material civilization. In the course of his inquiry he generated potent analytical categories that were developed in subsequent studies, notably *The Theory of Business Enterprise* (1904) and *Absentee Ownership* (1923). Veblen's unorthodox notions of capital are closely related to two analytical distinctions: first, workmanlike and predatory motivations; and second, industrial and business institutions. We will deal with each in turn.

Neoclassical orthodoxy begins its inquiry with the ‘economic problem’: individuals are thought to face a perpetual deficit between unlimited desire and the limited capacity to satisfy desire. The legitimate purpose and driving motivation behind work and acquisition is presumed to be consumption of the goods produced or acquired. Desires may be physiological, psychological or aesthetic, but the ultimate end of economic activity is understood to be desire-satiating consumption. As Veblen saw it, the pleasure pursuit/pain avoidance vision of human motivation was incomplete. Besides being narrow, it misses the effect that a stratified, hierarchical society has on human motivation. People are moved to acquire and consume not only for the sake of hedonistic gratification, but for the sociological sake of status differentiation.

Veblen contrasts the motivational energy on the upper and lower ends of the social hierarchy to demonstrate the mixed motives at work. Work and acquisition by those on the upper end cannot meaningfully be reduced to the need to ‘put food on the table’. The motivational energy, beyond a certain point, has more to do with emulation, status, envy, honour — and we may add, power — than it does with bodily need.⁹ Pecuniary wealth confers these social affects (1899: 25-26). People look above themselves in the social hierarchy to see how the stratum directly above themselves conducts itself and they try to mimic the behaviour they see. But they also look down the social hierarchy and try to put as much distance between themselves and the social ‘average’. This is the broader meaning of Veblen’s terms, ‘pecuniary emulation’ and ‘conspicuous consumption’.

⁹ On the latter point, recall what Thomas Hobbes — one of the founders of modern political thought — says about human motivation: ‘I put for a generall inclination of all mankind a perpetuall and restlesse desire of Power after power, that ceaseth only in Death’ (1651: 161).

What motivates those on the low end of the social hierarchy? Veblen tells us that, at a minimum, sustenance and physical comfort compel people to work. However, those lower down the social hierarchy operate on the basis mixed motivations because they will not entirely sacrifice conspicuous consumption. Veblen observed that people will undergo material discomfort and deprivation before they sacrifice the modes of consumption that confer status (1899: 84-85). In other words, people are thrown into 'economic' action on the basis of sociological needs as much as physiological needs:

...the end sought by accumulation is to rank high in comparison with the rest of the community in point of pecuniary strength. So long as the comparison is distinctly unfavourable to himself, the normal, average individual will live in chronic dissatisfaction with his present lot; and when he has reached what may be called the normal pecuniary standard of the community, or of his class in the community, this chronic dissatisfaction will give place to a restless straining to place a wide and ever-widening pecuniary interval between himself and his average standard. The invidious comparison can never become so favourable to the individual making it that he would not gladly rate himself still higher relatively to his competitors in the struggle for pecuniary reputability (1899: 31-32).

Different motivational energies manifest themselves across the social hierarchy. The invidious comparisons attached to wealth predominant on the upper end are distinguishable from the physical comforts attached to things on the lower end. When it comes to accumulation and acquisition, differential status appears to be the main driver, at least from a Veblenian point of view.

These counteracting motivations are loosely mirrored by Veblen's distinction of 'business' from 'industry', terms which most people think of as synonyms but to Veblen were becoming closer to antonyms. Industry is the domain upon which the economic welfare of the community rests. This material-productive domain contains the inherited knowledge of previous generations and is calibrated through heterogeneous material

units. For Veblen, an activity is industrial insofar as the end sought is the expansion of human comfort and the means utilized are non-human things. Control over nature, not over other human beings, characterizes industry (1899: 10). Insofar as industry is directed at the efficient and innovative servicing of the community's needs, cooperation and synchronization are the requirements of success. Business, by contrast, centres on investment for profit. The language used is that of accounting and the units of measure are universal pecuniary values. The immaterial-financial business system is driven by capitalists competing for 'differential advantage' (Veblen 1904: 18), something which unfolds through acquisition, ownership and the extension of control. This, in turn, presupposes conflict amongst owners and between owners and non-owners.

If these two domains are inherently distinct, how are they related? In a word: hierarchically. Veblen argues that the 'industrial system is organized on business principles and for pecuniary ends [with the] business man [at] the center...' (1904: 27). In modern times, 'the large business man controls the exigencies of life under which the community lives' (1904: 8). Conceptually speaking, business overlaps with industry but is not coterminous with it. What's more, Veblen would have us believe that business activity cannot legitimately be placed under the heading 'production', as is commonly done. Instead, he postulates that it belongs under the theoretical auspices of 'distribution' (1919b: 296).

If Veblen gives us good reason to doubt the neoclassical theory of capital and distribution, and if he provides some of the building blocks to understand contemporary capitalism, N&B supply an overarching framework within which to conduct research.

2.5 The Conceptual Infrastructure of Capital as Power

N&B begin their construction of the CAP framework by tearing down two of the major dichotomies of political economy: the separation of the ‘real’ world of production and consumption from the ‘nominal’ world of prices and finance and the broader severance of the polity from the economy. They argue that these dualisms are hindrances to our understanding of capital.¹⁰ They propose that the accumulation of capital is the ‘generative’ process of contemporary capitalism and because neoclassical and Marxian conceptions of accumulation rest on these problem-ridden dichotomies, both approaches to accumulation are unworkable (2009: 153).

The major problem comes with the basic units of analysis or ‘elementary particles’, as they put it (Bichler and Nitzan 2006). To understand capital and the price system we require a theory of value.¹¹ A theory of value rests on a set of metaphysical assumptions about how market prices are formed. Neoclassical economics relies upon the ‘util’ and Marxism on ‘socially necessary abstract labour’ to explain relative prices. Here is where the dualisms come in: N&B tell us that both approaches conceive of the ‘real’ processes of production, distribution and exchange — denominated in quantitative terms of utils or abstract labour — to be mirrored by a ‘nominal’ world of prices. Furthermore, these ‘real’ quantitative processes are thought to unfold in the material sphere of the economy, at a distance from the power processes of the polity. N&B’s criticism is that utils and abstract labour have never been scientifically demonstrated to be workable or even logically consistent units. And the dualisms that they rest upon are

¹⁰ See Bichler and Nitzan (2006; 2012) and Nitzan and Bichler (2000; 2002; 2009) for a discussion of these dualities.

¹¹ Robinson (1962) elaborates on the place of metaphysics and value theory in political economy.

difficult to sustain. The result: neither approach arrives at a satisfactory account of accumulation.

At this point it should be noted that the validity of N&B's criticism of neoclassical and Marxian approaches is not the main issue. There has been plenty of criticism levelled at both frameworks, including questions of logical consistency and empirical validity. In short, we need not rely on N&B's criticism to reject neoclassical and Marxian approaches. The purpose of recounting N&B's critique is to trace how they reason *away* from these established frameworks and how they reason *towards* an alternative framework. Much of the scholarship that is reviewed and contested in the chapters to follow is rooted in neoclassical and Marxian traditions, which implies that these approaches must be taken seriously. And while this research is guided by numerous heterodox thinkers, at this point in the dissertation it is necessary to remain agnostic about which framework is the most useful in the study of large firms. By the end of the dissertation we will be prepared to comment on the usefulness of the CAP framework.

Consider the polity/economy duality. Modern people, insofar as they embrace liberal presuppositions, tend to approach the political in terms spelled out by John Locke. For Locke, political power centres on 'the making of laws with penalties of death' (1690: 8). Politics is institutionally defined through the state and government, governors and governed, coercive laws and obedient citizens, political parties and voters, rights and entitlements, etc. This conceptual arrangement of human association means that economics is functionally and institutionally separated from politics. Economics deals with the aspects of associational reality that are defined through markets and business,

employers and employees, voluntary exchange, the price mechanism and a host of other categories such as production, consumption, trade and investment. And capital, of course, is habitually placed in the latter domain. In the two domains agents pursue different goals, utilize different means, face differing incentives, manifest differing motivational energies and are embedded in different institutional environments.

The parcellization of associational reality into multiple domains might be theoretically tidy, but N&B claim (2009: 10) that it is an obstacle to understanding contemporary capitalism. In claiming that capital is a power institution, N&B seem to posit an unconventional understanding of ‘the political’. Contemporary linguistic usage conceives of the ‘political’ as something that is nested in and subsumed by in the ‘social’, but this is a wholly modern innovation. It appears that N&B’Ss conception of the political has more in common with the ancient Greek *politiké*, which may be thought of as the collectively intended institution of society, or the totality of collective life. This broader definition of the political encompasses laws, institutions, conventions, customs and ideology. Under this latter conception, capital is a creature of a broader human culture and thus is a political institution.¹² Contemporary academic usage has the political scientists concerned with power and economists with wealth. Drawing inspiration from N&B, this research will supplant the separation of ‘politics’ and

¹² The modern habit of thinking of politics as just one aspect of a broader entity called ‘society’ might be traceable to Hegel’s distinction between the state and civil society. Then again, the notion of ‘civil society’ is a Latin notion. For the Ancient Greeks there was no distinction between the political and the social. See Sartori (1973) for a discussion. The word ‘society’ derives from the Latin *societas* and *socius*, meaning non-Roman ally (Mann 1986: 14). This term had no meaning in Ancient Greek parlance and would have been redundant anyway.

'economics' with the much older term, 'political economy', and use it to denote an integrated system of wealth and power.¹³

Another duality which N&B challenge is the separation of the 'real' world of production and consumption from the 'nominal' world of prices and finance. They claim that the architecture of prices (an inherently quantitative system) and the broader socio-legal-historical institutions of society (which are inherently qualitative) are part of the same power processes (2009: 149). Instead of prices ('economics') being at a distance from power ('politics'), it appears that in their framework prices can manifest power. They further posit that all historical societies involve a mixture of social struggle and cooperation, and that, in capitalism, the pattern of (qualitative) conflict shapes exchange and the quantitative world of relative prices.

So the quantitative world of relative prices does not reflect another quantitative world of production or consumption, as mainstream economics supposes. Instead, it can partially reflect the qualitative world of socio-institutional power. Methodologically speaking, this means that analysis should unfold on two parallel levels: the quantitative world of business performance should be investigated side-by-side the qualitative world of power processes, thus making the fusion of quantity and quality an important method in this research.

Rejecting these dualities enables N&B to approach capital in a new way. As they see it, the organizing ritual of contemporary capitalism is capitalization and the

¹³ Many of the canonical thinkers of classical political economy from Smith to Marx did not draw a clear line of demarcation separating the 'economic system' from the 'political system'. Many, including Smith, incorporated power into their analyses of things that would now be called 'economic'. Aristotle's (2004) positing of the embeddedness of the *oikos* in the broader institutions of the *polis* seems an apt metaphor for the relationship between wealth ('economics') and power ('politics'). See Polanyi (1957) for a discussion.

accumulation of capital entails the growth of capitalization. To study capitalization is to study 'the algorithm that generates and organizes prices' (2009: 153). The power-rootedness of accumulation, they tell us, is apparent when we consider the centrality of private ownership in the definition of capital. The word 'private' is derived from the Latin *privare* which means 'to deprive' (privation, deprivation) and *privatus* which means 'restricted' (2009: 228). To 'deprive' or dispossess has meaning when contrasted with its opposite, namely access, openness and that which is common. To 'own', from late Middle English *ownen*, is to have 'power', 'authority', 'dominion' or 'be master of'. The popular understanding conceives of private ownership as an institution which is useful because it enables those who own. But as N&B see it, the overriding purpose of private ownership is to disable those who do not own. And institutionalized exclusion, they assert, is always a matter of organized power (2009: 228).

Rooting accumulation and relative prices in power has a number of theoretical consequences. Power is an inherently relational category and thus has no meaning apart from its relativity. This feature entails a significant shift in our thinking. Instead of examining the 'corporate sector' as a whole or a 'representative firm', N&B (2009: 319) urge us, as a first step, to disaggregate and focus on the largest firms at the centre of the political economy or what they call *dominant capital*. 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 dissertation, the conventional notion of the state will be retained and the concept 'dominant capital' will be used to denote the largest publically traded firms.

In terms of business behaviour, N&B claim that 'profit maximization' only holds in the 'fairy tale of perfectly competitive equilibrium' (2009: 233). Large firms are not driven to accumulate in absolute terms; instead, they 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. Dominant capital and differential accumulation are the twin operational concepts which make up the core of N&B's framework. These concepts will be put to work in the Canadian context.

2.6 Capital and Institutional Power

If power is the theoretical centre around which other concepts orbit, we should be clear about what N&B mean by the term. As they see it, capital is the symbolic representation of power that appears as finance, the equity and debt of a corporation, or its capitalization (2009: 7). The relative value of capitalization, computed as the expected future profit and interest payments adjusted for risk and discounted to present value, represents the power of the corporation's owners to restructure society against opposition. This means that the distribution of capitalized values doubles as the distribution of capitalist power amongst owners (2009: 17-18).

Capital is a vendible or commodified form of power insofar as it is available for purchase and sale on the stock and bond markets. Its meaning, when understood as a singular owned entity, is a pecuniary capitalization of the capacity to generate earnings and limit risk (2009: 8, 231). In the broader philosophical sense what gets 'accumulated', they say, is the capacity to tame, harness and subjugate creativity (2009: 218, 231). Insofar

as 'industry' is subordinate to 'business', then, the accumulation of capital can be understood as an amassment of the capacity to incapacitate.

Power is a metaphysical category in the Aristotelian sense that it is not directly accessible to sensory perception, which means that it is difficult for any definition to satisfy all our intuitions about it. If human knowledge is dependent upon the identification of limits or boundaries (such that concepts like infinity or God, because they are boundless, lie outside human understanding) then the demarcation of boundaries through definitions is of great importance. So how can the distribution of income or the distribution of corporate ownership or the relative price of oil, for example, be a manifestation of power? One way of dealing with metaphysical categories, like power, is as they manifest themselves or through their effects.¹⁴

According to Karl Popper (1963: 119), the notion that the visible is explainable with reference to the invisible stretches back to the Ancient world. Modern people regularly speak of 'forces' that are not visible and yet these forces are thought to govern the behaviour of physical objects. Pop physics posits the existence of gravitation, for example, but no one has ever seen, smelt or heard gravitation. What we experience are the effects or manifestations of gravitation. Gravitation exists and we can know it, but not because it is directly accessible to our sensory apparatus — only its effects are disclosed to our senses. Thus, differential accumulation, an increase in the relative price of oil or an increase in the income share of the 'one percent' — the measurable behaviour

¹⁴ This insight is traceable to Benedict Spinoza, who claims that 'the power of an effect is defined by the power of its cause, insofar as its essence is explained or defined by the essence of its cause' (1677: 163).

of prices — are manifestations of underlying, metaphysical, non-measurable political-economic processes, and power may be understood as part of those processes.¹⁵

Now that we have reviewed how Veblen and N&B approach capital, some clarification should be added as to how, and to what extent, these ideas will be utilized. Following Veblen, capital will be used to denote financial wealth, which means it is primarily a ‘business’ category that belongs in the pecuniary domain of distribution. And following N&B, this starting point means that capital will be understood as capitalization. Insofar as we can validly speak of corporate power, N&B have developed some of the most innovative ways of measuring it. However, even though capital should be thought of as financial wealth and although there is a power aspect to capital, business activities are not reducible to power alone, nor can power be validly posited as the sole purpose or primary motivator of business behaviour. This dissertation intentionally shies away from notions of ‘personal power’, opting instead to view power through the lens of the institutional and organizational structure of the political economy.

Business institutions play an organizing and regulating role in the political economy that may not be ‘productive’ in the strict (industrial) sense. Nevertheless, business shapes the processes of production and coordinates political-economic behaviour. The richness and importance of N&B’s writings on ‘capital as power’ is their clarity, empirical grounding and analytical rigour. Insofar as business behaviour, relative

¹⁵ Even though N&B point to Hegel (through Marcuse) for this conception — force being nothing apart from its effects — it stretches (farther) back to Spinoza. It is possible that this conception predates Spinoza by many centuries. Scruton (2002) suggests that much of Spinoza’s thinking about God and his imminence may have been derived from the Kabbalah (Jewish mysticism).

prices, investment, trade, accumulation and similar political-economic phenomena can be spoken of in power terms, N&B offer the most convincing contemporary account. But no socially scientific theory is (or can ever be) complete. No theory can fully encompass the entirety of individual or collective (political-economic) experience. This means that the assumptions, concepts and measurements of a given framework should be utilized with a degree of caution.

2.7 Regimes of Differential Accumulation

If differential accumulation by dominant capital is the generative process of the contemporary capitalism, how does it unfold? N&B answer this question theoretically and historically by decomposing the capitalization formula. Capitalization consists of four 'elementary particles': future earnings, hype, a risk coefficient and the 'normal' rate of return.¹⁶ Quantitatively speaking, dominant capital can differentially accumulate by (1) raising differential earnings, (2) raising differential hype or (3) lowering differential risk. They suggest that raising differential earnings is the most potent pathway and has primacy over the long-haul. We can further subdivide earnings into its constituent parts, namely (1) the number of employees multiplied by (2) earnings per employee. The former designates the formal size of the organization and the latter the 'elemental power per unit of organization' (N&B 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:

¹⁶ The following synopsis is derived from Nitzan and Bichler (2009: 327-33).

expanding employment faster than the average, which N&B 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 2.1. At the level of an individual firm, the four pathways towards differential accumulation include: the creation of new industrial capacity through green-field investment (external breadth); the purchase of existing capacity through merger and acquisition (internal breadth); cost-cutting (internal depth); and raising prices amidst stagnation or stagflation (external depth). At the aggregate level, these pathways become broad regimes of differential accumulation. N&B’s research shows that, in the cases they studied, breadth and depth have tended to move inversely to each other over the past century and that the most potent pathway towards differential accumulation is through mergers and acquisitions.¹⁷ Dominant capital and differential accumulation are the twin operational concepts which make up the core of N&B’s research program, and they will be put to work in this study.

Table 2.1
Nitzan and Bichler’s ‘Regimes of Differential Accumulation’

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

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

This brief summary was meant to introduce to the reader some of the assumptions, concepts and measurements that will be utilized in subsequent chapters.

¹⁷ The implications of this taxonomy are spelled out in greater detail in Nitzan and Bichler (2009: 331-3) and Nitzan (1998; 2001).

The explication was brief, but core assumptions and concepts will be revisited as we proceed through the dissertation. Now that some of the theoretical tools have been specified, the next thing to sort out is some of the relevant historical background. Does the term 'dominant capital' have any historical meaning in the Canadian context? Have large firms played an important role in the political-economic development of Canada and, if so, can the utilization of 'power' as a central category help us make sense of Canada's unique development? We will now put some of these concepts to work in order to uncover an aspect of Canadian history that, until now, has remained undisclosed.

From Contact through Confederation to Continental Integration: A Brief History of Canadian Business

The actual, functioning nationalism... that emerged out of Confederation was based on a triple alliance of federal government, Conservative party, and big-business interests: government of the people, by lawyers, for big business.

- Frank Underhill (1963)

Our investigation into dominant capital in Canada is focused on the present and how it grew out of the recent past, namely the quarter century since the Canada-U.S. Free Trade Agreement was signed in 1988. However, dominant capital at the time of the CUFTA grew out of events that stretch back to the Second World War, the First World War, and indeed, to Confederation. As we trace the history of large firms in Canada we find that they have colonial origins. Extending the historical picture back even farther, we find that Canadian business predates Canada's colonial status. To understand the present, then, we need to have some understanding of how it grew out of the deep past. To that end, this chapter will provide a brief history of Canadian business from the very beginning to the 1990s. Covering 500 years of history is a daunting task and we will have to be content if, by the end, the image we have is little more than an outline, clear enough to perceive the overall shape, but missing in all the details that make for a rich canvas.

In surveying the historical development of Canadian business, a number of themes continually arise. First, a sharp division of economics from politics is an analytical

hindrance, especially if we are to understand important historical junctures. The line separating business from government — corporate power from (imperial) state power — cannot be drawn with great precision.¹ Second, the toleration, if not outright encouragement of oligopoly and monopoly are consistent features of the Canadian political economy from the very beginning. And third, the development of Canadian capitalism is nested within, and dependent upon, international commodity markets, international financial markets and global empire, whether French, British or American.

So while Nitzan and Bichler (2002: 96) see the relationship between the Israeli State and dominant capital as one of a ‘cocoon’, with differential accumulation emerging out of the Israeli State, in Canada it makes more sense to invert this metaphor: rather than dominant capital emerging out of the state cocoon, the Canadian State can be understood, in part, as the offspring of Canadian business, with the British Crown and British capital markets playing a partnering role. Whether we examine the Act of Union in 1841, Confederation in 1867 or the North American Free Trade Agreement (NAFTA) in 1994, state power and governance institutions were generated by and for commercial interests.

Even though N&B’s approach to political economy is unorthodox, the history of Canadian business as captured in the Canadian political economy and business history literatures is broadly supportive of many of their arguments. In order to understand particularities of Canadian development, capital must be viewed as a source of social power. Furthermore, many scholars argue that separating economics from politics —

¹ Naylor (1987) argues that the state in all its forms played a leading role in shaping commercial life, which means that it does not make sense for us look at ‘economic history’ in isolation from ‘political history’.

divorcing business activity from state power — obscures rather than clarifies many of the key events in Canadian history, which is also in line with N&B's approach.

The chapter is organized into six sections and it will explore the development of Canadian business in chronological fashion. The first section sets the stage by recounting some of the early facts about European exploration of the New World. The second explores the roots of Canadian business and teases out some of the connections between business activity and state power. The deep historical facts suggest that the size, shape and political-economic structure of modern Canada grew out of the centralized power of the Hudson's Bay Company. This review of pre-modern Canada will then serve as a backdrop to the third section, which will unpack the complicated relationship between the political unification of the Canadas and business crises.

The fourth section will argue that the origins of 'dominant capital' are bound up with the formation of the Canadian State and the associated creation of a national political economy. More specifically, the major railway corporations of the mid to late nineteenth century in Canada exhibited the requisite size, structure and political-economic power to justify use of the label 'dominant capital'. Sections five and six focus on the growth of dominant capital in the twentieth century by exploring, first, the major international crises of the first half of the century, namely the two World Wars and the Great Depression, and second, by outlining the passage from a Keynesian welfare regime to that of neoliberal globalization.

3.1 Worlds Collide

The historical development of Canada is marked at every significant point by the imprint of commerce. Few contemporary societies have a history so bound up with the norms, needs and activities of business enterprise. Business institutions and practice were slow to develop in Canada, but the seeds were planted by the first Europeans in the late fifteenth century. We are accustomed to think of European explorers like John Cabot, Jacques Cartier and Samuel de Champlain as founding Canada on behalf of European monarchs, but as Bliss (1987: 17) points out, the first people to sail westward across the Atlantic were not explorers, but ‘practical men seeking profit’. It was merchants operating out of Bristol, England who first sent mariners across the Atlantic in search of fish from the 1490s onward, perhaps earlier.

Henry VII of England only sent the Italian explorer, John Cabot, across the Atlantic in 1496. In 1534 the French mariner, Jacques Cartier, sailed to the Gulf of St. Lawrence and claimed Canada for Francis I, but he was already following the well-established routes laid out by Norman, Breton and Basque fishermen (Bliss 1987: 19). Seafaring men headed for the ‘new founde launde’ would establish cod fishing as the first business in Canada. The fur trade — Canada’s iconic business — only developed a century and a half later, after Europeans established relations with Aboriginal peoples.

Cartier’s proprietary claim to Canada on behalf of ‘His Most Christian Majesty’, Francis I, betrayed the fact that Aboriginal and Inuit peoples had inhabited Canada for thousands of years.² It took Europeans several centuries to make contact with all the

² The name ‘Canada’ is derived from the Mohawk word ‘Kanata’, meaning ‘village’. Cartier relayed the name to European mapmakers (Ray 2002: 62).

peoples of Canada. It wasn't until the early decades of the seventeenth century that mariners made contact with the peoples of Hudson and James Bay and it took until the latter half of the eighteenth century for the Spaniard, Juan Perez, to make contact with the people of Haida Gwaii off the west coast of British Columbia (Ray 2002: 55). The three hundred thousand or so individuals who inhabited present day Canada spoke twelve major languages, were geographically dispersed and culturally unique.

The Algonquin-speaking hunters of the Boreal forest led a highly mobile life while the Iroquoian-speaking people of the St. Lawrence had developed farming methods that enabled complex political formations encompassing thousands of people. The Cree, Ojibwa and Assiniboine of the Plains exhibited deeply patriarchal customs while the Huron of Southern Ontario traced descent on the female side and organized family life out of the mother's home. The fishermen of the West Coast organized life in a highly stratified way, with a system of inherited rank dividing nobility from commoner and slave (Ray 2002: 12-45).

For all the cultural complexity of Aboriginal peoples, there are two major features amongst the disparate societies that are relevant to this study. First, trade was an established feature of human life on the North American continent prior to European arrival. Even though Europeans were looking for water passage to Asia, they found in Aboriginal peoples new trading partners. Canada is, and always has been, a trading nation. That said, the institutions and practices associated with capitalism — private ownership, private enterprise, the price system, investment for a profit, wage labour and an international commodity market — were unknown. And while capitalist institutions

were only in a gestational stage in Europe at the time of Contact, they would be brought with the Europeans and firmly planted in Canadian soil.³

3.2 Corporate Activity and the Birth of a Colony

For nearly two centuries Canada was a colony dedicated to the extraction of resources, not the settlement of a European population. The English victory over Spain in 1588 combined with the decline of Portugal as a maritime power meant that the Newfoundland fishery and the continental fur trade would be contested by the French and English. Samuel de Champlain, the French explorer and diplomat, founded New France in 1608. His political program blended business with colonization and conversion (Morton 1997: 25-26). The way Bliss recounts it, the major problem facing European fur traders was how to reduce competitive pressures. The French Government had complementary objectives: it wanted some traders to prosper in the hope that settlers would be lured to New France (1987: 40).

Champlain facilitated both objectives by overseeing the first merger in the history of Canadian business. In 1612-1614, he consolidated the activities of the merchant traders of the St. Lawrence into the royally chartered Company of Canada. A short time later, Cardinal Richelieu, the chief advisor to Louis XIII, used his *Compagnie des Cent-Associés* (a successor to the Company of Canada) to govern New France and settle hundreds of feudal peasants each year in exchange for a permanent fur monopoly and limited monopolistic privileges in other Atlantic trades (Morck *et. al.* 2005: 73). By 1663,

³ See Beaud (2001) for a concise history of capitalism.

after a succession of companies failed to enlarge the settler population, the Crown converted New France into a royal colony. Although the earliest monopolies were a product of royal power, two things should be noted: first, the limitation of competition through the entrenchment of monopoly was an established part of Canadian business; and second, corporations played a leading role not only in controlling the trade, but in advancing settlement and governing New France.

The development of British North America was influenced to an even greater extent by corporate activity. In 1610 Henry Hudson claimed the land around Hudson's Bay for Britain, and in 1670 Prince Rupert of the Rhine drew up the royal charter establishing the Hudson's Bay Company (HBC). It is hard to overstate the power this organization had on the evolution of (political-economic) life on the North American continent. In terms of duration, the HBC is the longest running multinational corporation in existence (Micklethwait and Wooldridge 2005: 17). In terms of spatial expanse, the tract of land the HBC acquired from the King was the largest real estate grant in human history. Rupert's land was equivalent to 40 percent of modern Canada as well as northern parts of the United States, which meant that one-twelfth of the planet's land surface was under HBC control (Newman 2005: xii).⁴

The HBC was a centralized, hierarchical organization with the directors in London demanding unquestioning obedience from their employees (Taylor 2009: 6). It administered much of North America in between the Atlantic and the Pacific, but trading

⁴ It was in honour of Prince Rupert of the Rhine that this portion of North America was named Rupert's Land. The HBC's second governor, the Duke of York, abdicated his position with the company to become the King of England as James II. Other notable chieftains of the HBC include Sir Winston Churchill, who accepted the position of *grand seigneur* after retiring from politics in 1955 — the only corporate appointment he ever accepted (Newman 2005: xiii).

posts were as far afield as Hawaii and the Arctic Ocean. It isn't a historical accident, Innis (1930: 392) tells us, that the geographical borders of modern Canada are very close to the fur trading areas of the northern part of North America. The presence and settlement activities of the HBC are what kept Western Canada in Canadian hands instead of falling under the control of Americans, who were trying to push their settlements northward. In 1870 the sale of HBC territory to the nascent Canadian State greatly expanded the geographical space of Canada, filling in western and northern portions, with three provincial capitals — Winnipeg, Edmonton and Victoria — growing out of old HBC trading posts.

The geographical and political borders of modern Canada grew out of this singular corporate entity, and when we consider the fact that the HBC minted its own coins, had its own army and navy, conducted its operations according to a calendar dating from its inception, drafted its own laws and ruled the territories, we realize that the tidy analytical distinction of 'economics' and 'politics' — corporate power and state power — cannot be easily imposed on the historical facts (Newman 2005).

Shortly after the HBC was incorporated, all joint-stock companies were banned by the British Parliament on account of the speculative manias associated with the 'South Sea Bubble' and 'Mississippi Bubble'. The HBC lost its exclusive trading privileges in 1858 and a short time later ceased to operate as a quasi-government. Besides bequeathing to Canada its geo-political shape, the profits of the fur trade amassed by the HBC would make Montreal the business capital of Canada, until Toronto inherited the mantle in the mid-twentieth century (Taylor 2009: 5-7).

For the first few centuries of its existence, Canada remained a sparsely populated colonial outpost. In 1663 the population of New France totalled three thousand people (Bliss 1987: 43) and as late as 1791 Upper Canada (now Ontario) only had fourteen thousand inhabitants (Morton 1997: 41). And while business enterprise continued to develop from the seventeenth through the nineteenth centuries, from fish through fur to timber, wheat and minerals, a thinly populated territory combined with harsh climactic conditions made the pace of development modest.⁵ What's more, imperial rivalry and colonial resentment led to constant warfare on the North American continent. In the Seven Years War, Britain dispossessed France of much of her holdings and became, in effect, sole proprietor of North America.⁶ But the Treaty of Paris in 1763 didn't lead to a lasting peace. Britain lost much of her holdings in North America shortly thereafter when a tax revolt snowballed into a revolutionary War of Independence, with the Thirteen Colonies of British America aligning themselves against the British Crown.

For the century after the American Revolution, the development of the Canadian political economy unfolded in the shadow of the American goliath to the south, with threat of voluntary annexation or forced absorption remaining latent possibilities. The initial British response to the loss of the Thirteen Colonies was the Constitution Act of 1791, which reconfigured governance in British North America. The two Canadas would be ruled by a governor, executive council and elected assembly. And because taxation had

⁵ We should remember that industrial capitalism only emerged in Canada in the latter half of the nineteenth century. In 1867, at the time of Confederation, the Dominion's population only numbered 3.7 million, 80 percent of whom were engaged in agriculture (Easterbrook and Aitken 1956: 384). Canada remained predominantly rural and agricultural in many parts well into the twentieth century.

⁶ Elite consensus in France at the loss of her holdings to the British was succinctly captured by Voltaire, who dismissed Canada as 'several acres of snow' (Morton 1997: 31)

led to the American Revolution, government in the Canadas would be financed by reserving one-seventh of all land for the Crown.⁷

Some did not see absorption into the American Republic as entirely negative. Upper Canada's ruling elite realized that the large swathes of land they controlled would be worthless unless it was flanked by prosperous farms. However, attracting pioneers to Upper Canada was difficult given the fertility of the soil to the south of the Great Lakes and the thriving cities and industries that were forming in the northern United States. The American attack on British North America in response to the British blockade and seizure of American ships during the Napoleonic Wars eliminated the last remnants of the idea of peaceful incorporation into the American polity (for the time being). The War of 1812 and the ensuing victories racked up by Tecumseh and Brock gave the colonists a sense of national identity and united English and French Canadians, if only momentarily (Morton 1997: 41-45).

The warfare that plagued the North American continent between 1775 and 1815 generated a steady stream of war contracts and war profits. The merchant aristocracy of Central and Eastern Canada that was fed by these lucrative contracts needed a new vision once Perpetual Peace replaced Napoleonic War. In *The Commercial Empire of the St. Lawrence*, a book that shook the orthodox vision of Canadian history, Creighton (1937) argues that it was the merchant elite of Montreal that sketched a new picture of Canadian commerce and nationhood. This sketch centred on the St. Lawrence River and

⁷ Another seventh would form the fiscal base of the Protestant Clergy, and though the Crown flirted with the idea of establishing a titled aristocracy, it was eventually decided that legislative councillors would hold a maximum of six thousand acres of land, thus entrenching a landed gentry (Morton 1997: 40).

Great Lakes as major transport links connecting the interior of the North American continent to markets in Europe. The task was to create a canal system that would simultaneously enable the Montreal merchants to dominate commercial life in Upper Canada by controlling the distribution of staples to European markets, while beating out rivals in New York City who were also vying to mediate the trade between the American interior and overseas markets. The actions undertaken to execute this vision would lead to the Act of Union in 1841 and then, in 1867, to Confederation.⁸

3.3 From Agricultural Colony to Commercial State

In 1824 construction of the Welland Canal began, but large overhead costs combined with lengthy delays led to the amassment of huge debts for the investors controlling the process. Upper Canada lacked the revenues to assume responsibility for the waterway improvements, so in 1841 the Province of Canada was formed through a merger of Upper and Lower Canada. This new, larger entity had the fiscal capacity to sell its bonds to investors in England and the new government promptly seized control of the canal building program. By 1848, with the St. Lawrence canal finished, the waterway system was completed (Easterbrook and Aitken 1956: 351). Historians (Morton 1997: 51-52, for example) will normally cite the Rebellions of 1837 as leading to the Act of Union in 1841, and though this insurrection culminated in the winning of Responsible Government in the late 1840s, it is noteworthy that constitutional adaptation and political unification

⁸ Innis (1930) was the first to make the argument that it was capital expenditures on canals that led to the Act of Union in 1841 and capital expenditures on railways that led to Confederation in 1867 (1930: 396-7). In 1937, Creighton would develop a similar argument when he claimed that it was the St. Lawrence merchants who established the Canadian commercial state.

was preceded by a business crisis.⁹ The canal system was Montreal's major link, through the Great Lakes, to staples production in the interior. For Upper Canada, the canal system was the bridge connecting its staples products, through the St. Lawrence, to markets in Europe. One way of understanding the political unification of the Canadas in 1841, then, is to see it as a constitutional response to a business crisis.

The political-economic vision of the Montreal merchant aristocracy might have been realized had the British not radically reversed their policies in 1846. Canadian wheat, flour and other staples were granted preferential access to British markets from 1815 onwards. The repeal of the Corn Laws in 1846 vaporized this arrangement and changed Canada's position in the British imperial system. British capitalists wanted to export their industrial goods abroad (duty free, of course) which meant that duties on imported inputs would have to be lowered. Canadian business had already managed to avoid those duties and would now have to compete with others in something akin to a free market.

Easterbrook and Aitken (1956: 354) tell us that the commercial system of Canada was predicated on preferential access to British markets and with this policy change the ruling elite in Canada went into 'full shock' between 1847 and 1849. The St. Lawrence system had absorbed much of the capital in Canada for an entire generation and much government revenue too. Would Canadian business be able to locate other markets for their goods? Some doubted it. Caught between a British imperial system that was reconstituting itself and an emerging American power to the south, a manifesto

⁹ Responsible government was culturally and politically significant for Canadians, but it also had great financial significance. It meant that Canadians would control their tariff policy, thus making it possible for colonial governments to finance and oversee development (Easterbrook and Aitken 1956: 350).

circulated calling for the annexation of Canada to the United States, with some prominent Montreal merchants adding their signature (Easterbrook and Aitken 1956: 351-4).

The alternative to outright annexation was a free trade agreement with the Americans. And by adding railway transport to the canal system and by modifying the tariff system, the pathway to an independent Canadian nationhood could remain open. The Reciprocity Treaty of 1854 secured less onerous access to the American market for a time, but a variety of factors led to its cancellation by the victorious Northern States in 1866, who were industrialist and protectionist in orientation and who were hostile to the British for their perceived support of the Southern States during the American Civil War. Besides facing higher barriers to the American market, the conclusion of the American Civil War posed a serious military threat to Canada. The War of 1812 was still in living memory (American bitterness at the failure to conquer Canada surely endured) and the Northern States toyed with the idea of seizing Canada as compensation for the loss of the Southern States (Morton 1997: 61). Besides, the Northern armies were armed, battle tested and could be sent northward to overwhelm the modest Canadian defences should the command have been issued. What's more, the Canadian West was under perpetual threat by American settlers. Confederation in 1867 was the institutional response to these commercial, political and military pressures.

The creation of a railway running on an east-west axis would enable the young Dominion to transcend the climactic and geographical barriers that had done so much to regionalize British North America. The beginnings of a national political economy would

be established in the linkage of staple producing areas in the West and East to the manufacturing and financial areas of Central Canada. Agricultural immigrants would be shuttled along the railway to help populate Western Canada and a tariff would be used to encourage lateral, as opposed to horizontal, commerce. The formula for Canadian nationhood and independence, enshrined in the National Policy of 1879, was this: transcontinental railway, protective tariffs, land settlement and immigration (Easterbrook and Aitken 1956: 383).¹⁰

Historians have long argued that mainstream economic assumptions about unhindered enterprise and government docility do not hold in the context of early Canadian capitalism. Aitken (1964: 110) sees political power and national economic development as complementary activities. In the late nineteenth century the Canadian State actively used its power to steer industrial development. In this period especially, he argues, it is questionable whether we can disentangle ‘the state’ from ‘private enterprise’ (Aitken 1967: 209). The financial resources of the state were even delegated to corporations to further national economic policies. In this way, Aitken claims, private enterprise was the ‘chosen instrument’ of public policy. What’s more, Canadian political and economic elites were so closely associated that it is a ‘positive distortion to speak of them separately’ (Aitken 1964: 110).

Naylor (1993: 129) echoes these sentiments when he posits that ‘in the very early years business and government were identical’. Fowke (1952: 239) says as much when he claims that ‘the national policy predated the creation of a national government in Canada

¹⁰ Some historians see the in the National Policy not just a set of policy decisions but a broader ‘declaration of economic independence’ (Underhill 1963: 23).

and envisaged the establishment of such a government as one of its indispensable instruments'. McCalla (1992: 209), too, sees a distinctive historical relationship between state and capital in Canada and argues that the Grand Trunk Railway was a 'vehicle' for public policy. However, we could invert this entire line of causality and say that the Canadian State was the chosen 'vehicle' for dominant business interests. Instead of thinking of 1867 as a constitutional adaptation leading to state formation with the National Policy of 1879 as the destination, we could see the national policy as creating the Federal Government through the BNA Act of 1867, with dominant business interests working in tandem with the British Crown to forge a new nation. Is there any reason to believe that dominant commercial interests created the Canadian State, not vice versa, in order to accomplish things it could not manage on its own, namely tariffs, railroad financing, immigration and land settlement?

Let's consider this question in the light of the development of the railroad corporations. Railways were the first large scale businesses in Canada and their activities were crucial to the formation of the Canadian State. In 1849 the Government of the United Canadas began promoting railway construction by introducing the Guarantee Act. The interest on railway bonds would be paid by the government, if necessary, as a way of inducing investors to overlook the riskiness of such large scale, long-term projects. The costs of financing railway construction proved onerous. By the mid-1860s, 45 municipalities in the Canadas effectively defaulted on debts acquired in the service of railway construction. The province absorbed these debt obligations and doubled its debt load in the process. By 1864 half of all provincial revenues were earmarked for the

servicing of corporate railroad debt and by 1885 the Canadian Government had provided \$25 million in cash grants, 25 million acres in land grants and \$27.5 million in emergency loans, all to railroad corporations (Taylor 2009: 2, 15-16).

One interpretation of the relationship between capital and the state would suggest that governance institutions at all levels supported business in the service of 'the national interest'. But these facts also fit a rival interpretation: dominant business interests created and then instrumentally utilized the state to further their differential business goals.

3.4 The Emergence of Dominant Capital

Whatever interpretation one may prefer, the period between 1850 and 1900 not only witnessed the creation of the Canadian State and a national political economy; it also brought with it the beginnings of firms that could reasonably be classified as 'dominant capital'. The industrial scale of the projects controlled by railway corporations was enormous, but these firms managed to offload the financial risk onto governments, pre- and post-Confederation. Governments were regularly asked to service corporate debt and the magnitude of the profit or loss associated with the railways was directly tied to the level of the state tariff: an increase in the tariff increased the commercial traffic east-west and led to higher profits; a decrease in the tariff led to increased commercial traffic north-south, thereby reducing profits (Easterbrook and Aitken 1956: 376).

And given that some of the key personnel in Canadian governments were also investors or managers with the railways and other large firms such as the Bank of

Montreal and the HBC, the picture that emerges is a close penetration of dominant business interests and the Canadian State.¹¹ Key aspects of modern Canada, then, from its geopolitical shape to its public finances, its constitutional evolution through to its governance structures, were created in response to and on behalf of dominant business interests. And while Canadian business was often dependent upon financing from London, Glasgow and New York, at the turn of the twentieth century a sophisticated network of financial institutions made the business class a cohesive social entity.

The national political economy that began to take root in the 1850s would begin to blossom by 1885 with the completion of the Canadian Pacific Railway. The state-corporate arrangements created during this period would remain fairly stable until the 1930s. The financial architecture of the country, for example, was entrenched in the Bank Act of 1871. This legislation authorized the banks to establish branches throughout the country and restrained competition through high capital reserve requirements. At the time of Confederation, 35 banks were in existence (Newman 1975: 140). Between 1890 and 1920 the number of chartered banks fell from 41 to 18 and by the mid-1950s, after a few high profile mergers, the 'Big Five' dominated Canadian banking.¹² Between Confederation and the turn of the century, the major insurance firms would also establish themselves. And because the Canadian financial market was quickly saturated

¹¹ The railway corporations contributed to the development of Canadian capitalism in other notable ways too: they were among the earliest businesses requiring a permanent and substantial waged labour force (Greer and Radforth 1992: 5).

¹² The 'Big Five' chartered banks include the Royal Bank of Canada, the Bank of Montreal, the Canadian Imperial Bank of Commerce, Toronto-Dominion Bank and the Bank of Nova Scotia. They were created between 1817 (BMO) and 1867 (CIBC). Newman (1975: 135) claims that the executive board of the Big Five represent the greatest source of non-governmental power in Canada.

by a few large players, many expanded their activities abroad, making the banks and insurance firms among the earliest Canadian multinationals (Taylor 2009: 22-25).

According to Taylor (2009), by the first decade of the twentieth century a cluster of forty or fifty men in Montreal and Toronto — the early ‘corporate raiders’ — dominated Canadian finance. And while foreign ownership and foreign credit played a large role in the development of modern Canadian capitalism, it was these corporate raiders who consolidated Canadian business in the greater merger movements of the early 1890s, 1909-1912 and 1925-1929, by which time most of the major industries were dominated by a small number of large firms.¹³ In terms of foreign ownership, by the First World War a distinctive pattern had emerged: financial institutions and utilities were under Canadian control while mining and industrial firms, which were more heavily reliant upon foreign direct investment, had higher levels of foreign ownership (Taylor 2009: 28-29, 33).

It was also around this time that large integrated firms were beginning to restructure the Canadian political economy. Amalgamation in tandem with heavy foreign direct investment from the United States led to the creation of new corporate forms to manage both scale and scope. Labour unrest and outright political conflict followed as the struggle to control the workplace and whole communities unfolded. Skilled craftsmen resisted the new ‘scientific management’ techniques being imposed on the workplace, while the small and medium-sized firms began to organize into trade

¹³ It is noteworthy that two of these merger waves were followed by legislative acts that inquired into, and recommended restraints on, corporate power. The merger wave that peaked in 1910 led to the *Combines Investigation Act* and the merger wave that peaked in 1929 was followed by the *Royal Commission on Price Spreads* (1935).

associations to defend their interests. A newly created stratum of 'white collar' workers was being subjected to the discipline of corporate rules and procedures. Farmers, too, formed cooperatives and market 'pools' to enhance their bargaining position vis-à-vis the giant firms controlling the trade. Gender roles were shaken up as women entered the paid workforce in large numbers. In the late nineteenth century women only made up 10 percent of the labour market; by 1930 they held nearly half of all clerical positions (Taylor 2009: 90-92).

The emerging conflict required new social responses and new institutions. For the labour movement, the period between 1890 and 1920 was of great import, with struggle boiling over into outright conflict.¹⁴ The business response to unionization and worker control was best captured by the American industrialist, Samuel Insull, who believed the most sensible labour relations arrangement was 'a long line of men waiting at the gate' (quoted in Taylor 2009: 96). It took until the Second World War for collective bargaining to be formally accepted by the Canadian State: worker participation in the direction and pace of industry and in remuneration was soundly rejected by small and large firms alike prior to 1945. And while W.L. Mackenzie King would become Canada's first Minister of Labour, introducing the *Industrial Disputes Investigation Act* in 1907, the Canadian State was on board with business in its hostility to labour. At the close of the First World War, the RCMP devoted an entire unit to the surveillance of the Canadian labour movement (Taylor 2009: 95-97).

¹⁴ The Winnipeg General Strike of 1919 was a bloody affair, with all three layers of government combining with the city's business elite to crush the revolt. That year the Borden Government hosted a conference to discuss the findings of the *Royal Commission on Industrial Relations* (1919) (Heron 1996: 54).

The question of foreign ownership also grew up around Confederation. The tariff system instituted in the National Policy appears to have encouraged foreign ownership of Canadian industry in the service of increased growth and new technologies. The tariff shielded Canadian business from foreign competition and simultaneously encouraged American firms to hop over the tariff wall and establish operations in Canada. The Patent Act of 1872 contained a ‘working clause’, which Laxer (1989: 232) calls ‘neo-mercantilist’, requiring foreign firms to establish operations in Canada within two years, thus inviting new technology into the Canadian political economy. Between 1879 and 1887, 37 American branch plants set up shop in Canada, increasing to 66 by 1900 (Taylor: 2009: 84-85). On the eve of the First World War there were 450 American branch plants in Canada and at the onset of the Great Depression the value of American direct investment was one and a half times that of Europe (Laxer 1989: 13).¹⁵

The Great Crash of 1929 devastated the corporate sector. The dollar value of total corporate profit fell 94 percent from its 1929 high to its 1932 low (calculations from the author’s data archive). Morck *et. al.* (2005: 112) tell us that the top 50 stocks lost 85 percent of their value between their October 1929 highs and their May 1932 lows. Despite this drop, there was not to a single bank failure in Canada — a stark contrast from the experience in the United States, which saw more than five thousand banks disappear between 1930 and 1933 (Newman 1975: 140). Unemployment climbed from 2.5 percent in 1928 to more than 20 percent by 1933.

¹⁵ By 1921 American inflows of capital into Canada had eclipsed those of Britain with the activity concentrated in automotive, energy and pulpwood (Taylor 2009: 84-85, 182).

The Bennett Conservatives responded by steering a course between policies that would counteract the depression and those that would conserve the free enterprise system. And while many of Bennett's New Deal-style proposals were struck down as unconstitutional by the JCPC in Britain, one important measure stuck: the creation of the Bank of Canada (Taylor 2009: 120-5).¹⁶ The Bennett Conservatives were swiftly removed from office in 1935 and were replaced by the W.L. Mackenzie King Liberals.

3.5 The Experiment with a Welfare State

The Second World War transformed the Canadian political economy in five significant ways: government control of industrial processes, the closer integration of corporate and state elites, the deeper integration of Canadian and American political economies, the creation of the Cooperative Commonwealth Federation (CCF — precursor to the NDP) and the reconstitution of capital-labour relations. Each transformation will be discussed in turn. First, governments at all levels influenced or commanded the industrial process to a historically unprecedented degree, largely through the use of crown corporations. However, state direction of industry, price and currency controls, the resort to crown corporations and the levying of corporate and personal income taxes were all remnants of the First World War.¹⁷ The difference between the two Wars was this: in 1919 the federal government reverted to its pre-war stance, whereas after 1945 some of the changes enacted to prosecute the war were entrenched.

¹⁶ The Judicial Committee of the Privy Council was Canada's highest court of appeal until 1949 when the Supreme Court of Canada was created.

¹⁷ The Canadian State experimented with crown corporations in a major way for the first time in 1919-1923 when it merged the Canadian Northern, Grand Trunk and other railways to form the Canadian National Railway (privatized in 1995).

Clarence Decatur Howe, the savvy and sometimes authoritarian MIT graduate was made Minister of Munitions and Supply (though he was known as the 'minister of everything') and was granted enormous power to put the Canadian political economy on a war-time footing. Hiring what were known as 'dollar-a-year men', Howe summoned many of the Canadian business elite to Ottawa to help command the Canadian political economy. Wage ceilings for labour, price freezes for consumers, government loans and subsidies for favoured contractors (and seized factories for others), tax credits, accelerated depreciation and administered profits (at a handsome 5 percent) for business, exchange rate controls for importers and exporters and a roster of twenty eight new crown corporations were part of his political program (Taylor 1939: 137-9).

Approximately \$28 billion was spent on the Second World War, during which time the unemployment rate shrank from 12 percent (in 1939) to 2 percent (by 1945) and GDP surged from \$5 to \$12 billion. In 1945 Howe proceeded to discharge war plants to capitalists for 35 cents (or less) on the dollar in the first major privatization effort of the twentieth century (Newman 1975: 472). The intellectual capstone to the war effort activity was the *White Paper on Employment and Income* (1945), which codified the idea that government should play a key role in wealth creation and distribution through the maintenance of high levels of employment. Newman (1975: 446-7) tells us that this document represented the first overt signal from a government of acceptance of Keynesian principles.¹⁸

¹⁸ Campbell (1991: 4) contests the view that the 1945 *White Paper* signalled a more active role for government. Instead, he sees it as signalling a government commitment to 'revitalize capitalism'.

Second, state and corporate elites (who were never at a great distance from each other in Canada) became even more tightly intertwined during the war. The way Newman describes it, the network of individuals comprising the highest echelons of business and government that were organized by Howe during the Second World War would emerge at its conclusion as the Canadian Establishment. After 1945 this group of men would determine the country's destiny for the next three decades. 'They had come to Ottawa as individuals', he says, and 'left as an elite' (Newman 1975: 447).

Third, the Canadian and American political economies became even more tightly integrated. Closer trade relations and a return to foreign investment by Americans interested in Canadian resources signalled the beginning of a continental, as opposed to national, political economy.

Fourth, the Great Depression led to a new political party, the Cooperative Commonwealth Federation (CCF), which held great sway over legislatures across the country during and after the War.¹⁹ And while this party never held the reins of government at the federal level, the pressure it put on the governing Liberals was significant. In the postwar period, the Mackenzie King Liberals would institute a number of social welfare policies, including family allowances, old age pensions and a more activist stance, largely to pre-empt the CCF's popularity (Taylor 2009: 144-5).

Fifth and finally, capital-labour relations were reconstituted during the War. Federal legislation in 1940 appeared to accept collective bargaining and the right of workers to form unions. By 1944, with the CCF's popularity surging, the King Liberals

¹⁹ In 1943 the Canadian Labour Congress endorsed the CCF as the political party of organized labour. That year a Gallup poll indicated the CCF was the most popular political party. Its agrarian populist roots helped it come to power in Saskatchewan in 1944 and remain there for twenty years (Campbell 1991: 1).

drafted legislation, sometimes referred to as the ‘Magna Carta for Labour’, that mirrored the Wagner Act of 1936 in the United States. It created the framework within which unions rights to collective bargaining were entrenched (Taylor 2009: 142).

The decades following the Second World War brought peace and historically unprecedented prosperity to Canadians. Large firms flourished during this period. The chartered Canadian banks had specialized in international exchanges early on and were well positioned to continue expanding their operations across the entire non-communist world. Dominant Canadian mining and resource firms like Inco, Falconbridge, Alcan, Cominco, Abitibi-Price, MacMillan-Bloedel, Hollinger and Noranda rode a wave of high prices and growth (Bliss 1987: 484-5). A merger wave in the late 1960s further consolidated many businesses and elevated a new corporate form, the conglomerate, to the apex of the Canadian political economy.²⁰

A series of global changes in the early 1970s led to a reconfiguration of corporate-state relations in Canada. By 1971 the United States faced deficits in both its trade and payments balances, inducing President Nixon to take a series of steps to devalue the currency. The United States was Canada’s largest trading partner and it pleaded to be exempted from the protectionist measures.²¹ The lesson for the Trudeau Government was that Canada’s trade and investment dependence on the United States left it in a

²⁰ In March of 1975, Paul Desmarais Sr., then chairman of Power Corporation, sought a controlling interest in Argus Corporation, two of the dominant conglomerates in Canada at the time. This jostling for position in the corporate power game quickly caught the attention of Ottawa. Pierre Trudeau responded by establishing the *Royal Commission on Corporate Concentration* (1978) to study the effects of increasing concentration on the Canadian political economy.

²¹ Devaluation can be thought of as ‘protectionist’ insofar as it is a governmental measure meant to make foreign imports more expensive relative to domestic producers, which would have the effect, in principle if not practice, of reducing the current account deficit.

precarious position. Accordingly, it announced that it would seek trade and investment partnerships outside the United States to shelter Canada from American protectionism (Taylor 2009: 185).

The vulnerability of Canada to forces outside its borders was amplified when the 1973 Israel-Arab War coincided with a global energy crisis and a (seemingly) new phenomenon: stagflation. According to official accounts, OPEC flexed its oligopolistic muscle and the price of oil rose nearly 300 percent in a few short months. The Trudeau Government, again on the defensive, took steps to generate increased energy independence and to capture some of the energy dollars flowing into the coffers of OPEC governments, multinational energy firms and the Alberta treasury. Price controls would shield Canadians from the higher global price of energy, export controls would keep more energy in Canada, export taxes would augment the flow of funds to the national treasury and ownership restrictions would encourage Canadianization of energy resources (Bliss 1987: 533-4).

These nationalist manoeuvres had been in the making for more than a decade. Chaired by Walter Gordon, the *Royal Commission on Canada's Economic Prospects* (1957) had warned of the threat of excessive foreign direct investment from the United States. The result of too much foreign investment, the *Report* warned, would be continental integration and an accompanying loss of political-economic independence for Canada. Gordon would later incite Prime Minister Pearson to commission a series of studies on the role of multinational corporations in Canada to assess the opportunities and threats posed by foreign ownership. *The Watkins Report* (1968) advocated greater domestic

ownership in key sectors and *The Gray Report* (1972) called for a screening agency to assess to benefit of new foreign direct investment.

The outcome of these studies (and the nationalist sentiment that fuelled them) was the Canada Development Corporation in 1971 and the Foreign Investment Review Agency in 1973-74. These and other measures, including the creation of a new crown corporation in 1975, Petro-Canada, outraged some of most powerful people in Western Canada. The way Bliss (1987: 540-2) recounts the events of the late 1970s, the Joe Clark Tories deposed the Liberals in May of 1979 and some observers took this to signal a shift away from energy nationalism and state activism. However, geopolitical turmoil in the Middle East, including the Iranian Revolution in 1979, coincided with sharp increases in the price of oil (in the spring of 1979 the price of oil went from \$14 to \$28 USD).

Clark's minority government was toppled the next year by the Trudeau Liberals, who sold the electorate on lower energy costs and greater energy nationalism. The National Energy Program (NEP) was launched later that year. Bliss (1987: 540-2) tells us that the NEP was a complicated political package that included prices, taxes, grants, charges and domestic ownership. Some of the objectives included reduced energy costs for Canadian consumers and attaining 50 percent Canadian ownership of oil and gas assets within a decade. Despite these measures, the political-economic winds were blowing rightward.

3.6 Neoliberal Globalization: Restoring the Corporate State

One week after the Trudeau Liberals introduced the NEP, Ronald Reagan was elected President of the United States on a program of laissez faire liberalism. The Reagan administration strenuously objected to the NEP, especially the provisions which sought to restrict exports to the United States and which discriminated against American-based energy firms (Taylor 2009: 188). By the mid-1980s the geopolitical developments that had generated fear of foreign ownership and energy nationalism began to subside. OPEC's iron tight grip on the price of oil appeared to loosen as prices tumbled. American direct investment in Canada, which began to fall in the 1970s, continued to fall throughout the 1980s (relative to GDP). So when the Mulroney Progressive Conservatives came to power in 1984, energy nationalism did not seem a pressing matter.

The recession of 1981-82 had been the most severe since the Great Depression and Trudeau responded by forming *The Macdonald Commission* (1985) to consider Canada's economic future. The final report was released shortly after the Mulroney Tories came to power.²² Seizing on the changing political climate, they embraced its central recommendation: greater reliance on 'market forces' and the pursuit of closer economic ties with the United States through a free trade agreement. From the 1970s onward the Business Council on National Issues had been pressing the Canadian and American governments for a trade and investment liberalization (TAIL) regime.²³ The opponents of

²² The NEP was scrapped by the Mulroney Tories, as promised, and the Foreign Investment Review Agency was re-christened 'Investment Canada', signalling that Canada was 'open for business'.

²³ Since 1976 the BCNI (since rebranded the Canadian Council of Chief Executives (CCCE)) has been the policy arm of the CEOs of the largest corporations operating in Canada. They spent \$20 million lobbying for a TAIL agreement, which made it the largest lobbying effort in Canadian history (Newman: 1998: 156). See McBride (2001: 58-63) for some relevant historical background.

TAIL secured a majority of the popular vote in 1988 free trade election (52 percent) but split them between the Liberals and New Democrats, which meant that the pro-TAIL Progressive Conservatives, although in a popular minority, had a mandate to implement the agreement (Laxer 1989: 3).

For Canadian firms, the FTA represented protection from American protectionism. For American investors it spelled the restraint of Canadian restrictions on foreign investment in energy and financial areas (Taylor 2009: 237). The agreement was legally expanded to include an investor 'bill of rights' and spatially expanded to include Mexico in 1994 with the North American Free Trade Agreement. At its inception in 1994 the NAFTA was the largest trading bloc in the world. The TAIL regime took the better part of a decade to secure and represented the biggest shift in Canada's political-economic direction since Macdonald's National Policy, Taylor argues (2009: 238).

Even though a North America-wide TAIL regime was the crowning feature of the neoliberal program, the shift away from Keynesianism had begun much earlier. The conventional story about the shift from Keynesianism towards neoliberalism (or in monetary matters, monetarism) is as follows.²⁴ Rising inflation in the late 1960s had transformed into severe stagflation by the early 1970s. Tighter monetary policy in the late 1960s in response to rising inflation led to the suspension of the fixed exchange rate regime in 1970. The stated intention of the Bank of Canada was to have the Canadian

²⁴ Whether this story is analytically or theoretically sound is not the primary concern. There are probably many historians who would contest the narrative constructed in this chapter. The intention is to begin with what is generally accepted as true about Canadian history, and then in the following research-based chapters, tell a slightly different story about Canadian political-economic development.

dollar float temporarily while the Canadian State got inflation under control, but by 1973 the Bretton Woods system of pegged currencies had unravelled.

As early as 1975 the Bank of Canada embraced monetarism and that same year the Trudeau liberals imposed wage and price controls in an effort to slow the growth of prices.²⁵ Despite the more restrictive monetary policy, high levels of inflation did not subside. By the end of 1979, the Bank Rate had reached 14 percent and by 1981 it would crest 21 percent (Powell 2005: 71-75). Inflation remained high throughout the 1980s and in 1991 the Bank of Canada embraced inflation targeting (Laidler and Robson 2004). The 1990s saw a lasting reduction in inflation, which led some (Ragan 2005, for example) to believe that the targeting worked.

By the mid-1990s, inflation in Canada (and in many other OECD countries) was much lower. The attention of the Government of Canada at that time appeared fixated on budget deficits and the national debt. The (infamous) budget tabled by then Finance Minister Paul Martin in 1995 aggressively cut social spending as the Canadian State began to reverse a six decade-long trend by shrinking its share of GDP. The way the official story is told (see Tindal 2005, for example) is that, once high inflation was slain, deficits eliminated and the national debt reduced, the question became how to spend the budget surpluses. The Canadian State proceeded to cut taxes on corporations and the wealthy and to shift part of the tax burden from business to consumers. For example, in

²⁵ The author's understanding is that, after 1975, officials in the Bank of Canada no longer saw unemployment and inflation as policy trade-offs. Under Keynesian suppositions, inflation and unemployment could be counteracted using a mixture of monetary and fiscal tools. After 1975, officials understood inflation reduction to be their core policy challenge and monetary policy their main tool.

1991 the Mulroney Tories converted the business targeted Manufacturers Sales Tax into the consumer targeted Goods and Services Tax.

Accompanying monetarism, 'sound' fiscal policy, tax cuts and investment liberalization was a massive privatization drive. In 1986, 22 percent of the largest 500 firms (ranked by revenue) were government owned. This meant that equity ownership in Canada was divided into three groupings: (1) a small clique of powerful families and conglomerates, (2) subsidiaries of foreign multinationals and (3) state enterprises. By 2007, only 8.5 percent were state controlled (Francis 2008: 4, 16). Canadian National Railway, Potash Corporation, Air Canada and other prominent Canadian enterprises were put on the neoliberal chopping block. C.D. Howe had sold off many state assets after the Second World War in the first major privatization drive. Mulroney initiated the second privatization drive, which has not yet subsided.

On the matter of competition, the Trudeau Liberals set out to strengthen Canada's anti-monopoly laws, which dated back to *Combines Investigation Act* of 1910.²⁶ By 1981 Ottawa had drafted a new competition bill to 'keep the business establishment's piratical instincts in check' (Newman 1998: 155), but over the course of the next three years the BNCI spent \$1 million, hired a team of 25 lawyers and produced a 236 page document that would eventually become Canada's new competition law. This was the only time in the history of capitalism, Newman (1998: 156) tells us, that 'a country allowed its anti-monopoly legislation to be written by the very people it was meant to police'.

²⁶ The *Act* prohibited monopolies, price-fixing, bid-rigging, misleading advertising and other anti-competitive behaviour.

Reflecting on Canada's 15 year attempt to strengthen competition laws, one scholar concluded: 'corporate interests can virtually hold the government hostage'. The pressure put by the BCNI on the government in Canada changed the legislative process by 'virtually transform[ing] consultative power into veto power' (Vogt 1985: 556-7). Newman summarizes the relationship between the corporate elites and competition:

Despite their unqualified allegiance to free enterprise, most Canadian businessmen don't, in fact, like to compete. When they extol the virtues of capitalism, they are really describing and oligarchic economy with little scope or need for competition (1975: 218-9).

The 1967 Bank Act prohibited the Chartered banks from owning more than a 10 percent stake of other firms, but in 1987 the Mulroney Progressive Conservatives liberalized financial markets and the Big Five banks quickly absorbed all the major investment banks and mutual fund companies (Houten 1991: 96).

Despite the liberalization of financial markets and the successful attempt by business interests to block competition promoting legislation, the 1990s saw the displacement of some of the most dominant corporations and established families in Canada. Canada's richest family at the time, the Reichmann's, and their Olympia & York were hammered in the global property recession of 1989-90. Even though the Big Five banks have (so far) been shielded from foreign competition, Francis argues (2008: 9) that they might have failed in that recession had special write-off privileges not been orchestrated by the federal government. The 1990s saw one business dynasty after another succumb to the pressures of the new global environment: the Eaton's, the Molson's, the Bronfman's and the Southam's were all dislodged after occupying positions

of dominance for generations.²⁷ A stake was driven through the heart of Canada's WASP Establishment in February of 1997, Newman (1998: 75) tells us, when the Eaton clan were deemed commercially 'insolvent'. Their decline marked the eclipse of the WASP establishment that had dominated Canadian life for 130 years.

Data on the processes described here are presented in Table 3.1. Decade averages for Canada, the United States and the G-7 are included so that we may contextualize the changes in Canada. Inflation in Canada increased markedly in the 1970s and 1980s, but was significantly lower by the 1990s. The inflationary experience in Canada does not appear to deviate from that in the United States and the G-7 (Central Bank interest rates also took a similar course in Canada and the United States). On the matter of total government spending there are some notable differences. Total governmental outlays in Canada rose from the 1950s through the 1990s before declining dramatically in the 2000s. The shift to neoliberal governance in Canada has, in fact, meant shrinking government. This is not true of the United States or the G-7 as a whole, where total government outlays (relative to GDP) either continuously rose throughout the neoliberal period or remained constant.

The 'official' purpose of the neoliberal program of deregulation, privatization, tax cuts and trade and investment liberalization was the enhancement of prosperity. We might wish to know if this political program delivered on its promise. When we contrast GDP growth, unemployment and hourly earnings in the three decades spanning 1950

²⁷ The term 'dislodged' can be easily misunderstood. We must distinguish the fact of corporate hierarchy ('structure') from the individuals and families who occupy the top positions. In this instance, 'dislodged' means that some of the oldest and most established families fell down the corporate dominance hierarchy, not that the hierarchy itself was challenged or reduced.

through 1980 — the Keynesian welfare era — with the last three decades of neoliberal globalization, we can safely conclude that neoliberalism has not, in fact, meant more rapid growth or the creation of shared prosperity. GDP growth was robust in Canada for the first three decades of the postwar era and this was matched by the growth in hourly earnings. And while unemployment climbed throughout the first three decades of the postwar era, it remained relatively low.

Table 3.1
Performance Indicators for Canada, the United States and the G-7 (Decade averages)

Measure	1950s	1960s	1970s	1980s	1990s	2000s
Canada						
GDP Growth Rate†	4.8	5.1	4.1	3.0	2.4	2.1
Unemployment Rate	4.2	5.1	6.8	9.4	9.6	7.0 (10)*
Growth Rate of Hourly Earnings†	3.30	2.35	2.78	-0.02	0.63	-0.49
Consumer Price Index						
<i>Annual percent change</i>	2.4	2.5	7.4	6.5	2.2	2.1
Central Bank Interest Rate	3.0	5.0	8.1	11.3	6.2	3.2
Total government spending						
<i>Percent of GDP</i>	23	26	37	44	47	40
United States						
GDP Growth Rate†	4.2	4.4	3.3	3.1	3.2	1.7
Unemployment Rate	4.5	4.8	6.2	7.3	5.8	5.5
Growth Rate of Hourly Earnings†	3.07	1.55	0.64	-0.66	0.08	0.18
Consumer Price Index	2.2	2.5	7.4	5.1	2.9	2.5
Central Bank Interest Rate	2.4	4.1	6.9	8.8	4.9	2.7
Total government spending	--	--	33	36	36	37
G-7						
GDP Growth Rate†	--	--	3.6	2.9	2.5	1.4
Unemployment Rate	--	--	--	6.5	6.5	6.3
Growth Rate of Hourly Earnings†	--	--	2.53	0.38	0.52	0.24
Consumer Price Index	--	--	8.3	5.5	2.7	2.0
Total government spending	--	--	34	39	41	41

† Adjusted for inflation

* Includes discouraged and involuntary part-time workers

Sources for Canada: GDP from Historical Statistics of Canada, Series F1-13 and Cansim Table 380-0016; unemployment rate from the OECD (discouraged and involuntary part-time workers from Cansim Table 282-0086); hourly earnings from the IMF through Global Insight; Consumer Price Index from Global Insight; Bank of Canada Interest Rate from the Bank of Canada Review and Weekly Financial Statistics, both through Global Insight; total government outlays from Historical Statistics of Canada, Series F116, and National Economic and Financial Accounts, Table 380-0007 through Statistics Canada Fiscal Reference Table 33. **Sources for the United States:** 'Real' GDP growth rate from Global Insight; unemployment rate from the IMF through Global Insight; hourly earnings and CPI from Global Financial Data; total government spending from the OECD Economic Outlook through Fiscal Reference Table

53, Statistics Canada. **Sources for the G-7:** 'Real' GDP growth rate from OECD Statistics; unemployment rate, hourly earnings growth rate and CPI from OECD through Global Insight; total government spending from the OECD Economic Outlook through Fiscal Reference Table 53, Statistics Canada.

The neoliberal era has brought higher unemployment, slower growth and the near total stagnation of wages. The official unemployment rate was almost always higher in Canada than in the United States, but the pattern between the two countries is not markedly different. Hourly earnings began to stagnate in the United States in the 1970s and the experience of labour in Canada from 1980 onward is similar to the United States and the G-7. An important question emerges from this data: how can we account for the slower growth (heightened stagnation) in terms of GDP and wages? We will address this question in Chapter 7.

To conclude: amid the sometimes spectacular corporate failures of the post-FTA period, the corporate state was re-established and dominant corporations grew larger and more powerful than they had been at any point in the postwar era.²⁸ How should we understand the modern corporation and what does its emergence and evolution mean in the context of Canadian capitalism? In Chapter 4 we will review how the various schools of thought have tried to make sense of the development of Canadian capitalism. We will also survey how the various perspectives have understood the emergence and evolution of the modern corporation. Once this theoretical and historical groundwork has been laid, we will be prepared to examine the structure, composition and performance of the largest firms in Canada.

²⁸ The term 'corporate state' is used colloquially and in contrast to the 'welfare state'. The corporate state captures an approach to governance that seeks to reverse or undermine the Keynesian welfare state, replacing it with pro-business policies and institutions.

The Political Economy of the Modern Corporation: Surveying the Literature

As for the famous “struggle for life,” for the time being it seems to me more asserted than proved. It happens, but as the exception; the overall aspect of life is not a state of need and hunger, but instead, wealth, bounty, even absurd squandering — where there is a struggle it is a struggle for power... One should not confuse Malthus with nature.

- Friedrich Nietzsche (1889)

Our investigation into the evolution of dominant capital in Canada intersects with three overlapping literatures: it bears close proximity to studies on corporate power in Canada, but it also has points of contact with Canadian political economy as such as well as studies on the modern corporation. This chapter will review all three areas with a view to setting the literary context and framing the questions that will be addressed in subsequent chapters. At this point in our inquiry we should wish to know what questions have been asked by others, what answers have been offered and how satisfactory these answers are, both analytically and empirically. Once we have an understanding of how others have framed questions, we will be able to appropriately reframe an alternative set of questions.

The present chapter will be delivered in four sections, the first three corresponding with a particular literature. The first section will survey the various perspectives on Canadian political economy that have developed over the past century.

Some of these perspectives have tried to make sense of corporate power, others have ignored the subject altogether. However, all of the approaches have tried to come to terms with Canada's unique political-economic development, which is why they deserve a 'hearing' in this study. The second section will review how different schools of thought have understood the modern corporation and its role in twentieth century capitalism. The perspectives reviewed in the second section all agree that the modern corporation changed twentieth century capitalism, but they disagree as to how capitalism has changed and the political-economic significance of those changes. The third section will explore what others have argued about the development of corporate power in Canada and the fourth section will close with a series of questions that will serve as the basis for subsequent chapters.

4.1 Perspectives on Canadian Political Economy

Efforts to explain the development of Canadian capitalism are commonly categorized into broad theoretical perspectives, some competing and some complementary, some having roots outside Canadian intellectual life and some indigenous to Canada. These perspectives raise different questions, utilize different methods, hold differing suppositions, privilege certain explanatory principles and generate alternative narratives. In what follows we will briefly review five broad approaches to Canadian political economy (CPE): the Old Canadian Political Economy (OCPE), the New Canadian

Political Economy (NCPE) and neoclassical, Marxist and feminist perspectives.¹ Each perspective has raised important questions and added to our understanding of Canada's political-economic development. Studies on corporate power in Canada are a subset of CPE, so before we review what others have said about the development of large corporations in Canada we need to understand how the various perspectives have framed Canada's political-economic development.²

The OCPE grows out of the work of Mackintosh (1923) and Innis (1930; 1954; 1956) and lasts from the 1920s through the 1960s. Both Mackintosh and Innis object to a conception of Canadian development that privileges monarchical and constitutional considerations above Canada's geocontinental context.³ For them, Canada's unique trajectory is most clearly disclosed when one considers the centrality of staples exports. Canadian development was fuelled by the production of exportable goods from raw resources to developed markets in the imperial centres. As Mackintosh puts it, the 'prime requisite of colonial prosperity is the colonial staple' (1923: 4). Innis goes further. He views the entirety of Canada's economic, political and socio-institutional development as centering on staples production. But staples production can only be understood once one comes to grips with Canada's unique geography, climate and the complex transport and communications systems required to connect the staple producing hinterland to the

¹ Easterbrook and Watkins (1967) edit a volume dedicated to the OCPE, Clement and Drache (1978) Drache and Clement (1985), Clement and Williams (1989), Clement (1997) and Clement and Vosko (2003) on the NCPE. Laxer (1991) and Watkins and Grant (1993) edit volumes that include submissions from all five perspectives.

² This review adopts the taxonomy of Laxer's (1991) survey of the various perspectives on CPE, and in some instances, draws on his assessment of the various perspectives.

³ According to Drache (1995: xv), Innis thought of himself as a 'dirt economist', meaning he examined economics in the light of the political and the social.

markets in the imperial centre. The history of successive staples exports, Innis (1930) argues, is the history of Canada's economic, political and socio-institutional growth.

Watkins (1963) contends that the staples theory of economic growth is Canada's most distinctive contribution to economic history, though he is careful to stress that it is not a general theory of economic growth. Instead, its applicability is confined to newly formed, resource intensive, export driven political economies. These societies have unique institutional relationships and scholars working within the OCPE recognize that the conventional understanding of state-business relations, in which the former is presupposed to be static and security-oriented while the latter is dynamic and wealth-oriented, cannot account for the peculiar relationship between the Canadian State and industrial development.⁴ Easterbrook and Aitken's (1956) textbook embraces the staples perspective and posits that Canada's industrialized political economy developed out of a succession of staples exports: first fish, then furs followed by timber, wheat and minerals.

Instead of subordinating historical facts to the logic of abstract market forces or mathematical models, the OCPE emphasizes historical development and the integration of numerous explanatory factors, including geography, climate, and technology, the role of elites, external (metropolitan) markets and geopolitical location.⁵ During the 1950s the writing of economic history would be transformed by the gradual adoption of neoclassical techniques. Norrie, Owram and Emery (2008: xi-xii) tell us that the 'new economic history' dropped the 'political' from 'political economy' and methodologically

⁴ Fowke (1952) and Aitken (1964) are two prominent examples.

⁵ Norrie, Owram and Emery (2008: xix) contest the idea that there is anything like a 'staples theory' because it cannot be disproven; all explanations are *post factum* descriptions. They contend that it is more appropriate to call it a 'staples thesis'.

privileged quantification, model building, counter-factuals and hypothesis testing over history. The new economic history textbooks gradually supplanted the old staples perspective and the OCPE was soon eclipsed by neoclassical economics.⁶

The NCPE grows out of the counter culture of the 1960s, and in so doing, rejects the neoclassical orientation towards econometrics and modelling. NCPE is eclectic in terms of organizing concepts and it embraces the political orientation of the New Left, particularly its anti-Stalinist Marxism and its anti-imperialist dependency theory.⁷ Kari Levitt's *Silent Surrender* (1970) would be among the earliest manifestos embodying this new approach, though Mel Watkins is also credited as a seminal figure in the development of the NCPE (Laxer 1991: xv-xvi).⁸

As Levitt sees it, there is an inherent tension between foreign ownership and national sovereignty. The higher the degree of foreign direct investment a society accepts, the lower its degree of economic and political self-determination (1970: 9). Canada was the preeminent example in this regard, for it had the highest levels of foreign ownership in the world and was, in her eyes, the world's richest underdeveloped country.⁹ Canada's lack of freedom in economic and political matters was rooted in its branch-plant status and the process that generated this condition she called the 'new mercantilism'. The logic of the new mercantilism is straightforward: large American firms need to expand their

⁶ Examples of the latter include Marr and Paterson (1980) and Pomfret (1981)

⁷ Although Innis's work remains a pillar of the NCPE, C.B. Macpherson's neo-Marxism also played a supporting role. See Clement and Williams (1989: 8-10) for a discussion.

⁸ A collection of Watkins' writings are compiled in *Staples and Beyond* (2006).

⁹ Kellogg (2005) contests the idea that Canada is best understood as a rich underdeveloped society. As he sees it, Left nationalists like Levitt overstated the degree of foreign ownership and so misinterpreted key aspects of Canadian capitalism. Watkins (2007) comes to Levitt's defence, and to the defence of the staples approach generally, by claiming that Kellogg misuses and misinterprets the data.

operations in order to secure their profits, and they need greater profits to secure their expansion. So as powerful states like the United States export ownership titles, weaker states like Canada become recolonized. The outcome for weaker states is a loss of policy autonomy, political-economic dependence and a fractured national culture (1970: 24-25).

The dependency and underdevelopment line of inquiry was followed by Naylor (1972; 1975) and Clement (1975; 1977a; 1977b) in what became known as the Naylor-Clement thesis. Together they argue that the brittleness of Canadian sovereignty is attributable to the Canadian bourgeoisie, who never developed an independent industrial base, but were content to service the industrially productive sectors of the economy which were American-owned.¹⁰ As Naylor views it, Canadian underdevelopment and dependence is rooted in the ‘imperial linkage’ which connects the structure of capital and of the capitalist class from the imperial centre to the Canadian hinterland (1972: 2). The dependent character of the Canadian ruling class and the material benefits that secure that dependence are responsible for Canada’s branch plant status.¹¹ The NCPE would blossom in the 1980s and cover a broad array of subjects including labour, gender, the Canadian State, communications, regionalism and Canada’s location in the geopolitical order, to name a few topics (see Clement and Williams (1989)).

¹⁰ Carroll (1986) contests this claim, arguing that domestic capitalists developed a diversified industrial base and, as a consequence, Canada’s developmental path is similar to other advanced societies. Williams (1979; 1983) roots Canada’s relative industrial weakness in its Confederation-era policy of import-substitution industrialization and in its heavy reliance on foreign technology. Laxer (1989) traces Canada’s high levels of foreign ownership to the relative weakness of farmer’s movements.

¹¹ Sardon (2010; 2011) contests much of the NCPE literature by suggesting that Fordist techniques were utilized in Canada much earlier than previously recognized. One implication, he argues, is that Canadian and American industrialization followed parallel, not diverging, paths.

The NCPE exhibits many topical and methodological continuities vis-a-vis the OCPE. Like the OCPE, the NCPE tries to sort out why Canada remains heavily reliant on staples exports, why its industrial base remains relatively weak and why important political-economic decisions about its future often seem to be made outside its borders. Like the OCPE, the NCPE privileges historical explanation over model building and hypothesis testing, and it focuses on the intersection between the material context of Canadian life and ideological suppositions that guide elites in their decision-making. Perhaps the most notable break between the two approaches is the NCPE's embrace of Marxist and anti-imperialist ideas, which helps explain why the NCPE was more politicized than the OCPE (Laxer 1991: xv-xvii).

Neoclassical efforts to explain Canada's political-economic development have tended to come from those working within or near the staples school. Mackintosh (1923), for example, appears to have accepted neoclassical assumptions about economic decisions coming in response to market prices, the latter produced through the intersection of equilibrium-seeking demand and supply. In generating a staples theory of economic growth, Watkins (1963) modifies some aspects of the staples approach to make it compatible with the neoclassical theory of international trade. Neoclassicists tend to emphasize the 'economic' aspects of Canadian development, understood as social behaviour in response to market signals. By trying to explain how an open trading

environment is influenced by geography and climate, the neoclassical school downplays 'the political' or treats it as an impediment to development (Laxer 1991: xxi-xxiv).¹²

The formal breakup of political economy into 'politics' and 'economics' has meant that a large literature on Canadian *economic* development has been generated since the 1960s by economists. However, these authors (which are too numerous to name) no longer see themselves as working within or even near 'political economy'. Instead of looking at state power, the class structure, the role of elites or other similar matters that have occupied the attention of OCPE and NCPE, neoclassicists concentrate on the (supposedly) autonomous sphere of the market and business. Inflation, trade, investment, debt, consumption and other 'economic' categories are presupposed to be separate from the power processes of the polity. But in a world with huge multinationals, powerful states and international institutions like the World Bank, IMF and WTO, the explanatory utility of quarantining politics from economics (or power from business) is low to nil.

Myers', *A History of Canadian Wealth* (1914) represents the earliest study undertaken using a Marxist framework, Laxer tells us (1991: xviii-xix). Myers' task is to show the deep interconnections between business and politics and to help expose the corruption and exploitation that lay behind the amassment of great Canadian fortunes. The way Laxer (1991: xviii-xix) recounts it, Marxist analysis in Canada was either dormant or undertaken by people connected to the Communist Party of Canada until academic Marxism was revived in the 1970s. Many of the scholars working within the NCPE were

¹² McCallum (1980) and Drummond (1987) are examples of scholars working within the neoclassical school.

Marxist in orientation, but Laxer credits Pentland (1959; 1981) as among the earliest to utilize Marxist tools to uncover aspects of Canada's development — notably the formation of a market for labour and a class of people to occupy it — that had been neglected.

The dependency-underdevelopment theme was also taken up by Marxists, but instead of trying to explain why Canadian capitalists remained dependent upon capitalists in the imperium, they drew attention to the internal class relations of Canadian capitalism. Panitch (1981: 8-9) is one such example insofar as he takes Levitt (1970) and others to task for neglecting the relationship Canadian capitalists have to other classes in Canada and the role this relationship plays in characterizing Canadian dependency. Panitch's criticism of Levitt reveals something distinctive about Marxist approaches: while the OCPE and NCPE both focus on the role elites play in shaping development, they largely neglected other social classes in Canada. Marxists stepped in to fill this gap by examining the working class and its relationship to the capitalist class. Like the OCPE and NCPE, Marxists have sought explanations in the light of history, but they do not put as much emphasis on geographical or technological factors (which is surprising, given their materialist bent). For them, the exploitation of wage labour by capital and the struggles created therein reveal the developmental direction of Canadian society (Laxer 1991: xviii-xix).

Feminist perspectives began to take shape in the 1980s and have continued to develop into the present. Maroney and Luxton (1987) and Brym and Fox (1989) draw attention to the invisibility of women in Canadian political-economic history. The focus

on state and business in social development ignored the role women played in building Canada. Cohen (1988) utilizes the work of Pentland (1981) in order to unzip the interplay between patriarchy and women's socio-economic role. Feminists have not only explored those aspects of Canadian development that have been overlooked by scholars who have been preoccupied with the state and business, but have also tried to sort out the way gendered power relations infuse households and markets (Laxer 1991: xix-xx).

As Vosko (2002) sees it, feminist CPE has unfolded through four overlapping phases. The first phase brought attention to the 'gender blindness' of conventional political economy. The second phase took the form of a debate over which 'level of analysis' (2002: 60) is most appropriate in explaining female domesticity and women's subordination: some argued that material relations are the determining factor, others that ideological considerations are paramount and yet others incorporated both into the causal picture. The third phase, according to Vosko, saw theoretically grounded case studies and the fourth shifted the terrain slightly to study the intersection of race, class and gender, all under the spotlight of domination (2002: 64-65).

Methodologically, feminist CPE follows the OCPE and the NCPE in turning to history to make sense of current problems, and similar to Marxism it takes class domination and power relations to be of supreme importance. Its major addition to political economy has been to make subsequent research in other schools sensitive to gender and to considerably widen the scope of scholarly questions. Whereas the OCPE and, to a greater extent, some of the early NCPE overlooked the socio-economic role of

women and ignored patriarchy as a form of social power, feminist CPE has increased the resolution with which questions are posed and problems framed.

The purpose of this review has not been to tear down any of the writers working within the various schools of thought. Each perspective adds to our understanding of Canada's unique political-economic development. However, there is a wide chasm in the literature. None of the studies reviewed here have tried to measure or map the structure and performance of the largest Canadian-based firms over the entire postwar era. It goes without saying that none have looked at the development of Canadian capitalism in the light of differential accumulation (it being a new approach). We simply do not have some of the most basic facts at our disposal, such as: how concentrated is the Canadian political economy in terms of equity market value, assets, profitability and ownership?; has the level of concentration changed over time, and if so, what drives concentration?; more specifically, what role do mergers and acquisitions play in fuelling the growth of large firms?; and finally, what are some of the distributive consequences of larger relative firm size?

One reason these questions have not been posed is they are intimately bound up with power, and none of the approaches comes to a satisfactory understanding of the place (socio-institutional) power occupies in modern political economy. Instead of focusing on markets (like the neoclassicists), geography and climate (like the OCPE), the subordination of Canadian elites to foreign elites (like the NCPE), the internal class relations of Canada (like the Marxists) or the role of gender in Canadian capitalism (like feminist CPE), this study will take its cue from N&B's theory of capitalist development

as well as other heterodox approaches and examine the development of the largest Canadian-based corporations from the standpoint of institutional power.

Now that we have surveyed how the different schools of thought have made sense of Canadian political economy, we turn our attention to the modern corporation and how scholars in the twentieth century have understood its emergence and evolution.

4.2 The Modern Corporation as an Object of Inquiry

If we define the modern corporation as a joint-stock, limited liability company infused by the state with permanence and a legal status that distinguishes it from its owners — an ‘artificial person’ — then we can date its emergence to the latter half of the nineteenth century.¹³ A series of legislative initiatives in the British parliament culminated in the 1862 Companies Act. Hereafter, firms no longer needed to acquire a special charter; the act of registration was sufficient, and limited liability was automatically granted (Micklethwait and Wooldridge 2005: 52).¹⁴

In the United States, a series of judicial decisions gradually removed the restrictions on corporate activity and simultaneously invested them with new rights. Among the most important legal rulings was the decision by Supreme Court Justice

¹³ All private corporations are companies, but not all companies are corporations. The word company, from ‘compagnia’, fuses two Latin words: ‘cum’ and ‘panis’, which means ‘breaking bread together’. It has its roots in medieval Italy and is associated with the creation of double entry bookkeeping in the mid-fourteenth century (Micklethwait and Wooldridge 2005: 8).

¹⁴ The pre-modern corporation has a long and bloody history. For centuries there was no formal separation of commercial activity from organized violence. The East India Company, for example, ruled India for generations and, at one point, had an army of 260,000 troops — twice the size of the British army. Early chartered companies helped develop the slave trade and acted as subcontractors for European imperialism (Micklethwait and Wooldridge: xvi, 34-35). Moore and Lewis (1999) trace the history of the corporation to the ancient world, but note that the term ‘multinational’ is misleading in this context because the term ‘nation’ had an entirely different connotation.

Stephen J. Field in the *Santa Clara County v. Southern Pacific Railroad* (1886), who ruled that corporations are persons and so are entitled to the Fourteenth Amendment's guarantee of 'equal protection' under the law (Nace 2005: 96-97). Similar judicial manoeuvrings followed and by 1914 the corporation was the dominant business institution in America (Micklethwait and Wooldridge 2005: 59).

The library housing studies on corporate power is large, making this review, by necessity, highly selective. Studies on the corporation have dealt with numerous topics and from many angles, including the relationship between the corporation and: power; private property; the state, namely what role each plays in shaping development and what role each should play in shaping development; foreign investment and national sovereignty; and social stratification, to name a few prominent topics. We will review some of the major studies in each topic area.

Veblen (1904; 1923) is among the earliest to note the broad cultural significance of the corporate form, especially the role it played in reorganizing power in America. As he sees it, the historical stature of modern Western civilization is the product of the industrial system and the industrial system is under the control — through the large corporation — of business (1904: 8). His examination of the corporate form leads him to conclude that there is a disjuncture between the 'material' interests of the 'industrial community' and the 'vested' interests of the 'absentee owners'. The former are 'best served by a smooth, uninterrupted interplay of the industrial process' while the latter can enhance business gains through 'large and frequent disturbances to the system', namely unemployment (1904: 19, 24). Ownership of industrial equipment confers the 'legal right

of sabotage', as he describes it, and allows the absentee owner to control the volume of output in order to 'bring the largest net returns in terms of price' (1923: 66-67). For Veblen, then, the corporation is an instrument of control in the service of private gain.¹⁵

Berle and Means (1932) view the emergence of the joint-stock company as ushering in a 'corporate revolution' insofar as it radically altered the property regime. The ascent of the corporation drove three important developments which changed the socio-institutional fabric of America in so profound a way as to render traditional economic theory obsolete: first, an increasing concentration of corporate assets; second, an increasing diffusion of stock ownership; third and consequently, an increasing separation of ownership from control (1932: xxix-xxx). The managerial or separation thesis, as it has come to be known, spawned an entire literature that has since addressed a series of questions.¹⁶ If concentration is increasing what are the consequences for competition and price formation? If salary-collecting managers as opposed to profit-oriented proprietors control the corporation, will they steer it in a profit maximizing direction or has the incentive structure been fundamentally altered? And if the corporation has become a bureaucratic machine run by professional managers, does this mean that the capitalist class has been dislodged from its position of dominance, and consequently, that social power has been dispersed? Furthermore, why did the corporate form emerge in the first place?

¹⁵ A point Nitzan and Bichler (2009: Chapter 12) stress and build upon.

¹⁶ The first and most obvious set of questions: is it true that concentration is increasing, that stock ownership is dispersing and that ownership is delinking from control? We will elaborate on, and try to answer, these questions in Chapter 5.

On the subject of concentration, competition and price formation, Means (1935) went on to uncover a new historical phenomenon: 'administered prices'. Based on extensive statistical evidence, Means asserts that an administered price is one which is set for a period of time and across many transactions. In contrast to competitive prices, which are flexible and change frequently, an administered price is rigid, changes infrequently and is inflexible (1935: 401-2). Means (1972a) re-tested his hypothesis four decades later and found that it had not been refuted. The increase in corporate power after the Second World War led Means to develop two additional concepts: 'administrative competition' and 'administrative inflation' (Means 1983: 469-76). The former is a non-classical form of competition in which a small number of large firms have a high degree of pricing discretion. The latter is a new type of inflation in which prices rise sharply in recession.

It appeared to Berle that concentrated corporate power had led to a planned political economy, with the large corporation shaping the life activity of entire communities. Berle neatly summarizes the new theoretical dilemma:

In a system of corporate concentration the result of competition is some sort of planning; and planning does not reduce power but increases it... The corporation is now, essentially, a non-statist political institution (Berle 1955: 38, 44).

Berle (1955: 13) maintained that American capitalism was more efficient and humane than Soviet communism, but both he and Means recognized that the essential difference between the two systems was not that the latter was controlled by a small group of powerful men while the former was controlled by market forces. Instead, both systems

were controlled by power institutions; the difference lay in who made what decisions (Berle and Means 1932: xxxvii).¹⁷

In his *Concept of the Corporation*, Drucker contends that the emergence of the corporate form was ‘the most important event in the recent social history of the Western world’ (1945: 9). As he views it, the corporation is the first autonomous power institution emerging from society which is not dependent on the national state. As a consequence of his detailed case study of General Motors, Drucker concludes that the essence of the corporation is social and organizational; it exists to efficiently organize human effort in the service of economizing output (1945: 40).

Like Drucker, Chandler (1977) recognizes that the modern corporation led to a reorganization of power, but he also posits that it came into being to increase efficiency. The corporation absorbed activities that had previously been coordinated by markets and this means that a new class of professional, salaried managers control the allocation of resources. The ‘visible hand’ of the managerial hierarchy eclipsed the ‘invisible hand’ of the horizontal market, he argues, when administrative coordination was better suited to increase output, contain costs and enlarge profits. But this could only happen once the volume of economic activity made managerial hierarchy more efficient and profitable than market coordination (Chandler 1977: 1-3). The emergence of managerial hierarchy created a new source of social power. Chandler agrees with Berle and Means that ownership and control were de-linking, but Chandler also argues that professional

¹⁷ Stigler and Friedland (1983) test and contest Berle and Means’ separation thesis. Fama and Jensen (1983) argue that the separation of risk-bearing (ownership) and decision-making (control) is common across many organizational forms and that it can be attributed to the benefits of specialization.

managers pursued policies that increase long-term firm stability, growth and employment (1977: 6-10). So for Chandler, new technology and enhanced efficiency simultaneously explain and justify 'managerial capitalism'.

Williamson (1981) roots the modern corporation in a series of 'organizational innovations' that were aimed at minimizing transaction costs, an argument derived, in part, from Ronald Coase. Coase saw a basic division between resource allocation through the price mechanism and through an 'entrepreneur-coordinator' (1937: 92). The reliance on markets to coordinate human effort, Coase posits, involves 'transaction costs', which include: information gathering costs, bargaining costs, enforcement costs, etc. Firms emerge to economize on these costs by absorbing them and continue to grow in size until the cost of an additional transaction within the firm is equal to the cost of the same transaction through the market (Coase 1937: 96). Williamson recognizes that corporations emerged for other reasons as well such as technological imperatives and the quest for monopoly gains, but ultimately the firm is an instrument in the service of efficiency (1981: 1537).¹⁸

Scholarly attention has not been confined to explaining the emergence and growth of corporations, nor has it been restricted to the relationship the corporate form has to the property regime. International corporate expansion after the Second World War created new practical and theoretical problems. As Gilpin (1975: 5) views it, the intersection of states, multinationals and foreign investment created an academic blind

¹⁸ For a similar view of multinational corporation see Caves (2000). Jones (2005: 289) asserts that the historical evidence supports the argument that multinationals have grown to economize on transaction costs while admitting that 'precise measurement of such transaction costs is elusive', which makes it unclear what the 'historical evidence' could be.

spot for the simple reason that economists are unwilling to admit the reality of power and political scientists tend to ignore markets. Out of this academic blind spot came a series of competing paradigms to account for the tension between the foreign investment conducted by multinational corporations and the national planning done by states.

Working from a liberal internationalist perspective, Vernon's *Sovereignty at Bay* (1971) argues that there is a tension between the autonomy of nation states and the foreign investment of multinational corporations and that the former would have to yield to the latter for the sake of national prosperity and global efficiency. Vernon would also have us believe that the threats posed by multinationals to states are overstated. The loss of national policy autonomy has more to do with the revolutions in communication and transportation that are leading to a more interconnected world than it does with corporate hegemony. The evidence? When we consider all the social ills ascribed to multinationals — inequity, waste, pollution, etc. — we realize that these problems are also found in the Soviet Union and other societies where multinationals are either banned or restrained (1977: 191-3). If the threats posed by multinationals are overstated, so are the options presented for dealing with such threats. Vernon insists that neither states nor multinationals are going to disappear. The challenge for policy makers is to reduce the conflict between these institutions (1998: ix).

Marxists, like Hymer (1979), working in the dependency paradigm have been less inclined to see the activities of multinationals in such sanitized terms. Hymer sees in the multinational corporation the culmination of a process that began with the industrial revolution. There has been a tendency, he says, for the 'representative firm' to increase in

size from the workshop to the factory to the national corporation to the multi-divisional and now the multinational corporation (1979: 54-55). This growth path has brought both quantitative and qualitative changes. As the 'representative firm' increases in size, first the national and then international economic order are remade in the image of the corporation.

Hymer argues that two laws govern the interplay between the multinational corporation and international economic order: the 'law of increasing size' implies that decentralized market exchange will be dislodged as a small number of large firms centrally plan world production; the 'law of uneven development' implies that the international economic order will produce growth and development for the core countries while simultaneously producing poverty, underdevelopment and dependence for the periphery. The danger in leaving multinationals unregulated, Hymer argues, is made manifest when capital crosses national borders: it 'pulls and tears at the social and political fabric' of a society and 'erodes the cohesiveness of national states' (1979: 72).¹⁹ So as corporations grow in size and internationalize their operations through foreign investment, a fundamental conflict emerges between the national planning done by territorial-bound states and the international planning done by trans-border firms (Hymer and Rowthorn 1970: 90). This tension diminishes national self-determination and undermines the possibility of a coherent public policy.

¹⁹ Other critics of multinationals such as Barnett and Muller (1974: 13-14) and Barnett and Cavanagh (1994: 14-15) note that the multinational corporation is the first secular institution in human history that has the power to centrally plan and manage on a global scale. This creates a distressing tension, they say, between international firms and national governments. For Korten (2001: 22), 'economic globalization' has meant, in practice, 'market tyranny' as the activities of multinationals render 'democratic institutions impotent'.

Robert Gilpin contests the beneficial, harmonious corporate-led order posited by Vernon and the imperial, conflict ridden corporate-led order posited by Hymer. As he views it, power resides in a society's industrial base. This means that foreign investment from the developed core to the underdeveloped periphery tends to accelerate the redistribution of industrial power from rich to poor societies. He notes, however, that foreign investment generates mixed results. In the short term, foreign investment may strengthen the core, but over the long haul it can only delay (not reverse) the relative decline of the core (Gilpin 1975: 77). In contrast to Hymer and the Marxists, Gilpin views the expansion of capitalism as leading to development, not exploitation. The 'contradictions' of capitalism are most apparent when we consider the diffusion of development: a global capitalist order does not tend to concentrate wealth, industry, technology and power but to disperse it (1975: 260). In contrast to Vernon and the liberal internationalists, Gilpin sees a positive role for states to play in promoting and steering global development.²⁰

Using sociological tools, a group of scholars have examined the modern corporation through the prism of social stratification and elite unity. Mills' *The Power Elite* (1956) had a formative influence on later scholars, particularly G. William Domhoff. As Domhoff (2002: 42) sees it, the American State is controlled by a class of owners and top executives from the largest corporations who hold 'structural power' through private

²⁰ For an elaboration see Gilpin (2001: Chapter II). Gilpin's 'state-centric realism' is not theoretically far from a Keynesian-inspired mercantilist position. The latter views national interests as prevailing over corporate interests and national political-economic objectives being prioritized over global efficiency. See Gilpin (1975: 231-5) for a discussion.

control of investment.²¹ Their cohesion as a class is cemented through a common economic interest and their power is enhanced through their dominance of a densely interwoven policy planning network (2002: 182). Through an examination of membership in the network of interlocking corporate directorships stretching back to the nineteenth century, Domhoff posits that the existence of large corporations in America in the late nineteenth century — long before the emergence of ‘big government’ — meant that they and their policy planning affiliates could strategically shape the regulatory agencies, White House offices and the military apparatus that would become increasingly important in the twentieth century (2002: 191). The corporation, in this view, is an instrument of class power.

Other sociological studies established connections between corporate power and the class structure, policy formation and elite control of the state. Useem (1984), for example, views the political mobilization of dominant corporate interests as stemming from the decline in corporate profitability in the United States and United Kingdom in the 1970s. The inter-corporate networks that connect the largest firms created an ‘inner circle’ that worked in tandem with the state to assure ‘class-wide benefits’ (1984: 4-5). Schwartz (1987) argues that the corporate elite constitutes a ruling class in America. One important way in which this class exercises power is through its constraining influence on governmental activity. In contrast, Scott (1997) accepts the separation thesis advanced by managerialism. Because Scott believes that the link connecting ownership and control has been severed, he examines interlocking directorships as the key power

²¹ Domhoff's *Who Rules America?* was first published in 1967 and is now in its fourth impression. His analysis therein is deepened and extended in Domhoff (1970). Similar analyses are performed in Domhoff (1996) and Domhoff and Dye (1987).

relation in contemporary capitalism (1997: 7).²² At a global level, Mazlish and Morss (2005) contend that there is a 'global elite', but dominant proprietors and corporate managers are only one part of it. Those holding corporate power are flanked by others whose family background or position within a global organization (such as the World Bank) also put them in a position of power.

Now that we have reviewed how the modern corporation has been understood by institutionalists, managerialists, organizational theorists, liberal internationalists, Marxists, state-centric realists and social stratification researchers, how has corporate power been understood in Canada?

4.3 Corporate Power in Canada

The major approaches to corporate power in Canada have been sociological and biographical. Studies in economic sociology, social stratification and elite organization document the linkages between large corporations, the class structure and the state. It has been left to historians and journalists to document powerful corporate personalities and how their life activities shape the development of Canadian capitalism. Gustavus Myers' *A History of Canadian Wealth* (1914) is perhaps the earliest study detailing the linkages between the class structure, dominant corporations and great Canadian fortunes. Myers tries to demonstrate the interplay between 'free enterprise' and state power in the acquisition and enlargement of private fortunes.

²² Vogel (1989) outlines the political power of business elites in the United States and Galambos and Pratt (1988) chronicle the historical interplay between American business and public policy formation.

The *Royal Commission on Price Spreads* (1935) represents the first attempt to measure the level of concentration in the corporate sector. The research was conducted during the Great Depression and was nominally about 'the causes of the large spread between the prices received for commodities by the producer... and the price paid by the consumers' (1935: 1). In effect, though, it was an inquiry into the consequences of the increasing concentration of corporate power generated by the merger wave of the late 1920s. Some of its conclusions are startling, not because they are false, but because the verbiage was generated by professional men reporting to the Government of Canada. It is worth quoting some of the commissioner's basic findings at length:

The depression has... demonstrated that the strong and the organized are attaining an ever increasing position of dominance in our economic life; that power is becoming concentrated. With this concentration, old theories of economic control are proving inadequate... Simple competition, however, can be destroyed without the immediate substitution of monopoly. Somewhere between the two there is 'imperfect' competition... price no longer automatically adjusts itself to supply and demand... The dominant producers fix the price they deem most profitable and attempt to adjust their production to sales at that determined price... under imperfect competition, the bargaining advantage of strong organized groups may lead to the exploitation of the weak and disorganized...

They conclude:

It is not enough to say... that these problems are the result of depression and will vanish with the depression. It may be true that when recovery is achieved, competition will become less predatory, discrimination less general, and exploitation less obvious... [However, it is] a tragic delusion that the solution for these economic problems can be left to automatic forces, because the conditions which once permitted the easy and equitable operation of such forces have ceased to exist (*Report of the Royal Commission on Price Spreads* (1935: 5-9)).

This is perhaps the earliest official statement in Canada that the modern corporation has fundamentally altered capitalism. Subsequent studies on corporate power all unfolded in the postwar era, but the *Royal Commission on Price Spreads* signalled the new reality and the new problems that had to be addressed.

In blending Marxism with Canadian nationalism, Park and Park (1962) represent a precursor to the NCPE. They examine the structure of the corporate sector as a way of explaining both the heightened stagnation in, and foreign domination of, the Canadian economy. As they view it, the instrument of foreign domination is foreign investment, primarily American, but they also trace the structural features of Canadian dependence to a small clique of 'finance capitalists' who control the non-financial corporate sector and who, in their submission to the dictates of profit maximization, have led Canada into the orbit of American capital (1962: 22, 37, 74). In terms of evidence, they note that more than half of the 64 largest corporations, ranked by assets, are controlled by American and British investors.

Porter's *The Vertical Mosaic* (1965) is a seminal work in social stratification and has acted as a touchstone for researchers who examine social power in Canada. In sketching an image of the 'economic elite', Porter begins by accepting the validity of the managerial thesis, specifically an assumed increase in corporate concentration and the separation of ownership from control (1965: 21-22). Earlier in his career, Porter (1956) made an attempt to measure the concentration of economic power in Canada. For the years 1948-1950, he pinpointed 159 dominant corporations and estimated that they controlled at least 36 percent of the gross value of production in manufacturing. These 159 dominant firms were controlled, he estimated, by 922 individuals who held the 1,317 directorships, though he notes that 203 individuals (22 percent) held 598 (45 percent) of the

directorships (1956: 204, 210).²³ The power wielded by this group had not been studied in any detail, he thought, because:

Economics as a science does not seem to have the necessary tools to work at this problem of overall economic concentration, perhaps because in the long run the question is one of power and not of markets (1965: 232).

Porter's analysis of corporate power in Canada was important in many ways, not least because it was among the earliest to argue that managerialism had limited applicability in Canada.

As Marxists, Park and Park (1962: 11) view the owning class as the ruling class and assume that those who govern do so on behalf of dominant owners. This perspective makes the Parks disinclined to accept Berle and Means separation thesis. Porter works from a non-Marxist perspective and ends up challenging managerialism on two grounds: first, he cites studies which indicate that, between the 1930s and the 1960s, there had not been an appreciable increase in corporate concentration; and second, the relationship between investors, directors and managers is very close in Canada. As he views it, at the apex of the class structure we find a tightly interlocked network of corporate directors who hold 'ultimate power' and are 'the real planners' of the Canadian economy (1965: 255). He concludes that Canada is like other industrial societies insofar as it has experienced a high degree of corporate consolidation during the early part of the twentieth century; however, the relationship between corporate power and the class structure is atypical insofar as the economic elite in Canada has greater than normal power. Managerialism implies a dispersion of economic power as owners lost control

²³ Ashley (1957) criticizes Porter's selection on the grounds that it was too large. Rosenbluth (1961) also tries to measure corporate concentration in Canada and finds that 53 non-financial private firms with assets over \$100 million controlled 25 percent of all the 'real' assets of all corporations in 1956.

over the modern corporation, but in Canada Porter argues that power remains highly centralized (1965: 239-42).

Clement's (1975; 1977a) studies in social stratification take as their point of departure the validity of managerialism. Clement begins by presupposing that corporate capitalism tends toward increasing concentration (1975: 31) and that the economic elite is made up of senior management and directors instead of proprietors (1975: 5).²⁴ Defining the corporate elite more in terms of power (understood as command over resources) than in terms of wealth, Clement (1975: 98, 128) uses assets and sales together as the best approximation of corporate power. Using this metric, his study examines the 113 dominant corporations whose assets surpass \$250 million and whose sales exceed \$50 million. Interlocking directorships, he claims, tend to further concentrate corporate power.²⁵

In the two decades between 1951 and 1972, Clement identifies two processes: first, an increasing concentration of capital into a smaller number of larger firms; and second, increasing Americanization of the Canadian economy through heavy foreign investment (1975: 155-6, 168). Expanding his study to North America (1977a), Clement notes that the Canadian corporate sector is more heavily concentrated than the American. In 1965, for example, the 100 largest manufacturers accounted for 46 percent of value added in Canada but only 33 percent in the United States. He also notes that Canada's level of concentration exceeds America's in 50 of 56 industries (1977a: 140).

²⁴ Clement (1975: 97) would also have us believe that increasing corporation concentration was accompanied by increasing income inequality between 1948 and 1968, a claim we will contest in Chapter 8 and 10.

²⁵ Brownlee (2005) updates Clement's work and argues that the corporate elite in Canada is more unified, more class conscious and more mobilized in shaping public policy in recent times than in the past.

Niosi (1978) laments the fact that most studies of the Canadian economy focus on corporate concentration in the light of foreign control, and in so doing, neglect large Canadian-controlled firms. He would have us believe that there is indeed a 'big bourgeoisie' in Canada — a ruling class — that is distinct from American capital and which presides over the corporate sector through its strong equity position in dominant Canadian corporations (1978: 169, 173). Niosi asserts that Park and Park (1962), Porter (1965) and Clement (1975) lacked data on stock ownership and, in their reliance on interlocking directorships, drew erroneous conclusions. In contrast to the Marxian argument made by the Parks, the chartered banks do not control non-financial corporations. In contrast to managerial and elite theorists like Porter and Clement, major shareholders sit on the board of directors but need to be analytically distinguished from non-equity board members and non-equity management (1978: 166-9).

Niosi unpacks the ownership structure of the 136 largest Canadian controlled firms (ranked by assets in 1976) and finds that 30 percent are majority owned and 38 percent minority owned, leaving only 32 percent under management control (1978: 78-79). Thus, there is a Canadian ruling class distinct from 'finance capitalists', distinct from American capital and distinct from upper tier management that exerts control over the Canadian economy through a strong equity position.

Niosi (1981) goes on to contest the claims of Canadian nationalists who saw Canada as being under the dominion of American capital. The 'indigenous bourgeoisie', he suggests, plays a dominant role in Canada and is 'healthy and vigorous' (1981: 2-4). His examination of Canadian multinationals (1985) finds that Canadian firms, while small in

comparison to large American firms, are nevertheless on par in terms of sales and assets with Japanese and European multinationals. What's more, Canadian multinationals operate in stable oligopolistic markets and account for an overwhelming percentage of Canadian direct investment abroad: 86 percent is attributable to 65 firms and 65 percent is traceable to just 16 giant firms (1985: 170).

In terms of explaining the growth of large firms, Veltmeyer (1987: 27) draws on the Monopoly Capital school of Marxism and identifies two processes: first, large firms have higher than normal rates of profit and so grow through internal accumulation; and second, large firms consolidate competing units through merger. Also working within the Monopoly Capital school, Houten (1991: vi) tries to measure concentration in the corporate sector. He identifies 500 of the largest firms, ranked by assets, and finds that they control an additional 3,130 firms and account for 64 percent of assets and 64 percent of profit (as of 1986-87). If this level of asset and profit concentration appears high, the concentration of ownership is far more pronounced. Houten (1991: 94) identifies the eight largest Canadian conglomerates and finds that they are controlled by nine families. When the shares owned by the Big Five banks are excluded, he estimates that this small clique controlled more than half of the shares traded on the TSE 300 composite index.

Carroll (2010) examines corporate power from the Marxian standpoint of class power. Corporate power, he states, manifests itself in the highly unequal distribution of control over resources. This division between those who do and do not control resources creates unilateral dependence of the latter on the former. This dependence enables the controllers of resources to 'frame agendas, make decisions and secure [the] compliance' of

workers, communities and states (2010: 2). Carroll's (1986) earlier work examined the corporate sector in Canada from 1946-1976 and found that the 'silent surrender' argument generated by Levitt (1970) and other Canadian nationalists was false. Like Niosi (1978), Carroll sees an indigenous capitalist class that preserved and even expanded its accumulation base across all sectors of the Canadian economy.

In mapping the social network of interlocking directorates, Carroll finds that Canadian-controlled firms remain at the centre while American-controlled firms sit on the periphery. Updating and expanding his analysis, Carroll (2010: 55, 104, 125) maps the inter-corporate ownership of the top 250 Canadian firms across the last quarter of the twentieth century and finds that, contrary to Levitt and the dependency theorists of the 1970s, Canada's corporate elite are nationally embedded. Wealthy families continue to make up the largest fraction of the elite, with family control increasing in the last quarter of the twentieth century (albeit through inter-corporate ownership), which means that the de-personalization of control associated with managerialism still does not apply in Canada (2010: 202-3).

Blending economic sociology with biography, Newman (1975; 1981; 1998) examines corporate power by chronicling the full life cycle of the Canadian Establishment, from schooling and upbringing through professional life, home life, club membership, consumption patterns, business conquests, political exploits, peccadillo's, and finally, death. Newman estimates (1975: 543-4) that, as of the mid-1970s, the Canadian Establishment is made up of approximately 1,000 men — an 'untitled aristocracy' — who are a 'surprisingly compact self-perpetuating group' and who 'act as a

kind of informal *junta*, linked much more closely to each other than their country'. Their power, he says, resides in their 'ability to compel obedience, to shape events and trends — political and cultural as well as economic' to their advantage (1975: 543). Some might question the existence of such a social entity. To the skeptics, Newman states:

The existence of an Establishment is not some woolly writer's literary invention. It is real. It is the hidden hand behind the hidden hand that organizes the means of production, decides who gets what and how much, when things get done and why they get vetoed (1998: 10).

In the first volume, Newman sees the Establishment as differing from its forebears insofar as wealth and authority used to centre on powerful families, but in more recent times it is to be found in sprawling national corporations. The shift from personal to institutional power, however, does not signal a shift to de-personalized managerial capitalism. Newman's research leads him to posit: the 'alert CEO realizes that he is easily replaceable, that there is no substitute for ownership, that the only real security lies in establishing a strong equity position' (1975: 240). 'The corporate order', he would have us believe, 'is a system of private governments lacking the restraints of public accountability' with the largest firms acting as 'centres of power' (1975: 266). To those who might think this signals a conspiracy, Newman replies: the Establishment has 'little need to conspire' for the simple reason that 'they think the same way *naturally*. They recognize so few conflicts of interest because their broad interests seldom conflict' (1975: 542).²⁶

²⁶ The second volume, *The Acquisitors* (1981), is essentially an extension of the first with a Westward tilt. The first volume centred on the commercial and industrial centre of Canada — Ontario and Quebec — while the second shifted to the newly flush, resource-rich Canadian West.

By the third volume, *Titans*, things had changed considerably. Newman announces that the Old Establishment is 'dead' and that Canada has become a 'full-blown meritocracy' (1998: xi). Canada is still dominated by a corporate elite, to be sure, and its members move in and out of federal government cabinet seats, direct cultural institutions govern universities, and perhaps most importantly, act as 'the hidden hand behind the hidden hand that organizes means of production, decides who gets what and how much, when things get done and why they get vetoed' (Newman 1998: xviii, 10).²⁷ The Titans, as he describes them, 'create personal fortunes instead of jobs' by manipulating people's perception of what things are worth (Newman 1998: 105-6).

Fleming (1991: 158) also documents the life activities of the powerful and notes that the 'overlapping relationship' between business and government is 'cemented by a largely one way flow of ex-politicians and bureaucrats into corporate boards and management teams'. Take Peter Munk, for example. Munk is the Founder and Chairman of Barrick Gold, the world's largest gold company and one of the largest Canadian-domiciled firms. Munk appointed former Prime Minister Brian Mulroney, Francis (2008: 195) reports, to the board because he has 'access to heads of state' that can be used 'for both social and business or mining-claims purposes'. According to Newman (1998: 192), Munk explained that he put Mulroney on the board of Barrick because 'he has great contacts' and 'knows every dictator in the world on a first-name basis'. Such is the relationship between dominant proprietors and governing officials in Canada.

²⁷ Clarke (1997: 5-6) describes the new corporate politics or 'corporate rule' as being the product of a 'silent coup' and 'hostile takeover'. Dobbin (2003) echoes Clarke when he judges the new political reality as involving corporations attaining 'super-citizen' status.

4.4 What are the Questions?

Let's sum up. First, Canadian political economists have argued that Canada's developmental trajectory is unique in many respects and, with the exception of those working within the neoclassical school, have sought explanations in the light of history. Second, international scholars working from numerous perspectives recognized that the advent of the modern corporation changed capitalism in fundamental ways, especially as it pertains to the organization and exercise of power. Third, the majority of studies on corporate power in Canada have argued that the corporate sector is dominated by an elite, but contrary to managerial suppositions this elite is largely comprised of proprietors with strong equity positions in the firms they control.

While tentatively accepting the validity of these studies, there remains much to be understood. To begin, most of the studies on large firms in Canada are too dated to be of much use today. The bulk of the studies on the structure of corporate ownership, for example, were conducted prior to the CUFTA and the NAFTA. The two decades since the trade and investment liberalization regime was instituted may have radically altered the structure of corporate ownership in Canada. Accordingly, Chapter 5 will (partially) map the structure of corporate ownership, and in so doing, update the historical picture. Second, existing studies are insufficiently attentive to how corporate power can and should be measured. Chapter 5 will also evaluate the explanatory utility of the various ways of measuring corporate power before exploring what the actual metrics of corporate power tell us about the evolution of large firms in Canada. Third, if corporate

power has grown in recent times, we should wish to understand the growth pathways that large firms have historically traversed. One such growth pathway, mergers and acquisitions, will be probed in Chapter 6. Fourth and finally, we should wish to know if there is a relationship between the relative size of the largest Canadian-based firms and the distribution of income — a subject we will explore in Chapter 8 and 10.

There is yet to be a study that empirically documents and quantitatively maps the changing structure, composition and performance of the largest Canadian-based firms across the entire postwar era. In Chapter 5 we will take up the managerial hypothesis as set out by Berle and Means (1932) by questioning whether concentration in the corporate sector has increased and whether control has delinked from ownership. Addressing the managerial hypothesis will be a first step in sorting out if ‘corporate power’ is a meaningful concept in the Canadian context.

Maple Leaf Multinationals: A Profile of Dominant Capital¹

In a system of corporate concentration the result of competition is some sort of planning; and planning does not reduce power but increases it... The corporation is now, essentially, a non-statist political institution.

- Adolf Berle (1955)

Is dominant capital a meaningful category in the Canadian context? If it is, how many firms comprise this bloc? How have the largest firms performed over the postwar era? Has dominant capital ‘differentially accumulated’, i.e., has it outperformed the corporate universe in Canada and has it beaten global benchmarks? Is the corporate sector manager controlled or is ultimately authority wielded by proprietors? And how ‘globalized’ has the corporate sector become over the past century? The three chapters in Section I outlined some conceptual tools, furnished some historical context and reviewed some of the relevant literature as a way of preparing us to deal with the matter at hand: large firms or ‘dominant capital’. Capital is at the centre of capitalism and its most conspicuous institutional form is the multi-unit, vertically-integrated, globally-scaled corporation. The present chapter will identify and map the evolution of the largest Canadian-based firms over the postwar era, arguing that ‘dominant capital’ is indeed a meaningful category in the Canadian context.

¹ The term ‘maple leaf multinationals’ is found in Bliss (1987: 481).

In making this argument, the managerial view of contemporary capitalism (which gained a lot of academic traction over the past century) will be challenged. Specifically, the present chapter will demonstrate that corporate concentration has increased in recent decades — reaching a historic extreme — but the associated increase in corporate power has *not* been mitigated by a separation of ownership from control. To a great extent, large firms remain under the control of dominant proprietors, which means that an increase in the level of concentration has simultaneously served to increase the power wielded by the small cluster of families and institutional investors that own the largest firms.

The argument will be delivered in ten sections. The first section will sketch an image of the corporate sector in the aggregate before specifying the bloc of firms that make up the proxy for dominant capital. The second will demonstrate that, despite the appearance of high turnover amongst the top Canadian-based firms, the relative position of the largest firms is remarkably stable over time. Once the longevity of the largest firms has been established, the third section will review how the various schools of thought have tried to measure corporate power. This review will serve as a backdrop to the fourth section, which will map the history of corporate profitability in North America.

The fifth section will begin to assess the managerial view of contemporary capitalism by exploring how measures of aggregate concentration in Canada fluctuated over the postwar era. The sixth will plot N&B's differential measures of corporate power and assess their usefulness. The seventh will explore the history of corporate ownership in Canada by reviewing some of the most important studies on the subject. The eighth

section will try to add to that literature and update our historical picture by mapping the structure of ownership for the largest Canadian-based firms. The goal will be to sort out if dominant capital is manager controlled or if ultimate control resides with owners. The ninth section will contrast the performance of the Canadian corporate sector as a whole and dominant capital in particular against global benchmarks and assess the extent to which the corporate sector in Canada has globalized over the past century. The chapter will close with a summary of the findings and an elucidation of some follow-up questions.

5.1 The Canadian Equity Market

Ideally, our study would examine the largest firms in the Canadian corporate universe. However, lack of publically available data on privately owned corporations compels us to restrict our focus to the universe of publically traded firms.² Canadian stock exchanges date back to the 1830s with the creation of the banking system, but the number of firms listed remained very small until the twentieth century. At the time of Confederation, for example, the Toronto Stock Exchange (TSX) only had 18 issues trading and the Montreal Stock Exchange (MSE) had 64 listings. On the eve of the First World War the TSX had grown to 200 listings and by 1936 it was the third largest stock exchange in North America.

During the twentieth century other exchanges were added in Vancouver (1907), Winnipeg (1909), Calgary (1913) and Edmonton (1953). The Canadian equity market was

² The following historical overview is derived from Forbes and Johnston (1980: 5-8) and a historical fact sheet from the TMX Group's (2012) company website: <http://www.tmx.com/en/pdf/TMXHistory.pdf>.

re-configured in 1999: thereafter the TSX would host the trading of senior equities, the MSE would handle derivative trading and the smaller exchanges would combine to form a venture exchange specializing in junior equities. Two years later the TSX absorbed the venture exchange and in 2007 the TSX and MSE merged to form the TSX Group, a fully integrated exchange. Because the TSX was the largest exchange throughout the latter half of the twentieth century (listing the majority of large firms) and because reliable long-term data pertaining to the TSX are available, it will occupy our attention.

Our first task is to disaggregate the corporate sector with a view to answering the question: how do we specify the number of units in dominant capital?³ There are multiple ways to answer this question. N&B (2009: 316) note that one way of delineating dominant capital from the universe of firms is to use a Gini index. Mapping the entire distribution of the corporate universe would enable us to overcome the arbitrariness associated with selecting a cut-off point. The difficulty with this method, they note, is the lack of available data. In the Canadian context, Krause and Lothian (1989: 3.22-3.23) note that the selection of an arbitrary cut-off point can easily obscure the picture. They use the Gini coefficient to map the concentration of corporate sales, profits and assets between 1977 and 1986, noting that had they selected the top 25 firms (ranked by sales) there would have been an increase in the overall level of concentration, but had they selected the top 1,000 firms there would have been no change.

Despite the difficulty associated with determining a cut-off, the ease associated with such a method impels us to use it. The top 60 firms ranked annually by equity

³ Bearing in mind that the meaningfulness of 'dominant capital' in the Canadian context can only be assessed at the end of the dissertation.

market capitalization will be used as a proxy for dominant capital. There are four main reasons for selecting the top 60 firms. First, the TSX has an index — the ‘TSX 60’ — which investors use as a large cap benchmark. Second, the S&P 500 is one of the main equity benchmarks in the U.S., and given that the Canadian political economy is approximately one-tenth the size of the American, utilizing 60 firms gives us a proportionate measure. Third, the Forbes Global 2000 is one of the most high profile global equity listings in the world and its selection of the top 2,000 global firms, selected on the basis of sales, profits, assets and market value, usually contains 60 or so Canadian-domiciled firms (in 2012 66 firms made the list, up from 60 in 2006). The fourth reason for choosing 60 firms is practical usefulness, but this can only be demonstrated as we proceed through the remainder of the monograph. In the final analysis, utilizing the top 60 as a proxy for dominant capital is only justifiable if it reveals phenomena that would otherwise remain undisclosed.

With our proxy for dominant capital identified, how do the top 60 firms fit into the structure of the Canadian equity market? Table 5.1 presents some basic information about the universe of listed firms as of May 2012. At that point, the entire equity market was made up of more than 4,000 firms worth some two trillion dollars. However, 98 percent of that value was attributable to the 1,600 or so firms that made up the TSX. Because the market value of the Venture Exchange is comparatively insignificant and because data for it are unavailable until recently, our focus will be on the TSX proper. The top 60 firms on the TSX account for less than 4 percent of the total number (1,587) of

firms, but make up 60 percent of the total market value, thus signalling a very high degree of concentration.

The average equity value of the top 60 is \$20 billion, which puts it well above the 'typical' large cap cut-off of \$10 billion. Our selection of the top 60 is further justified when we consider the magnitude of the change associated with the top 100 or the top 200 firms. Adding 40 firms to our sample of 60 would only raise the level of concentration from 60 to 70 percent. Adding 100 more firms to that sample would only boost the concentration from 70 to 78 percent. Thus, we can safely conclude that selection of 60 firms is not too small.

Table 5.1
The Canadian Equity Market: Aggregate and Disaggregate Views (May 2012)

	TSX	Venture	Top 60	Top 100	Top 200	Total Market
<i>Issues Listed</i>	1,587	2,567	60	100	200	4,154
<i>Equity Value (Billions \$CAD)</i>	1,965.5	43.5	1,210.5	1,397.9	1,573.4	2,009.0
<i>Percent of Canada's Total Value</i>	98%	2%	60%	70%	78%	100%
<i>Average Size (Billions \$CAD)</i>	1.238	0.017	20.174	13.979	7.867	0.484
<i>Cut-off Value (Billions \$CAD)</i>			7.179	3.010	1.088	

Note: A handful of firms were removed from the disaggregate measures (General Motors, for example) because they are not headquartered in Canada. Values are as of 31 May 2012. **Source:** TMX Group's Equity Financing Statistics.

Let's turn from the structure of the equity market to its sectoral composition. Table 5.2 portrays the decade average share of total market value attributable to the seven largest sectors: finance, materials, oil & gas, industrials, telecom, utilities and

technology.⁴ The first three sectors make up the bulk of the Canadian equity market. In 2010, for example, finance, materials and oil & gas accounted for 77 percent of total market value, up from 46 percent in 1975. The next four largest sectors — industrials, telecom, utilities and technology — only accounted for 14 percent of total market value in 2010. This is in stark contrast to 1975, when industrials, technology and utilities together accounted for more than half the value of the total market.

Table 5.2
The Sectoral Distribution of the Canadian Equity Market
(Percentage Shares of Seven Major Sectors: Decade Averages)

Decade	Finance	Materials	Oil & Gas	Industrials	Telecom	Utilities	Technology
1970s	13.0	28.5	15.9	9.6	0.4	9.8	16.3
1980s	16.8	16.0	24.5	7.2	0.6	4.9	12.7
1990s	21.9	12.0	21.2	5.7	1.1	4.3	12.0
2000s	29.4	10.6	22.7	4.6	4.7	3.6	8.3

Note: For the 1970s, the data begins in 1973 for all the sectors except Telecom, which begins in 1976. Source: Thomson Reuters Datastream Professional.

The information in Table 5.2 raises two significant issues. In the mid-1970s, the Canadian equity market was distributed between six sectors, so there was a fair degree of diversification. This sectoral diversification has been reduced in recent years, with three sectors comprising a strong majority of the entire market. Given this, we should expect the majority of the top 60 firms to fall into finance, energy and materials. Second, the shift in relative weight between the various sectors might suggest high turnover amongst the constituent members of the top 60. Does the dramatic change in sectoral distribution signal high turnover amongst the largest firms?

⁴ The Materials sector includes firms that control the discovery, development or processing of raw materials. This will include the mining and refining of metals, chemical products and forestry products.

5.2 Survival and Longevity amongst Large Firms

N&B (2009: 316) argue that we should not expect corporate membership in dominant capital to be stable across time given the ‘highly transformative nature’ of differential accumulation. In support of their contention they draw on Orwell’s (1949: 218) claim that a ruling group remains a ruling group so long as it can designate its successors. But this line of reasoning seems askew. Surely the individuals who control the largest corporations in Canada do not nominate successors in *other* firms. If a corporation is dislodged from the ranks of the top 60 it is a near certainty that its institutional replacement is not handpicked. In one-party authoritarian states, succession is one of the primary tasks of the upper echelon of the ruling party and considerable energy is spent cultivating and selecting replacement members; thus, Orwell’s dictum accurately captures the power dynamic in those settings.

In the corporate world, however, nomination happens within firms, not between them. The absence of competition between political parties in a one-party state confers enormous power on the top tier of the ruling party. The presence of competition between large firms, however faint, reduces power at the top of the corporate hierarchy. In short, power and competition are offsetting, not complementary. At the top of the corporate hierarchy we find the nomination of successors within firms and the displacement of competitors between firms, which makes Orwell’s observation about ruling groups’ succession inappropriate.

There is another way of thinking about the relationship between the stability of a dominance hierarchy and power. In describing the process of ‘creative destruction’,

Schumpeter (1942: 82-84) argues that capitalism is a 'method of economic change'. The 'capitalist engine' is kept 'in motion' as a consequence of new consumer goods, new methods of production and transportation, new markets and new organizational forms. Others have long noted this, Schumpeter admits, but most failed to grasp a more fundamental fact: capitalism not only administers existing structures; it creates and destroys them. This 'creative destruction' seems to imply, in part, that power at the top of a corporate hierarchy should be mitigated (potentially, if not factually).

Because the corporate institutions themselves rise and fall — are created and destroyed — the political-economic power bound up with the corporate dominance hierarchy is less secure than the power associated with governmental or state dominance hierarchies, which are more permanent. For example, the Canadian Government is a more stable institution than, say, Barrick Gold. As far as liberal-democratic societies go, state power is often assumed to be tolerable if it is constitutionally circumscribed, but also if the people who wield power do not hold onto it for an indefinite period of time. Governmental power, in other words, is restrained through the competition associated with regularly scheduled elections. Though the corporate world is not subject to popular elections, competition has the effect (again, at least potentially) of dislodging people from occupying the top of the (corporate) dominance hierarchy indefinitely, thus mitigating the power found there.

If we are to meaningfully speak about corporate power we should expect to find a higher degree of stability amongst the constituent members of dominant capital than we would find lower down the corporate hierarchy. The greater the power at the top of the

corporate hierarchy, the more stable it should be as an institutional grouping. Lower down the corporate hierarchy we would expect to find rapid turnover and even failure as small and medium-sized firms succumb to the pressure of changing market conditions. High turnover and failure amongst small and medium-sized firms is one of the features separating the highly dispersed power of the corporate universe from the highly concentrated power of dominant capital. Longevity within the ranks of the top firms is one indirect way of assessing corporate power, so how stable are the largest Canadian-based firms?

Boothman and Austin (2005) track the survival of the largest non-financial and industrial firms between 1973 and 2003, noting that many disappeared across this period. The decline of Eaton's, Hiram Walker, Massey-Ferguson and Seagrams — all household names in Canada — signalled the failure to 'construct durable positions' (2005: 32). Boothman and Austin quote a *National Post* article which stated that only 16 of the 40 firms on its 1964 list of large firms made it to the *Financial Post*'s 2003 list of the top 500 firms.

Boothman and Austin capture the magnitude of the turnover amongst large Canadian firms with data reproduced in Table 5.3. The sample is split between non-financials and industrials, with two batches of firms selected for each group (one larger, one smaller). Their research shows that among the two groups of the largest firms (top 50 non-financials and top 25 industrials), only 40 percent of the sample survived from 1973 to 2003. The disappearance of 60 percent of the largest firms in one generation suggests a high degree of turnover. They also note that the wider samples (100 top non-

financials and top 75 industrials) indicate another interesting phenomenon: the lower we go in the rankings, the higher the turnover, with one-in-four firms surviving to 2003. Their research demonstrates that approximately half of the firms in the two wider samples were added since 1988. Despite the seemingly high turnover, they stress that most firms disappeared as a consequence of merger. Outright bankruptcy was rare (2005: 34).

Table 5.3
Survival and Longevity among Large Canadian Firms

Sample	1973	<i>Percentage from the 1973 Group</i>	
		1988	2003
<i>Top 50 non-financials</i>	100	62	40
<i>Top 100 non-financials</i>	100	52	29
<i>Biggest 25 industrials</i>	100	68	40
<i>Biggest 75 industrials</i>	100	53	24

Source: Adapted from Boothman and Austin (2005: 35), Table 2.

Some might be tempted to suggest that the decline of large firms is a consequence of changing consumer tastes or new technological imperatives. This is not so, they stress. Amongst the largest Canadian firms, ‘only the actors changed, not the forums in which they played’ (2005: 35), meaning the turnover among large firms is not the product of sectoral rise and decline. Rather, the sectoral distribution of large firms remained relatively constant. This suggests that the seemingly high turnover amongst the largest firms, which would have signalled less power at the top of the corporate hierarchy, is mitigated by the fact that very few large firms actually fail. If firms disappear from the rankings of the top firms it is far more likely that they do so as a consequence of merger than of failure. What’s more, some firms fall out of the top rankings without disappearing altogether; instead, they slide down the hierarchy to a lower position.

How does turnover amongst large firms compare with turnover in the corporate universe? Research undertaken by economists at Statistics Canada indicates that the average yearly exit rate across the private sector is nine percent (Ciobanu and Wang 2012). The exit rate amongst the large sample of firms in Boothman and Austin's study is roughly three percent. This latter exit rate, recall, included firms that were acquired as well as those that failed. If large firms disappear, it is far likelier that they do so as a consequence of merger; if small or medium-sized firms disappear, it is far likelier that they do so as a consequence of bankruptcy. Given the much larger size (read: power) of the top firms, it isn't surprising that their exit rate is much lower.⁵

Stability amongst the top firms is reinforced when we consider data in Appendix A. There, the top 100 firms are listed according to equity market capitalization in 2012 along with their stock market listing date and their effective founding date. The mean effective founding date for the top 100 firms is 1943. For the top 60 firms it is 1928. The largest firms in Canada are generations, not decades, old. If 'creative destruction' were at play amongst the largest firms and if they failed at a rate of 9 percent (or even close to it), we would expect the average effective founding date of the largest firms to be comparatively recent. This is not so. The average effective founding date of the top 20 firms is 1899; for the bottom 20 (of the top 100) it is 1972. The larger the firm, the older

⁵ To calculate the average exit rate amongst the larger two samples of firms in Boothman and Austin's study we can use the following formula: $Exit\ Rate = N = I \times (1 - r)^t$. 'N' stands for the percentage of firms that survive until the end of the period (40 percent); 't' stands for the time span (1973 to 2003, or 30 years) and 'I' stands for the initial percentage of firms in the sample (100 percent); 'r', or the average annual exit rate, is what we are trying to determine. Thus: $40 = 100 \times (1 - r)^{30}$, therefore the exit rate, r, is approximately three percent. Note that the average annual exit rate amongst large firms is three percent, which is much lower than the exit rate of nine percent found in the corporate universe (the latter tabulated by Ciobanu and Wang 2012).

the vintage. A few high-profile failures/takeovers have done little to dislodge the largest firms from their position of dominance.

To recap, the Canadian equity market is highly skewed in its sectoral distribution toward finance, energy and materials. It is also highly concentrated in terms of its market value. The top 60 firms, which we will use as our proxy for dominant capital, account for 60 percent of all market value. Many of these firms pre-date the twentieth century (indeed, some pre-date Confederation) and despite the appearance of high turnover, membership at the top of the corporate hierarchy is remarkably stable. So far we've taken a snapshot of the recent past. What we're really interested in is chronicling the changing power of dominant capital. Has the power of dominant capital increased over time? This question presupposes another: how should we measure corporate power?

5.3 Measuring Corporate Power

In Chapter 4 we saw that institutionalists, managerialists, Marxists and to a limited extent, liberals, all agree that the emergence of the modern corporation fundamentally reorganized power in capitalism. Have these schools of thought tried to measure corporate power, and if so, how? Berle and Means measure corporate concentration (which is understood here to be their proxy for corporate power) by determining the proportion of manufacturing assets under the control of the 100 largest manufacturing

firms.⁶ Using this metric, they find that concentration increased from 40 percent in 1929 to 49 percent in 1962 (1967: xxix).

Two related difficulties plague this method. First, comparing concentration at two points in time ignores everything in between, which might lead to erroneous conclusions, especially if each datum comes at a different point in the business cycle. Second, there is a good deal of ambiguity around what constitutes a 'manufacturing corporation'. With the rise of conglomeration in the latter half of the twentieth century, many large firms had manufacturing operations while maintaining financing and other divisions. This raises a broader question — one which both Veblen and N&B tackle: why do we distinguish financial from non-financial corporations? The relevant distinction is not between manufacturing and financial corporations, but between business and industrial activities. All corporations are businesses, by definition, so our focus should be on the corporate universe as such, independent of what (industrial) activities a particular corporation controls.

Institutionalists like Dugger (1985; 1988) claim that power is bound up with size. In his view, 'power and size interact in a cumulative fashion' such that 'more power leads to larger size and larger size leads to more power' (1988: 80). In terms of accounting for size (power), Dugger employs the IRS classification of large firms, defined as assets above \$250 million. He then compares the proportion of corporate assets, revenues and net income at two points in time: 1965 and 1982. The shortcoming with this method is that

⁶ Means (1983: 467) later clarified his thinking on corporate power, saying that he was not referring to 'monopoly power', but to the power that 'arises naturally from active competition among a few large independent corporations and is reflected in the pricing discretion in the hands of individual competing enterprises'.

the cut-off of a large firm remains constant over time at \$250 million while the general price level increases, so the increase in concentration (if it is to be found at all) will tend to be overstated as inflation makes more firms rise above the size threshold. Dugger was on the right path, however, in rejecting industry concentration ratios. The rise of the conglomerate corporation, he suggests, means that many large firms operate in several unrelated markets and have 'purely financial objectives' (1985: 11).

Also working within the institutionalist school, Grant (1997: 453) reviews seven different ways that corporate power can be measured with a view to determining which technique can be used to generate testable hypotheses. The seven measurements include: (1) industry concentration ratios, (2) aggregate concentration ratios, (3) the density of corporate interlocks, (4) the profit share of national income, (5) the ratio of the marginal product of labour to the real wage, (6) union density and (7) the proportion of total government revenue derived from corporate taxes. As he sees it, the latter two represent the most promising methods for measuring corporate power.

Grant's assessment seems unwarranted. In Chapter 9 we will see that union density is a good approximation for the institutional power of organized labour; it is not a good approximation for corporate power. As for the proportion of government revenue coming from corporate income taxes, this metric does not adequately capture corporate power for the simple reason that as the corporate profit share of national income grows, so too does the percentage of government revenue retrieved from those profits (assuming the fixity of corporate income tax rates). To remedy this defect, a better measure of

corporate power vis-à-vis taxation is the effective corporate tax rate differential taxation (a subject that will be probed in Chapter 7).

Marxists have also tried to develop measures of corporate power. Bowles, Gordon and Weisskopf, for example, try to connect gyrations in corporate profitability with Social Structures of Accumulation, highlighting the importance of power and struggle in determining profitability (1986: 132). They take as their sample the domestic, non-financial corporate universe (the 'capitalist core') and provide two measures of corporate profitability. The first they called the 'rate of return on capital', measured as the ratio of capital income (net profit plus net interest) to the capital stock (net fixed capital stock plus inventories). The second is Tobin's Q, measured as the ratio of the market value of capital assets to the current net replacement cost of capital assets (1986: 135). As a political sociologist of Marxian persuasion, Domhoff looks at corporate power through the lens of class domination and understands this type of power to manifest itself as distributive power or 'power over' (2002: 9-10). In contrast to Bowles, Gordon and Weisskopf, Domhoff uses the distribution of personal income and wealth as a proxy for corporate power.

Corporate profitability and the top income share will both be utilized as broad measures of institutional power. However, if N&B and Veblen are correct in their claim that capital is financial wealth, then trying to measure corporate power using the 'capital stock' or 'capital assets' is an impossibility insofar as the entities being measured, at least as they are understood by neoclassical and Marxian economists, are themselves fictional.

Corporate profitability (benchmarked against GDP) and the top income share will be used as broad proxies for power.

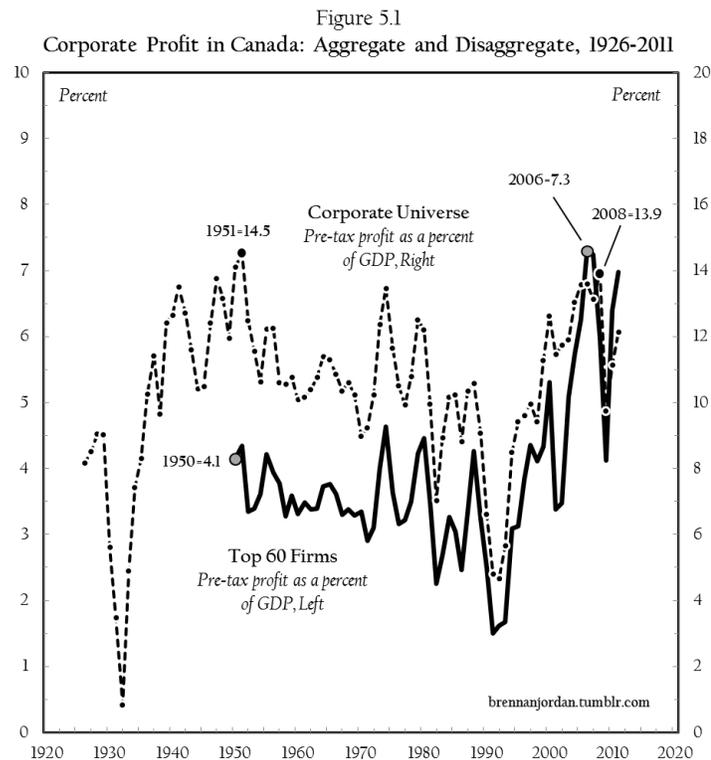
Not everyone is persuaded that corporate power can be accurately measured, much less that it is increasing. Tullberg, for example, argues that many critics of globalization exaggerate the power of corporations when they compare corporate sales to national GNP, which makes the largest global firms appear as big as medium-sized countries (2004: 326). As he sees it, comparing corporate 'value-added' to national GNP yields a more accurate comparison. Roach (2005) would have us believe that the empirical research used to bolster the claim that multinationals possess huge political power (or that it is increasing) is thin. The problem, he says, is that we lack a consensus measure on corporate power. Industry concentration ratios are a common way of measuring market power, and by this definition many U.S. industries are oligopolistic, but he notes that there has been little change in these ratios over the past few decades. National concentration ratios are not much better because they fail to capture the impact of foreign competition and they do not account for conglomeration (Roach 2005: 32). Aggregate concentration ratios, Roach continues, partially overcome these shortcomings. By this measure, corporate power in the U.S. increased during the 1990s. Roach goes on to mention the 'countervailing power' argument advanced by Galbraith (1952), who asserted that union membership is one limit on corporate power. Union membership has declined, Roach notes, in 13 of 19 OECD countries, which he takes to mean that corporate power has increased in those jurisdictions (2005: 33).

As a preliminary way of assessing the aggregate power of capital, N&B use the capital share of national income, comprised of corporate profit and net interest (2009: 273-4). This is a much simpler and more straightforward way of measuring capitalist power. Despite the attractiveness of this measure, this study will begin to analyze corporate power by charting the corporate profit share of national income. This is the more appropriate metric for two reasons. First, this study is focused on the largest corporate units in Canada and corporate income comes in the form of profit. Second, if one of the core aspects of corporate power is control over employment levels, and if the distribution of corporate revenue between owners (in the form of profit) and workers (in the form of wages and salaries) manifests a type of struggle, it makes more sense to utilize profit as a measure of power than profit plus net interest.

A note about data sources before proceeding. This study utilizes data from multiple sources, but disaggregate data on the largest Canadian firms are taken from the Canadian Financial Markets Research Centre (for the period 1950-1959) and Compustat through the Wharton Research Data Services (for 1960-2012). The completeness of both databanks diminishes as we go back to the early years of the postwar era. Gaps were filled using company annual reports obtained from Moody's Corporate Manuals through Mergent Webreports and various issues of the Report on Business's Top 1000 Companies. The picture that emerges from these sources is undoubtedly imperfect, but is detailed enough to give us the historical impression we are after.

5.4 Corporate Profitability in North America

Now that we have reviewed how others have tried to measure corporate power, we begin with the corporate profit share of national income. Figure 5.1 documents aggregate corporate profit and the profit of the top 60 firms in Canada (both as a share of GDP) from 1926 and 1950, respectively. The national corporate profit share peaked in 1950-51 before beginning a secular decline, bottomed out in the early 1990s just as the TAIL regime came into effect and then surged upward over the past two decades. The profit share of the top 60 firms took a similar path: secular decline from the 1950s through early 1990s followed by a secular rise over the past two decades.



Note: the top 60 firms are ranked annually by equity market capitalization. **Source:** total pre-tax corporate profit and GDP from Historical Statistics of Canada, Series F3 and F13 (1926-1960) and Cansim Table 380-0016 (1961-2011); common shares outstanding, closing share price and pre-tax profit from the Canadian Financial Markets Research Centre and Compustat through WRDS; Moody's Corporate Manuals through Mergent Webreports; Report on Business Top 1000 Companies (various issues from 1985-2010).

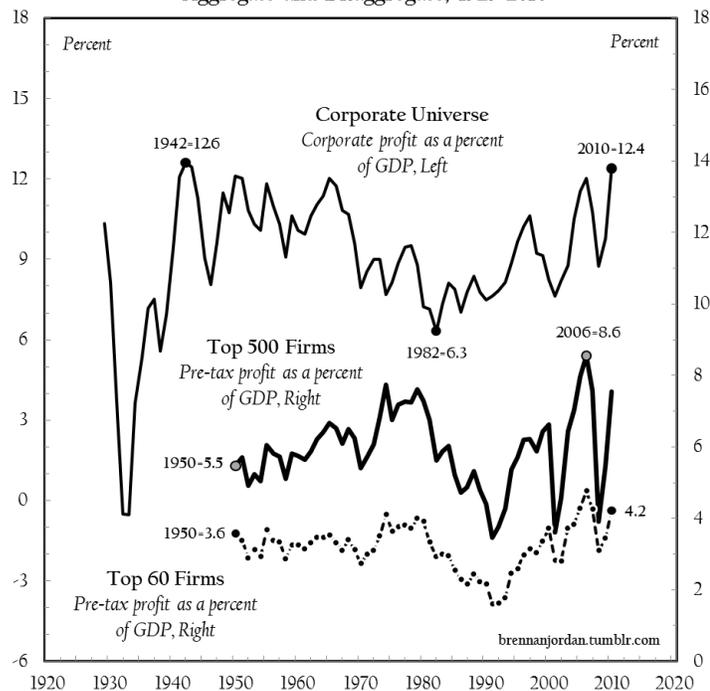
The pattern exhibited by the top 60 firms becomes more remarkable once we recognize that, in principle, its share of national income should shrink over time. Over the six decades from 1950, the number of units in the numerator is held constant at 60 while the number of entities that make up the denominator (GDP or total economic activity) increased many times over. The fact that the top 60 managed to nearly double its share of national income to 7.3 percent in 2006 from 4.1 percent in 1950 signals an enormous increase in the power of the largest firms. Both measures suggest that the power of corporations declined during the early decades of the post-war era, only to rebound in the neoliberal era. But is this pattern unique to Canada?

No, it's not. Figure 5.2 maps the aggregate and disaggregate history of corporate profitability in the United States. The profit share of the corporate universe, the top 500 and the top 60 firms (all as a percent of GDP) are mapped from 1929 and 1950 onward. The national profit share reached a high in 1942 before taking a secular decline, bottomed out in 1982 and rose thereafter to a high in 2010. In the Preface to the 1983 edition of his *Concept of the Corporation*, Drucker contends that corporations are primarily run for the benefit of employees, not owners (1946: xviii-xix). His claim is predicated on the fact that the national wage bill in the United States climbed to 85 percent by the early 1980s, up from 40 percent 100 years beforehand. The long-term profit squeeze during the postwar era could be one reason why managerialists concluded that corporations were primarily serving stakeholders rather than shareholders. The evidence Drucker marshals is not very convincing, if only because it fails to explain why the national wage bill increased during the first few decades of the postwar era, but even by his logic the secular resurgence of

corporate profit over the neoliberal era suggests that corporate power has increased (and that corporations, once again, are run for the benefit of owners).

In their investigation of the United States, N&B use the largest 100 firms as a proxy for dominant capital. In this study, the top 500 firms are used for two reasons: first, the S&P 500 is treated by investors as the main equity market benchmark in the U.S.; and second, the Canadian political economy is approximately one-tenth that of the American, so utilizing the top 500 firms gives us a proportionate measure for the power of the top 60 firms in Canada.

Figure 5.2
Corporate Profit in the United States:
Aggregate and Disaggregate, 1929-2010



Source: GDP and total corporate profit (with inventory valuation adjustment and capital cost allowance) from the Bureau of Economic Analysis through Global Insight; common shares outstanding, closing share price and pre-tax profit from Compustat through WRDS (for top 500 and top 60 profit share).

The profit share pathway of the top 500 in the U.S. differs from the corporate universe, having risen from the 1950s through 1980 before taking two deep dips in the

early 1990s and 2000s. In the past decade the profit share of the top 500 surged. Like the profit share of the top 60 in Canada, the top 500 measure in the U.S. also rose dramatically between 1950 and 2006. The profit share of the top 60 in the U.S. is also included in Figure 5.2 to highlight the scale difference between the top firms in Canada and the U.S. In Canada, the profit share of the top 60 accounted for more than 4 percent of GDP in 1950 and nearly reached 8 percent by 2006. The profit share of the top 60 in the U.S. began at a similar level, 3.6 percent, but only rose to 4.8 percent by 2006 before settling at 4.2 percent in 2010. Interestingly, the pattern of the top 60 in both jurisdictions takes a similar course, moving horizontally for the first four decades before pushing upward over the last two decades.

Let's turn our attention away from the profit share of national income to aggregate concentration, and in so doing, begin to address the managerial view of contemporary capitalism.

5.5 Aggregate Concentration

The managerial hypothesis advanced by Berle and Means (1932), to restate, posits that three related processes reconfigured the property regime in America: an increasing concentration of corporate assets, coupled with an increasing dispersion of stock ownership, resulting in a separation of ownership from control. Despite the widespread influence of the separation thesis, not everyone found it persuasive. Zeitlin (1974; 1989), for example, contends that the evidence supporting the managerial thesis is thin and that we should not treat its validity as a social fact. His claim emerges out of a re-examination

of the data Berle and Means utilize. Zeitlin finds that in approximately half of the cases where they defined a firm as 'management controlled', Berle and Means were unable to determine the holdings of the largest stockholder and had labelled the firm 'presumably management controlled'. As Zeitlin tabulates it, only 23 percent of their sample of 200 firms could clearly be counted as 'management controlled'. Zeitlin concluded: if the evidence for the separation thesis is weak then there is good reason to think that large corporations continue to be controlled by proprietors (1989: 9).

Herman (1981) questions whether the profit motive was ever weakened by the rise of salary-oriented managers. As he sees it, 'the frequently assumed decline in managerial interest in profits, which supposedly should result from the decreased importance of direct owner control, has not, in fact, been proved' (1981: 112-13). Mizruchi (1987) reviews the managerial debate and finds that the evidence supports Zeitlin's contention. Management never displaced owners as the controllers of corporate America; the structure of the upper class, he argues, remains intact.

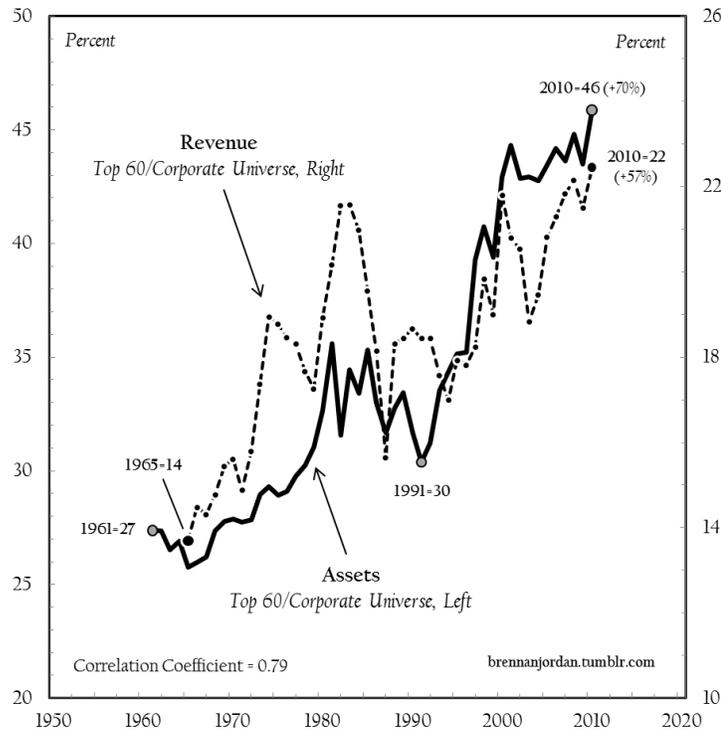
In Chapter 4 we reviewed how Canadian scholars responded to the managerial hypothesis, noting that it was accepted by some and contested by others. Clement appears to accept managerial suppositions when he claims that 'the history of corporate capitalism is to concentrate' and that large firms tend to be controlled by management (1975: 31). Despite the high level of corporate concentration in Canada, Porter notes that the trend from the 1930s through the 1960s appears to be flat, not rising (1965: 239-42). What's more, ownership has not delinked from control, thus making Canada's case 'atypical'. Porter's skepticism of managerialism is shared by Niosi, whose research posits

that two-thirds of the largest Canadian-based corporations are controlled by individuals or families, leaving only one-third under the control of management (1978: 167). Carroll, too, notes that the corporate sector remains controlled by wealthy families and that this form of control increased in the latter quarter of the twentieth century (2010: 202-3).

Has concentration increased in the Canadian corporate sector, as the managerial thesis implies? Berle and Means focus on assets, but a more encompassing view would include revenue, market capitalization and profit. An increase in aggregate concentration will be interpreted as an increase in power among the largest firms and vice versa. Figure 5.3 displays the share of corporate assets and corporate revenue accounted for by the top 60 firms from 1961 and 1965, respectively. The two metrics are tightly and positively correlated over five decades and followed an upward, wave-like pattern (despite the differences in scale).

Asset concentration increased from 27 percent in 1961 to 46 percent in 2010. Given that there are approximately 1.5 million corporations in Canada, the fact that the top 60 accounted for nearly half of all corporate assets in 2010 signals a startling degree of concentration. The concentration of corporate revenue amongst the top 60 firms also followed an upward tilting wave-like pattern, but its overall level is much lower and the increase was less pronounced than in the case of assets. Between 1965 and 2010, aggregate revenue concentration increased from 14 to 24 percent.

Figure 5.3
Aggregate Concentration in Canada I, 1961-2010



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. **Source:** Canadian Financial Markets Research Centre and Compustat through WRDS for common shares outstanding, closing share price, revenue and assets; Moody's Corporate Manuals through Mergent Webreports; Report on Business Top 1000 Companies (various issues from 1985-2010); total corporate revenue from the Dominion Bureau of Statistics (1965-1971) and Cansim Tables 180-0002 (1972-1987), 180-0001 (1988-1998) and 180-0003 (1998-2010); total corporate assets from Cansim Tables 378-0052, 378-0055 and 378-0072.

The pattern of asset concentration reveals why scholars in previous decades were unable to detect increasing concentration. The *Royal Commission on Corporate Concentration* (the Bryce Report) is perhaps the most exhaustive study of corporate power ever conducted in Canada. The authors state that asset concentration changed very little between 1967 and 1976 and they were right: it only increased from 26 to 29 percent. They further speculate that concentration had probably declined in every decade from the 1920s to the 1970s (1978:11). 'Speculate' is put in quotation marks because the writers did

not have continuous data in their possession; they relied upon data from the *Royal Commission on Price Spreads* (1935), which compared asset concentration in 1923 and 1933. The Bryce Report computes concentration ratios for 1966, 1971 and 1975 and so had insufficient basis to make claims about long-term asset concentration. The lack of continuous long-term data has prevented scholars from seeing the pronounced increase in aggregate asset concentration that took place over the last half century, partially because the bulk of that increase came between 1991 and 2001 in the second-to-last merger wave.⁷

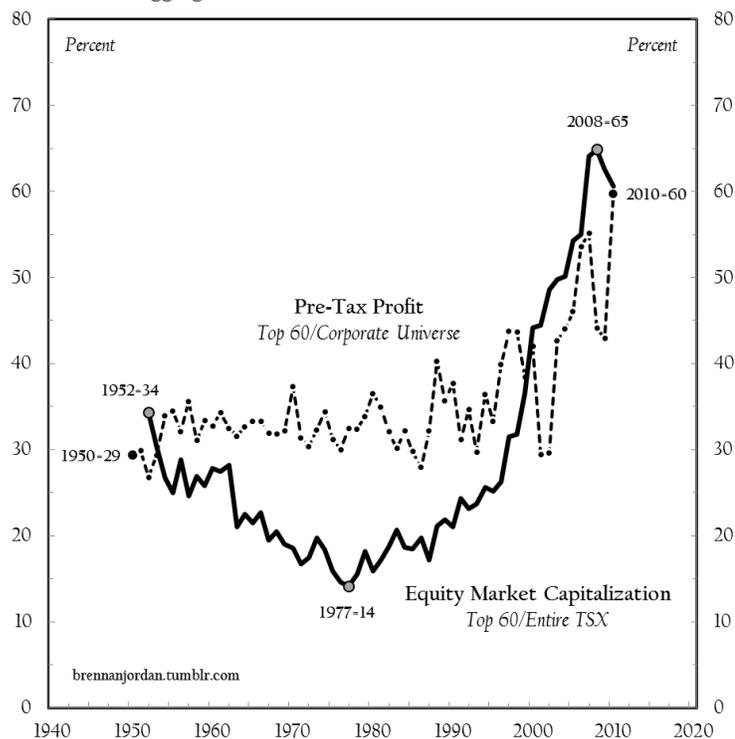
In their study of dominant capital in the United States, N&B map aggregate concentration over the postwar era, noting that the level and trend for both profit and capitalization is high and climbing (2009: 318). The picture for Canada is somewhat different. Figure 5.4 plots aggregate concentration for capitalization and pre-tax profit. The numerator in both instances is the top 60 firms ranked annually by equity market capitalization. The denominator in the capitalization ratio is the total market value of all stocks listed on the TSX and for the profit ratio the denominator is total pre-tax profit for the Canadian corporate universe (including listed and unlisted firms).

Surprisingly, the concentration of market capitalization is J-shaped: it declined for nearly three decades before gradually rising throughout the 1980s and then surging upward from the mid-1990s onward. The level of concentration in the mid-1990s was roughly what it was in the early 1950s — 34 percent. Given that the concentration of

⁷ Recall: Clement and others relied upon aggregate asset concentration data for three points in the 1960s and early 1970s, which led them to believe that it did not increase during that time. That perception was correct based on the data, but over the half century since 1960 the trend is unmistakably upward.

equity capitalization declined for a generation, we cannot state that concentration is perpetually increasing. Aggregate concentration for pre-tax profit is different. It increased modestly in the 1950s, moved horizontally for three decades and then surged upward after 1990. At their respective peaks, the top 60 firms accounted for 65 percent of all equity market value and 60 percent of all profit — a staggering degree of concentration.

Figure 5.4
Aggregate Concentration in Canada II, 1950-2010



Source: Canadian Financial Markets Research Centre and Compustat through WRDS for common shares outstanding, closing share price and pre-tax profit; Moody's Corporate Manuals through Mergent Webreports; Report on Business Top 1000 Companies (various issues from 1985-2010); total market capitalization from Global Financial Data, TSX Review, e-Review and Factbook; total pre-tax profit from Historical Statistics of Canada, Series F3 (1926-1960) and Cansim Table 380-0016 (1961-2010).

To recap, the corporate profit share of national income and the profit share of the top 60 firms suggest that corporate power has increased dramatically in the neoliberal period. This claim is bolstered when we consider the four different measures of

concentration, all of which reached historic highs in recent years. What do other measures of corporate power tell us about the development of large firms in Canada?

5.6 From Aggregate Concentration to Differential Accumulation

Even though aggregate concentration is a commonly used metric to capture the power of large firms, N&B argue that it tends to understate the actual power of big business. They explain that this deficiency is to be found in the definition of aggregate concentration. The formula for calculating aggregate concentration can be expressed, they say, like this:

$$1. \quad \text{Aggregate concentration} = \frac{s \times n}{S \times N} = \frac{s}{S} \times \frac{n}{N}$$

Where (s) stands for the average size — measured in terms of revenue, assets, etc. — of a firm within dominant capital, (n) for the fixed number of dominant capital firms, (S) for the average size of a firm in the corporate universe and (N) for the number of firms in the corporate universe.

The level of concentration is dependent upon the differential size of dominant capital, (s/S), which tends to rise over time as dominant firms grow larger while firms in the corporate universe remain small, and the ratio of dominant capital firms to the corporate universe, (n/N), which tends to shrink over time as new firms are added to the corporate universe while the number of dominant capital firms remains fixed. The fact that these two ratios tend to move in opposite directions makes it difficult, they say, to sort out what the level and trend in aggregate concentration ratios precisely signals (2009: 318-19).

In addition to the numeric problems associated with aggregate concentration ratios, N&B add a theoretical dimension. As they see it, the numerator and the denominator are not only quantitatively different in scale; they are qualitatively different sociological and political-economic units. The numerator is comprised of dominant capital — a group N&B assert is coterminous with the ‘ruling capitalist class’. They argue that the owners and controllers of the largest firms that make up this dominant capital are socially and culturally intertwined, are closely connected to governing authorities and hold a common world view. Recall Newman’s reference about the Canadian Establishment: they ‘recognize so few conflicts of interest [between themselves] because their broad interests seldom conflict’ (1975: 542). The denominator, N&B counter, is made up of people who think and behave quite differently. Individual units in the corporate universe tend to be small, fragmented and perhaps most importantly, their activities tend to undermine each other (2009: 319). In short, the organized power of dominant capital is qualitatively distinct from the disorganized powerlessness of the corporate universe.

N&B created new measures to capture the power of large firms — differential capitalization and differential profit — and these measures have the potential to overcome the statistical and theoretical limitations alluded to above. The crucial innovation appears to be the shift from absolute to relative measures, which may have grown out of their critique of neoclassical assumptions about business behaviour.⁸ Neoclassical economics, they explain, assumes that capitalists are like other ‘economic

⁸ The following explanation is inspired from N&B (2009: 309-12) and from two courses directed by Jonathan Nitzan at York University, which the author was enrolled in as a graduate student.

actors' insofar as they strive to maximize profit and market value. The reasoning is simple enough: no upward limit has ever been identified toward which capitalists strive, hence they are profit maximizers.

This assumption may be deeply ingrained in the psyche of economists, they tell us, but it won't help us deal with the real world for two reasons. First, no one has any clue what the maximum profit of a given firm is or what the maximum return on a given security should be. Second, capitalists themselves don't think in maximizing terms because they don't exist in a vacuum. In actuality, the performance of a CEO, hedge fund manager or global investor isn't measured against an absolute standard like maximization; it is measured against a relative benchmark. There exists a 'normal' rate of return which investors try to beat. Investors are conditioned to outperform rivals and accumulate faster than the average, i.e., they strive to accumulate *differentially*. The distinction between absolute and differential accumulation might sound soft, almost semantic, but it is crucial. In the United States, the main equity market benchmark is the S&P 500. In Britain, it is the FTSE 100. In Canada, it is the S&P/TSX Composite Index. Large corporations strive to beat these averages and this is the broader meaning of the term 'performance', they argue.

From a neoclassical perspective, profit maximization relates to human motivation insofar as economic agents are presupposed to behave in a way that maximizes net pleasure (the difference between pleasure and pain, or in business terms, profit and loss). This understanding does not appear to leave any room for power as motivational energy.

Differential accumulation, on the other hand, assumes that power is a goal and because power is relative the relevant measures should be differential.⁹

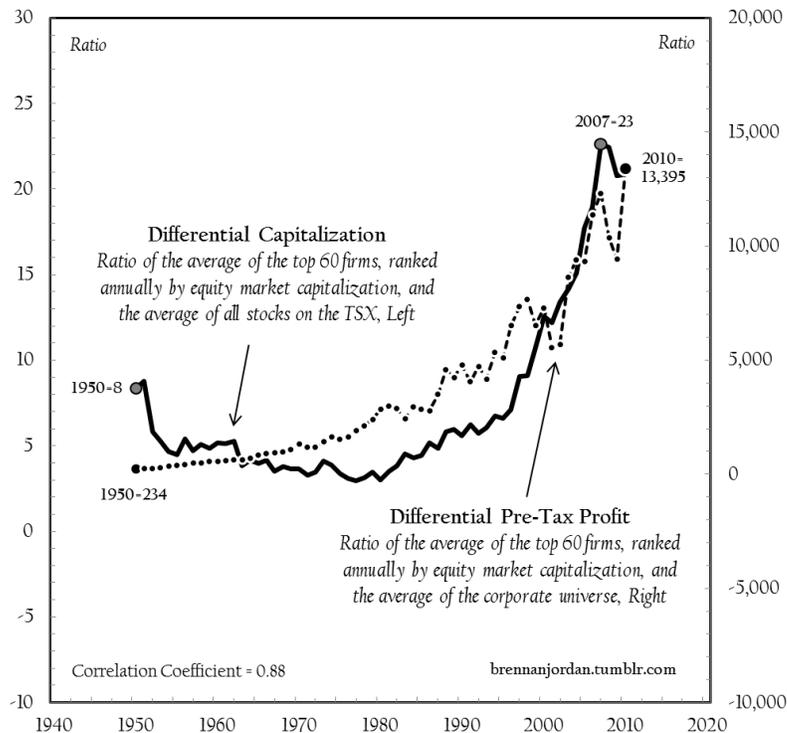
To illustrate the point, consider Berkshire Hathaway, the holding company controlled by billionaire investor Warren Buffet. At the height of the financial panic in 2008, Berkshire's annual return was -9.6 percent. Was this the 'maximum' possible return that year? If we are unable to answer that question, then how are we to assess the business significance of -9.6 percent? There is not a soul on the planet capable of credibly answering the first question, including Warren Buffet himself. The second question can only be answered — indeed, is only intelligible — by looking at some benchmark, i.e., the average performance of a comparator group. In 2008, the average performance of the S&P 500 was -37 percent. So Warren Buffet's firm outperformed the average by beating the main equity market benchmark. Benchmarking, not maximizing, is the only game in town and the actual measure of corporate performance. Given N&B's critique, what does the differential performance of dominant capital look like in Canada?

In this instance, differential capitalization is a ratio which compares the average capitalization of a firm in the top 60 with the average of all firms listed on the TSX. Differential profit is a ratio which also uses the average of the top 60 firms for the numerator, but the denominator is made up of the average profit of the entire corporate universe. Both series are plotted in Figure 5.5 (note the difference in scale between the two axes due to the different denominators).

⁹ For the purposes of this dissertation, utilizing differential measures does not imply that power is the *only* motivator in political-economic matters. There appears to be a variety of motivations propelling business behaviour, but when it comes to the activities of dominant proprietors, dominant executives and top state officials, power cannot be downplayed or ignored as a goal.

Differential capitalization falls fairly steadily from a value of eight in 1950 to a value of three in 1980. By 1995 an average firm within the top 60 had risen to seven times the average of the TSX before surging to 23 in 2007 — a three-fold increase in just 13 years. It is remarkable that, as of 1980, an average dominant capital firm only had 3 times the capitalization of an average firm on the TSX. The rise from 3 to 23 in just three decades signals that the top 60 firms have de-linked from the rest of the corporate universe.

Figure 5.5
Differential Accumulation in Canada, 1950-2010



Source: Canadian Financial Markets Research Centre and Compustat through WRDS for common shares outstanding, closing share price and pre-tax profit; Moody's Corporate Manuals through Mergent Webreports; Report on Business Top 1000 Companies (various issues from 1985-2010); total market capitalization and number of listed firms from Global Financial Data, TSX Review, e-Review and Factbook; total pre-tax profit from Historical Statistics of Canada, Series F3 (1926-1960) and Cansim Table 380-0016 (1961-2010); total number of firms in the corporate universe from *Report of the Royal Commission on Corporate Concentration* (1978: 141, Table 6.1), Cansim Table 181-0001 and the Business Register Division of Statistics Canada.

How do we account for this de-linking? According to N&B (2009: 321), over the long-haul and for broad enough aggregates or averages, capitalization is driven principally by earnings, which means that the differential profit of the top 60 should help explain why the capitalization of the largest firms pulled away from the rest of the pack (note the tight correlation between the two series even though their denominators differ). Differential profit continuously increased over the postwar era, but its upward trajectory was fairly modest between 1950 and the mid-1990s. It, too, took off after the TAIL regime was instituted. In 1950 an average firm in the top 60 had pre-tax earnings 234 times larger than the overall average. By 1994 that ratio crested 5,000 and by 2010 it surpassed 13,000 — an enormous jump in the differential size of dominant capital.

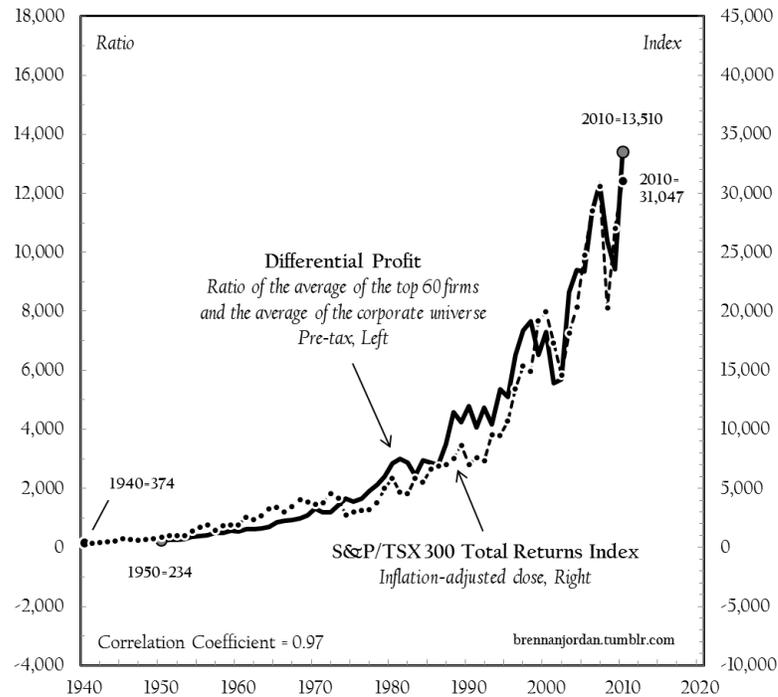
The picture that emerges using N&B's differential measures is somewhat different from what we have encountered using more conventional measures. Large firms either failed to beat the average — they differentially *de*-accumulated — or they beat it modestly during Keynesian era. Using differential indicators, the pattern began to change in the 1980s and then reversed entirely in the 1990s just as the TAIL regime came into effect. Since 1994, dominant capital firms pulled away from the corporate universe and now exhibit a historically unprecedented degree of power.

Now that we have plotted differential measures for Canada, we should like to begin to understand their explanatory utility. How do we know that the selection of 60 firms instead of 100 or 500, for example, as our proxy for dominant capital is appropriate? And does the use of differential measures, in particular, help explain phenomena that would otherwise remain mysterious?

When Canadians turn on the television to watch the nightly news, they are invariably bombarded with information about the performance of the Toronto Stock Exchange, notably whether the Composite Index closed ‘up’ or ‘down’. To most people this information is irrelevant insofar as their day-to-day lives go. But the gyrations of the TSX have a direct bearing on many important decisions made in the Canadian political economy that *do* impact people’s day-to-day lives: decisions by businesses about whether to build new factories or expand the workforce; decisions by the Bank of Canada about interest rates and the money supply; decisions by commercial banks about acquisitions and lending; and decisions by governments about ‘bailouts’, ‘stimulus’ and ‘austerity’. So the well-being of Canadians is tied to fluctuations in the TSX. Given its importance, how can we explain the pattern of growth of the TSX?

Figure 5.6 plots the closing value of the S&P/TSX 300 Total Returns Index (adjusted for inflation) and the differential profit of the top 60 firms from 1940 and 1950, respectively. The first series is the main equity benchmark in Canada and the second captures the differential performance of dominant capital. There is a very tight and persistent relationship between the two series over the postwar era. The differential performance of the top 60 firms appears to explain the inflation-adjusted pattern of the composite index, and by implication, the entire Canadian equity market. If the selection of the top 60 firms as a proxy for dominant capital requires justification, and if reliance on differential measures needs to demonstrate their usefulness, then explaining the level and trend of the Canadian equity market represents a promising beginning.

Figure 5.6
Differential Profitability and Total Returns on the TSX, 1940-2010



Source: S&P/TSX 300 Total Returns Index from Global Financial Data; Canadian Financial Markets Research Centre and Compustat through WRDS for common shares outstanding, closing share price and pre-tax 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 (1926-1960) and Cansim Table 380-0016 (1961-2011); total number of firms in the corporate universe from Report of the Royal Commission on Corporate Concentration (1978: 141, Table 6.1), Cansim Table 181-0001 and the Business Register Division of Statistics Canada.

Now that we have plotted a variety of measures of corporate power, what can we say about their evolution over the postwar era? Table 5.4 summarizes the eight measures of corporate power surveyed so far. During the Keynesian era the story is mixed: according to some measures corporate power increased, but using other measures it decreased. The story in the neoliberal era is unambiguous: corporate power increased.

The next matter to sort out is ownership of the corporate sector. We know that dominant capital firms, treated as a bloc, have become more powerful in the neoliberal era. The managerial hypothesis implies that increasing (asset) concentration when

accompanied by the dispersion of stock ownership leaves control of corporations in the hands of management. If the control of corporations is in the hands of senior management then the power of dominant capital in Canada might be lessened. However, if control of large firms continues to flow from ownership, then this, together with the uptrend in corporate concentration would signal an increase in the power of dominant proprietors.

Table 5.4
Measures of Corporate Power and their Respective Trends

Indicator	<i>Period Trend</i>	
	1950-1980	1980-2010
<i>Total corporate profit (share of GDP)</i>	Declines	Rises
<i>Top 60 profit (share of GDP)</i>	Declines	Rises
<i>Aggregate concentration: assets</i>	Rises	Rises
<i>Aggregate concentration: revenue</i>	Rises	Rises
<i>Aggregate concentration: capitalization</i>	Declines	Rises
<i>Aggregate concentration: profit</i>	Declines	Rises
<i>Differential capitalization</i>	Declines	Rises
<i>Differential profit</i>	Rises	Rises

Source: See Figures 5.1 and Figures 5.3-5.5

5.7 Who Owned and Who Controlled Dominant Capital in the Past?

Are the largest corporations in Canada controlled by a cadre of professional managers or by proprietors? Within the confines of this study, it will not be possible to identify the individuals that *actually* control the Canadian corporate sector. Such an endeavour would require in-depth analysis of the micro-decisions taken within each firm, something that is beyond the purview of this study. The control of a given firm can unfold through any number of legal mechanisms including family control, ownership pyramids, dual-class shares, voting coalitions, etc.

What we are after is a broader question: is ownership sufficiently diffuse that, by default, we can assume that management wields ultimate control, as Berle and Means argue, or is ownership sufficiently concentrated to allow proprietors to wield ultimate control? Answering this question normally involves determining an ownership threshold above which firms are assumed to be owner controlled and below which they are assumed to be manager controlled. There are any number of ways to parse the control threshold, but many writers — Berle and Means included — recognize that effective control may come with less than 50 percent of voting stock. A 50 percent threshold is an obvious cut-off point, but 20, 10 or even 5 percent may give the largest shareholder effective control.

What does the literature have to say about corporate ownership in Canada? It has long been noted that the concentration of corporate ownership in Canada has led to highly centralized control by proprietary interests. Newman, for instance, claims that at one point in the 1950s, nine families controlled nearly half the shares on the TSX (1998: 29). Niosi picks apart the ownership structure of the largest 136 Canadian-based firms (ranked by assets in 1976) and finds that management only controlled 32 percent of such firms. Minority control (20-50 percent) made up 38 percent of the sample, majority control (50-80 percent) made up 21 percent of the sample, leaving 9 percent under semi-absolute control (80-100 percent). Niosi notes that weighing the firm by size rather than number yields similar results and that this ownership pattern holds across all sectors of the Canadian economy (1978: 77-80). Houten argues that in the early 1980s the eight largest Canadian conglomerates were controlled by nine families. Excluding the shares

controlled by the Big Five banks, this bloc controlled more than half of the shares on the TSX Composite Index (1991: 94). In her study of Canadian business, Francis (1986) notes that 32 families and five conglomerates together control 40 percent of the largest 500 firms, with families alone owning 31 percent. This fact makes the concentration of ownership in Canada high relative to the United States, she says.

Until the 1980s, at least, it's clear that ownership is highly concentrated amongst a small number of powerful families. How does Canada compare with other jurisdictions? Rao and Lee-Sing contrast corporate ownership structures in Canada and the United States and find that a majority of Canadian firms are legally controlled in all size classes while widely-held firms (with top shareholder owning less than 20 percent of voting stock) are predominant in the United States. Their sample size includes 766 Canadian firms and 3,000 American firms, selected on the basis of sales and assets in 1993. In the Canadian sample, 56 percent were legally controlled (above 50 percent), 21 percent effectively controlled (20-50 percent), leaving 23 percent widely-held (1995: 47, 76-7).¹⁰

The higher-than-normal concentration of proprietor control usually comes in the form of control blocks held by wealthy families and multilayered holding companies. Based on data in 1989, Daniels and Iacobucci report that only 16 percent of the 550 largest firms in Canada are widely held using a 20 percent threshold (2000: 82). While these figures might suggest that the managerial hypothesis has no place in the Canadian context, the authors note that the Canada-U.S. FTA in 1988 and the NAFTA in 1994

¹⁰ See McNaughton and Green (2006) for an analysis of the ownership relations between industry groupings in Canada for the two decades between 1976 and 1995.

appear to have added a dose of competition to the Canadian political economy, and consequently, led to a reconfiguration of corporate ownership. In December 1988, 29 percent of the firms on the S&P/TSX 300 Composite Index were widely held (based on a 10 percent threshold), but by December 1997 66 percent were widely held (Daniels and Iacobucci 2000: 93). In her later work, Francis notes this change. By 2007, corporate ownership had been ‘democratized’, she argues, and the ‘stranglehold on business, banking and politics’ that those 32 families from the 1980s had had been broken (2008: 3, 16). As of 2007, only 21 percent of the largest firms (ranked by revenue) were family-controlled, with 38 percent widely-held.¹¹

How does Canada compare with other jurisdictions? A group of researchers at Harvard mapped corporate ownership patterns across the rich industrialized world. Using data from the mid-1990s, La Porta, Lopez-de-Silanes and Shleifer (1999) construct a corporate ownership database for the 27 richest countries in the world based on two samples of firms: the top 20 in terms of market capitalization (the ‘large’ sample) and the smallest 10 firms with market capitalization of at least \$500 million (the ‘medium-sized’ sample). Their purpose is to determine the proportion of firms that are manager controlled (the ‘Berle and Means corporation’) and the proportion that have ‘ultimate owners’. They employ two definitions of control: first, a firm has an ultimate owner if the largest shareholder has direct and indirect voting rights in excess of 20 percent; and in the second definition they dropped the threshold to 10 percent. Table 5.5 reproduces some of their data.

¹¹ Also worth noting, in the mid-1980s the 50 largest firms in Canada were composed primarily of American, Japanese and European subsidiaries. By 2007 the largest 50 firms were overwhelmingly Canadian-based.

The results of their research indicate that the Berle and Means corporation is relatively uncommon, especially in contrast to family control. The 27 country average indicates that, for large firms at the 20 percent threshold, widely held firms are not much more common than family controlled firms (36 versus 30 percent). As we move from large to medium-sized firms and as we drop the control threshold from 20 to 10 percent, the parity between the two types of control disappears. Widely held firms become the exception; family controlled firms become the norm. The authors also note that families tend to have control rights in excess of their cash-flow rights through the use of pyramids and that they tend to hold management positions in the firms they control. La Porta *et. al.* conclude: families are the ‘ultimate owners’ and wield control in the Berle and Means sense of the term (1999: 502).¹²

Table 5.5
The Dispersion of Corporate Ownership around the World

Country	Control of Large Firms				Control of Medium-Sized Firms			
	20% Cut-off		10% Cut-off		20% Cut-off		10% Cut-off	
	Widely Held	Family	Widely Held	Family	Widely Held	Family	Widely Held	Family
Canada	0.60	0.25	0.50	0.30	0.60	0.30	0.40	0.50
United States	0.80	0.20	0.80	0.20	0.90	0.10	0.50	0.30
United Kingdom	1.00	0.00	0.90	0.05	0.60	0.40	0.10	0.60
Germany	0.50	0.10	0.35	0.10	0.10	0.40	0.10	0.40
France	0.60	0.20	0.30	0.20	0.00	0.50	0.00	0.50
Average: Richest 27 Countries	0.36	0.30	0.24	0.35	0.24	0.45	0.11	0.53

Notes: ‘Large firms’ are the top 20 ranked by market capitalization of common equity at the end of 1995. ‘Medium-sized firms’ are the smallest 10 firms in each country with market capitalization of common equity of at least \$500 million at the end of 1995. The richest 27 countries are based on 1993 per capita income (some excluded for lack of significant stock markets). **Source:** La Porta *et. al.* (1999: 492-95), Table 2 and 3.

¹² The authors examine other forms of ultimate ownership besides families, including: the state, widely held financial institutions, widely held corporations and a miscellaneous category (La Porta *et. al.* 1999: 476). These other types of control are not relevant to the argument and are ignored.

The data used by La Porta *et. al.* indicates that Canada stands in between the 27 country average and the American and British models of corporate governance. Among large firms with a high control threshold, the widely held firm is more common in the United States and the United Kingdom than it is in Canada, and slightly less common in Germany and France. The ownership pattern remains consistent across the five countries recounted in Table 5.4: as we move from large to medium-sized firms and as we drop the control threshold from 20 to 10 percent, the widely held firm becomes increasingly rare while family control becomes more common. Thus, Canada tends more towards the dispersion of ownership. Nevertheless, the Berle and Means corporation is not the norm in Canada.

Other studies on corporate ownership around the world tell much the same story. Gourevitch and Shinn (2005) plot corporate ownership concentration in a sample of 39 countries which together make up 99.5 percent of total world equity market capitalization. Opting for a 20 percent control threshold, the authors find that Japan has the highest dispersion of ownership, with only 4 percent of its equity market controlled by blockholders, and Chile has the highest concentration of ownership, with 90 percent of its equity market controlled by blockholders. Based on this sample, Canada tends more towards dispersed ownership, with 28 percent blockholders, but because Gourevitch and Shinn opt for a higher threshold (20 percent), their argument tends to overstate the degree of dispersion and understate the degree of concentration. That caveat aside, their

conclusion is that dispersed ownership structures are relatively uncommon globally (2005: 17-18).¹³

Defining a firm as ‘owner controlled’ if the combined direct or indirect voting stake exceeds 10 percent, Morck, Percy, Tian and Yeung (2005) trace the changing structure of corporate ownership in Canada across the twentieth century.¹⁴ In 1902 approximately half of the 100 largest non-financial firms (weighed by assets) in Canada were widely held, with 10 percent falling into the ‘family controlled pyramid’ category. However, by the end of the merger wave that concluded in 1910, only 29 percent were widely held, with 40 percent falling into the ‘family controlled pyramid’ category. State control of corporate assets began during the First World War and rose steadily until the 1990s when an ambitious privatizing program led to a steep decline in state ownership.

Interestingly, widely held firms became more common from 1910 through the 1960s and became more anomalous thereafter. Family controlled pyramids followed the opposite pattern: their prevalence decreased as we move to mid-century and then became more prevalent in the latter half of the twentieth century. Family pyramidal groups grew rapidly in the 1970s and 1980s, the authors state, at which time the privatization of state assets led to a jump in widely held firms. While the authors note that no clear pattern emerges across the twentieth century, they also assert that family controlled pyramids constitute the most common form of ownership at the beginning and end of the

¹³ An ambitious attempt to map the structure of corporate ownership on a global scale is performed by Vitali, Glattfelder and Battiston (2011). Using network analysis, they find that 147 firms — which they call an ‘economic super-entity’ — control 40 percent of the 43,060 global corporations. Their concern is not with ultimate owners; rather, it is with inter-corporate control. However, their study reveals a highly concentrated network of control that spans the entire globe.

¹⁴ The following historical summary is drawn from Morck *et. al.* (2005: 98-110).

twentieth century. At mid-century Canada's corporate sector resembled America's, with freely standing, widely held firms constituting the norm. By the end of the century, the widely held firm only accounted for one-in-four firms — a far cry from the managerial view of capitalism.

The literature on Canadian corporate ownership does not offer a clear response to the managerial thesis. In the decades between the Second World War and the Canada-U.S. Free Trade Agreement (1988), most researchers agreed that Canadian corporate ownership was highly concentrated amongst a small cluster of families whose large equity stake assured them effective control. Newman (1975), Niosi (1978) and Houten (1991) fall into this camp. The trade and investment liberalization agreements put in place in the late 1980s and early 1990s 'democratized' the corporate sector by dispersing ownership according to much of the more recent scholarship, making the widely held firm the most common form of ownership. Daniels and Iacobucci (2000) and Francis (2008) take this managerial position, while Morck, Percy, Tian and Yeung (2005) argue against the separation thesis. Which is the correct view of contemporary Canadian capitalism? Is the Canadian corporate sector under the control of proprietors or has ownership been democratized, leaving control in the hands of a managerial class?

5.8 Who Owns and Who Controls Dominant Capital in the Present?

The picture that emerges from the research reviewed here suggests that, among large firms, owner control is more prevalent than manager control. The corporate sector remains predominantly controlled by individuals and families through large equity

stakes. The only shortcoming with existing studies is their date of publication. If we assume that the TAIL regime that was put in place in 1994 might have reconfigured the structure of corporate ownership, what does it look like in more recent times?

Table 5.6, based partly on original research performed for this study and partly on recently published data, presents the structure of corporate ownership for three samples of firms across seven thresholds of control. The TSX is carved into three blocks of firms according to equity market capitalization: the top 60, top 100 and the top 200. Even though this is a much larger sample than the one generated by La Porta *et. al.* (who only examined a total of 30 firms in each jurisdiction), it remains numerically small. Recall: there are approximately 1,600 firms on the TSX and a further 2,600 on the Venture Exchange. In terms of equity market value, however, the top 60 sample accounts for 60 percent, the top 100 sample accounts for 70 percent and the top 200 sample accounts for 78 percent of the total. Thus, the numeric shortcomings associated with the three samples are more than offset by their disproportionately large market value.

Ownership is parsed according to a six-way classification scheme: under 5 percent, 5-10 percent, 10-20 percent, 20-50 percent, majority owned by domestic interests and majority owned by foreign interests. A seventh type of control is added wherein the founder or his descendants act as Chairman or CEO. This type of control is found across all sample sizes and usually appears when the founder has a large equity stake in the firm. Selecting a threshold to separate manager from owner control is somewhat arbitrary if we assume that owner control can happen with less than 50 percent of voting rights. Insisting on 50 percent voting rights seems unnecessarily stringent, but 5 percent might

not be stringent enough. Accordingly, a 10 percent threshold will be used to separate the widely held Berle and Means firm from an owner controlled firm.

The research for Table 5.6 came in two parts. The first part involved using the Bloomberg Professional database to retrieve (in July of 2012) the stockholder list of each firm, which revealed the percent of common shares held by the top shareholder. The major limitation (for the purposes of this study) with the Bloomberg database is the inability to distinguish different classes of stock. Many large firms issue two (or more) classes of shares: those with special voting rights are distinguishable from shares that either don't carry voting rights or carry diminished voting power.¹⁵ To remedy this shortcoming, the *Financial Post Magazine's* 'FP 500' was utilized. This resource provides ownership information on the 500 largest corporations with operations in Canada. Published in the April of 2013, the FP 500 specifies if a firm is 'widely held', which is assumed to mean less than 10 percent of voting stock, or if the firm has a 'major voting interest', including specification of the percentage held by the largest shareholder.

If the Bloomberg data provides a rough sketch of corporate ownership in Canada, use of the FP 500 data increases the level of resolution. For example, Rogers Communications is one of the top 60 firms in Canada and even though Bloomberg registered it as having a top shareholder with less than 5 percent of voting stock (Fidelity Investments in Boston is the largest holder of common shares at 4.65 percent), the company is effectively controlled by the Rogers Family Trust. The descendants of the late Ted Rogers hold 90.9 percent of the super-voting Class A shares. Likewise, Canadian Tire

¹⁵ See Brealey, Myers, Marcus, Maynes and Mitra (2006: chapter 13) for a discussion of corporate governance in Canada.

Corporation is registered as having a top shareholder in the 5-10 percent range even though it is controlled by the Billes family through ‘common special voting stock’ (Francis 2008: 210). Martha, Freddy and David Billes — the children of Alfred J. and John W. Billes, the founders — own 61 percent of the preferential shares.

Between Bloomberg and the FP 500, a fairly clear picture of the structure of corporate ownership in Canada is obtained. It should be noted that this information indicates what might be called ‘tier I’ ownership, meaning it ignores the complicated inter-corporate and pyramidal ownership schemes that are to be found across the Canadian corporate sector. Charting the inter-corporate ownership and pyramid schemes would be a dissertation unto itself and is beyond this inquiry, even though it is what would be required to arrive at the ‘ultimate owners’.

Table 5.6
Tier I Ownership of Canadian Equities

Control Threshold	Top 60	%	Top 100	%	Top 200	%
<i>Top shareholder 0-4.99%</i>	23	38%	30	30%	40	20%
<i>Top shareholder 5-9.99%</i>	9	15%	19	19%	48	24%
<i>Top shareholder 10-19.99%</i>	10	17%	23	23%	57	29%
<i>Top shareholder 20-49.99%</i>	8	13%	13	13%	24	12%
<i>Majority owned: domestic</i>	8	13%	12	12%	25	13%
<i>Majority owned: foreign</i>	2	3%	3	3%	6	3%
Total	60	100%	100	100%	200	100%
<i>Founder or family as Chairman or CEO</i>	15	25%	23	23%	37	19%
<i>Weighted market value under Canadian control</i>	53%		53%		54%	
<i>Weighted market value under American control</i>	36%		35%		34%	

Notes: percentages may not add up to 100 due to rounding. Firms that are not headquartered in Canada were removed in order to maintain consistency (General Motors, for example). The list of top firms is as of 31 May 2012. Ownership data was retrieved from Bloomberg Professional in July of 2012 and updated using the ‘FP 500’ from the *Financial Post Magazine*, updated to April 2013. **Source:** ownership figures are computed from Bloomberg Professional and the *Financial Post Magazine*’s ‘The FP 500’; aggregate and disaggregate data from TMX Group’s Equity Financing Statistics.

What does the information in Table 5.6 tell us? First, nearly half (46 percent) of the top 60 sample have controlling shareholders (using the 10 percent threshold). The prevalence of owner control rises above 50 percent for the larger two samples. Second, if we drop the control threshold from 10 to 5 percent (for arguments sake), the prevalence of manager control drops considerably; among the top 200 sample, for instance, only one-fifth of firms would be classified as manager controlled. Third, the proportion of firms that fall into the 20 and 50 percent thresholds remain constant across the three sample sizes. Fourth, majority control is comparatively rare, accounting for 15-16 percent across all three sample sizes. Fifth, situations where the founder or his descendants control the firm through occupation of an executive position are common across all samples sizes. Among the top 60 firms, for instance, one-quarter of the firms are controlled by the founders; for the top 200 sample, the proportion is one-fifth. Sixth and finally, across all three sample sizes, more than half of the weighted value of Canadian equity is owned by Canadians and one-third by Americans.

The information contained in Table 5.6 suggests that the widely held, Berle and Means firm is not the norm. Control of the Canadian corporate sector still flows, in large measure, from the substantial equity stake of dominant proprietors. Another indirect way of assessing the concentration of corporate ownership in Canada is presented in Appendix B, which links some of the richest families in Canada with some of the largest Canadian-domiciled firms. In every year since 1999, *Canadian Business* magazine published a list of the 100 highest net worth Canadian families. If the Berle and Means separation

thesis were true, there would be no reason to expect that the people populating the richest 100 list would have substantial equity holdings in large Canadian-domiciled firms. However, if the link between ownership and control remains intact, then we would expect that the richest families in Canada also happen to be significant owners of dominant capital firms.

So what does Appendix B tell us? The first column indicates the Rich 100 rank in the 2012 issue, the second lists the family name, the third indicates family net worth and the fourth column connects the family to a large Canadian-domiciled firm. Note that we have confined our investigation to the universe of listed firms. Some of the richest Canadians control firms that are not listed on a stock exchange and so don't fall into some of our measures of corporate power. That said, we are safe in presuming that the differential performance of large, unlisted firms closely resembles the top listed firms.

As Appendix B makes clear, the net worth of the richest Canadians are derived largely from their concentrated equity holdings of dominant Canadian firms. For example, the Thomson family has long been Canada's richest family through its majority stake (55 percent) in Thomson Reuters, the eighteenth largest firm by equity market capitalization on the TSX. The Desmarais family, who descended from Paul Desmarais — one of the great Canadian conglomerators — controls four of the top 60 Canadian firms. And while the Rich 100 list contains a few token celebrities like Hollywood director James Cameron, it is almost entirely populated by dominant proprietors. Indeed, 35 of the richest Canadian families derive their fortunes from ownership of 20 of the top 60

firms and 38 of the top 200 firms. The link between ownership and control, not to mention great fortunes, remains strong in Canada.

If the picture we have painted so far suggests that owner control represents a common form of ownership in Canada, what is the degree of dispersion/concentration amongst non-controlling owners? The image crafted by Berle and Means is of a corporate sector dominated by a few dozen large firms that have stockholder lists that run anywhere from the tens of thousands into the millions (1967: ix). In Canada, more than half of large firms have controlling shareholders, so instead of dispersed ownership we have comparatively high levels of ownership concentration. But what about the non-controlling shareholders; how concentrated is this group?

Table 5.7 represents one way of determining the level of concentration amongst non-controlling owners. For each firm, a list of stockholders ranked from largest to smallest was generated using data from Bloomberg Professional. From there, the 10 largest shareholders were parcelled off. Some firms had incomplete ownership structures and for some firms there were technical difficulties in retrieving the entire ownership structure such that, in the end, the top 60 sample had 530 shareholders (instead of 600), the top 100 sample had 930 shareholders (instead of 1,000) and the top 200 sample had 1,921 shareholders (instead of 2,000). The final step was to determine who populated the top ten positions in the shareholder lists and the frequency with which they appear (without removing the controlling shareholders).

Table 5.7 outlines the following information: the parent company, the investment vehicle, where the firm is headquartered and then for each of the three sample sizes it

counts the number of times an owner appears on the list of top 10 owners, irrespective of firm size or the proportion of shares held. The picture that emerges from this research is interesting. Thirteen large institutional investors dominate the list of top shareholders in all three sample sizes. The Big Five banks, the five largest asset managers in Canada and three of the largest asset managers in the United States together dominate non-controlling ownership of the Canadian equity market.

Table 5.7
Top Institutional Owners of the Largest Canadian-Domiciled Corporations

Organization	Investment Vehicle	HQ	Top 60	%	Top 100	%	Top 200	%
	<i>RBC Global Asset Management</i>							
<i>Royal Bank of Canada</i>		Toronto	58	11%	86	9%	141	7%
<i>Blackrock Inc.</i>		New York	54	10%	80	9%	112	6%
<i>Fidelity Investments</i>	<i>Pyramis Global Advisors</i>	Boston	45	8%	67	7%	91	5%
<i>TD Bank</i>	<i>TD Asset Management</i>	Toronto	41	8%	63	7%	90	5%
<i>Bank of Montreal</i>	<i>BMO Financial</i>	Toronto	30	6%	36	4%	41	2%
	<i>Investors Group</i>							
<i>Power Financial Corp.</i>	<i>Mackenzie Financial</i>	Montreal	24	5%	48	5%	99	5%
<i>CI Financial Corp.</i>	<i>CI Investments Inc.</i>	Toronto	22	4%	37	4%	71	4%
	<i>The Capital Group Companies</i>							
	<i>Capital World Investors</i>	Los Angeles	17	3%	26	3%	35	2%
<i>Jarislowsky Fraser Ltd.</i>		Montreal	17	3%	17	2%	24	1%
<i>Bank of Nova Scotia</i>	<i>Scotia Asset Management</i>	Toronto	17	3%	24	3%	35	2%
	<i>CIBC Global Asset Management</i>							
<i>CIBC</i>		Toronto	15	3%	24	3%	35	2%
	<i>Industrial Alliance Insurance and Financial Services Inc.</i>							
	<i>IA Clarington Investments</i>	Toronto	8	2%	25	3%	54	3%
	<i>Goodman and Company</i>							
<i>Dundee Wealth</i>	<i>Investment Counsel</i>	Toronto	5	1%	17	2%	38	2%
Totals			530	67%	930	59%	1,921	45%

Notes: the top 10 owners of each firm in each sample (top 60, 100 and 200) were retrieved from Bloomberg Professional. From there, the above chart documents the number of times each owner appears in the top 10 (irrespective of weighted value of their holdings). Some firms had incomplete ownership structures (due to a majority holder or technical difficulties in retrieving the entire ownership structure) such that the top 60 batch of firms had 530 observations (instead of 60 x 10 = 600), the top 100 had 930 and the top 200 had 1,921. Firms that are not headquartered in Canada were removed from the top firm's listings in order to maintain consistency. The list of top firms was as of 31 May 2012. Ownership data was retrieved in July 2012. **Source:** ownership figures are computed from Bloomberg Professional; organizational structures and headquarters from company websites.

Among the top 10 shareholders of the top 60 sample, the Royal Bank of Canada (RBC) appears 58 times, which means that it has a significant stake in 58 of the 60 largest firms. The RBC is a top shareholder in 86 of the top 100 firms and in 141 of the top 200 firms. Blackrock Inc., the world's largest asset manager, has a stake in 54 of the top 60 and 80 of the top 100. At the low end of the non-controlling owners we find Dundee Wealth, which has a stake in 58 of the top 200 firms. These 13 institutional investors account for two-thirds of the top stockholder list for the top 60 firms. As we move to the top 100 and top 200 samples, they account for less of the top stockholder list, but even amongst the top 200 sample they still account for nearly half. In sum, while many firms have a controlling shareholder, there is a remarkably high level of concentration amongst the non-controlling owners as well. This research challenges the view of Francis (2008) and others who claim that the Canadian corporate sector has been 'democratized' in recent decades. On the contrary, effective control of the corporate sector appears to reside with a remarkably tight cluster of families and institutions.

To summarize, owner control through a large equity stake is a common form of ownership in Canada. Concentrated ownership of large Canadian-based firms becomes even more pronounced when we consider the small group of institutional investors who dominate the list of non-controlling owners. What's more, the great fortunes listed in Appendix B connect the top 100 firms in Appendix A to dominant proprietors. Thus, the 'separation thesis' advanced by managerialists appears invalid for Canada.

Let us shift our attention away from the domestic market to assess how Canadian equities stack up against global equities. Dominant capital in Canada has managed to

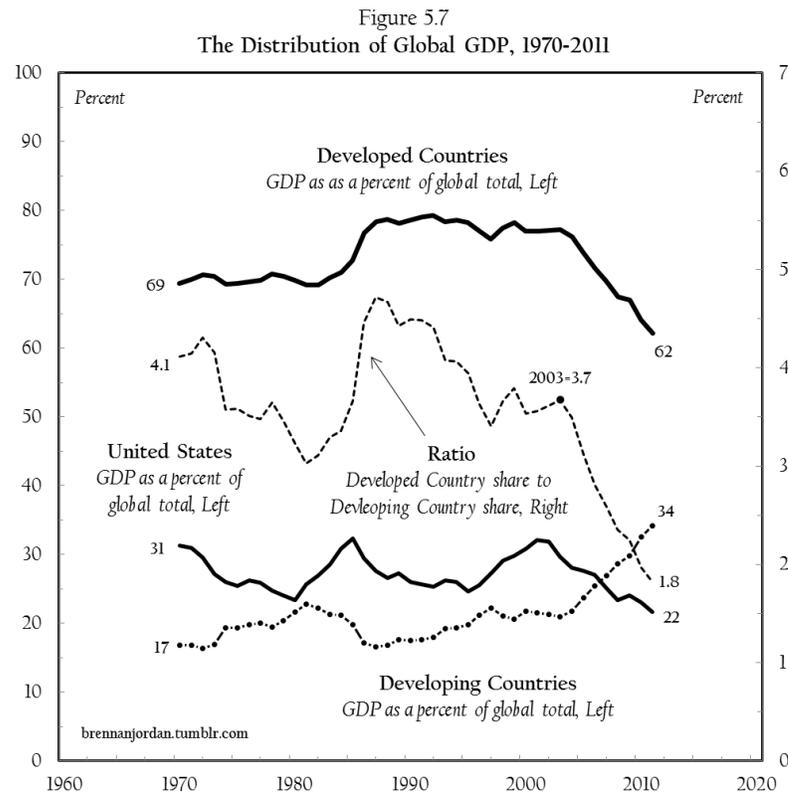
differentially accumulate over the past three decades in Canada, but how has it performed against global benchmarks?

5.9 Canadian Capital in Global Context

To begin to unpack this question, we need to add some context. The past generation not only saw a political-economic shift in rich industrialized societies away from Keynesian welfare policies towards neoliberal globalization-promoting policies; it also brought with it the relative decline of the rich industrialized societies and the relative ascent of the developing world. Blockbuster growth in the ‘Asian Tigers’ — South Korea, Hong Kong, Singapore and Taiwan — was followed by rapid growth in China, India, Brazil and Russia, the so called ‘BRIC’ countries. This has come at a time of slower growth in North America and Europe (captured in Table 3.1). The relative decline of the rich industrialized societies is presented in Figure 5.7.

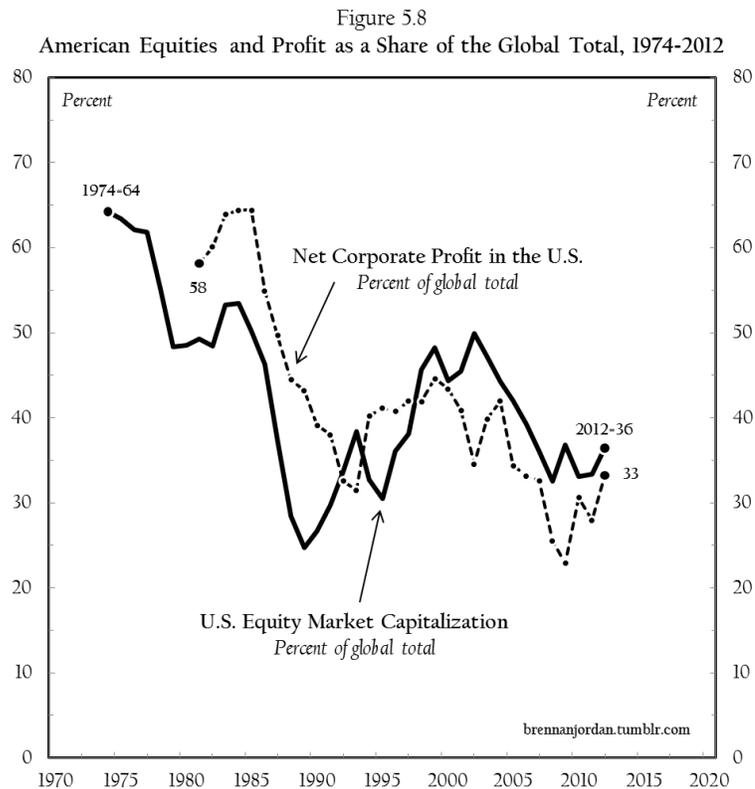
The proportion of global GDP accounted for by Developed Countries, Developing Countries and the United States are presented next to a ratio of Developed to Developing Country GDP. In 1970, Developed Countries accounted for 69 percent of global GDP, falling to 62 percent in 2011. The United States has seen its share fall from one-third to one-fifth. The Developing Countries, in contrast, doubled their share of global GDP between 1970 and 2011, with most of that increase coming since 2003. The differential between Developed and Developing Countries is measured by the broken line, which approximates the relative decline of the Developed Countries. In 1970 Developed

Countries had four times the GDP of Developing Countries; as of 2011 they had less than double, with the bulk of the decline coming in the past decade.



The relative decline of the Developed Countries serves as a backdrop to the global performance of Canadian equities. In the postwar era, the United States was not only the largest political economy, but its equity market has also served as the global benchmark. The close trade and ownership linkages between Canada and the United States is one reason why Canadian equities tend to move in tandem with American equities. As a way of adding to the historical context, how have American profits and equities performed globally? Figure 5.8 depicts the performance of American equity market capitalization

and net profit as a share of the global total over the past four decades.¹⁶ The trend is both unambiguous and revealing. Capitalization of American equities declined sharply between the mid-1970s and the late 1980s, rose until the early 2000s and declined thereafter. This pattern appears to be driven by trends in corporate profitability.



Source: Thomson Reuters Datastream Professional for world market capitalization, world net profit, U.S. equity market capitalization and U.S. net profit.

If the trend in both measures is unambiguously downward, the change in the actual level is also startling. In 1974 American corporations constituted two-thirds of total global equity market value, falling to one-third by 2012. The profitability of American corporations nearly halved between 1981 and 2012, falling from three-fifths of

¹⁶ See Nitzan and Bichler (2009b) for a methodological discussion and empirical investigation of the decline of U.S.-based firms.

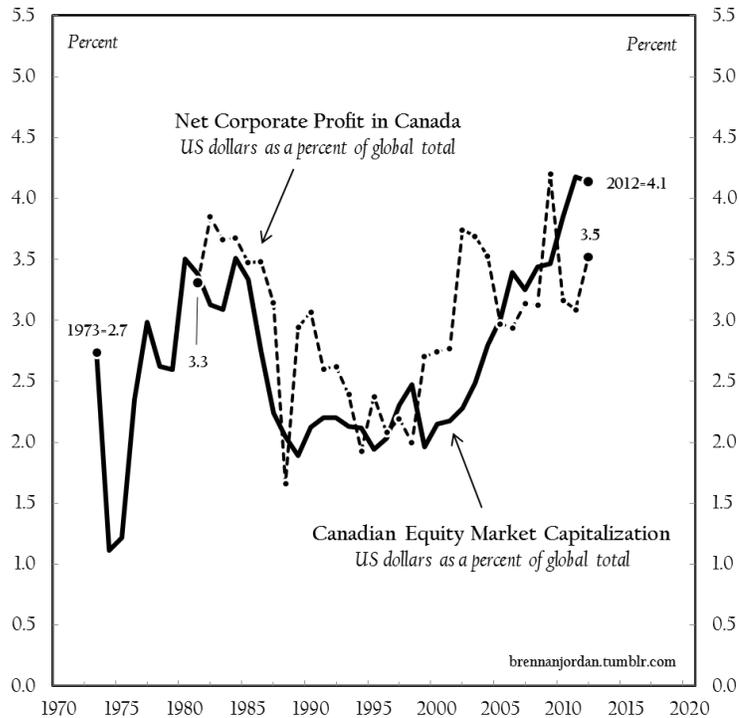
the global total to one-third. So the rapid descent in the share of global GDP attributable to the Developed Countries is matched by the steep decline in the share of American equities and profit relative to the global total. In the context of this dual decline, how have Canadian equities fared?

Figure 5.9 maps the equity market value and net profit of Canadian corporations as a share of the global total. Despite the relative decline of Developed Country GDP (taken as a bloc) and in sharp contrast to the American equity market, which saw a halving of its share of the global total, Canadian equity market capitalization as a share of the global total rose from 2.7 percent in 1973 to 4.1 percent in 2012. The relative increase in equity market value is only partially mirrored by profit, which declined from 3 to 2 percent, only to rise back to 3 percent of the global total.

What's also notable about Figure 5.9 is the U-shaped pattern: both series fell dramatically in the 1980s, moved horizontally through the 1990s before climbing upward during the 2000s. So the relative ascent of Canadian equities and profit took place since the late 1990s. We will postpone our explanation of this trend until a later chapter, but for now what we need to understand is the global rise of Canadian capital over the past decade amidst the global decline of American capital and of the Developed Countries.

If differential accumulation is a measure of corporate power, we should wish to know how dominant capital in Canada stacks up against its counterpart in the United States. Figure 5.10 contrasts the average equity market value of the top 60 Canadian firms with both the top 60 and the top 500 American firms from 1950 onward.

Figure 5.9
 Canadian Equities and Profit as a Share of the Global Total, 1973-2012

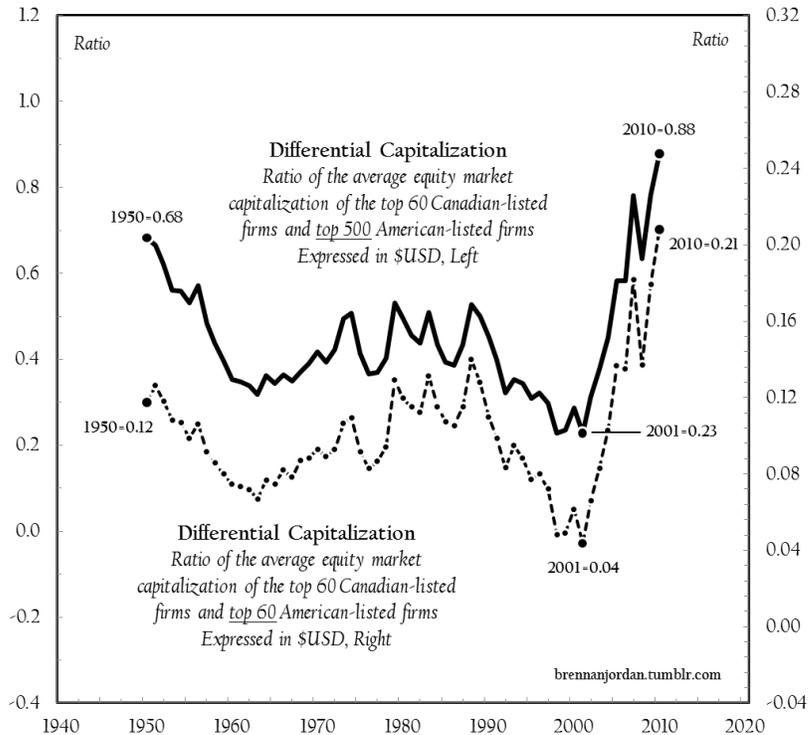


Source: Thomson Reuters Datastream Professional for world market capitalization, world net profit, Canadian equity market capitalization and Canadian net profit.

Contrasting the relative performance of dominant capital in Canada with two benchmarks in the United States yields an interesting picture. The first thing to note is the symmetry between the two series — only the level differentiates them (note the scale differences on the axes). In terms of differential capitalization, the top 60 Canadian-based firms trailed the top 500 U.S. average in the 1950s and 1990s and beat the average in the 1960s, 1970s, 1980s and 2000s. In terms of relative firm size, the top 60 Canadian-based firms were two-thirds the value of the top 500 American-listed firms in 1950, fell to one-quarter their value by 2001 before surging to nine-tenths their value by 2010. Over six decades, the top 60 Canadian-based firms outperformed the top 500 American-based firms, with the past decade proving to be the most dramatic.

Figure 5.10

Differential Capitalization: Canada vs. United States, 1950-2010



Source: Canadian Financial Markets Research Centre (for Canada) and Compustat through WRDS (Canada and the US) for common shares outstanding and closing share price; exchange rate from Global Financial Data.

Comparing the performance of the top 60 Canadian-based firms with the top 60 American-based firms yields a similar pattern, but a drastically different level. The top 60 American-based firms were nearly 10 times the size of their Canadian counterparts in 1950, rose to 20 times their size in 2001 before falling to five times their size in 2010. The pattern, however, is similar: the top Canadian firms trailed the average in the 1950s, beat it from 1960 to 1990, trailed the average again throughout the 1990s only to beat it during the past decade. Even though the largest American-based firms remain five times larger than their Canadian counterparts, they have been dramatically outperformed during the past decade.

Now that we have charted Canadian equities as a share of the global total and documented the differential performance of dominant capital relative to international benchmarks, the last piece of the puzzle is to sort out how globalized Canadian capital is. If the global movement of capital is not primarily about international production networks or the cross-border flow of goods and services, but instead, as N&B claim (2009: 356), ownership, how globalized is Canadian corporate ownership?

The United Nations Conference on Trade and Development (UNCTAD) has developed a 'transnationality index' (TNI) for host economies and another for the world's largest corporations. Let's deal with the host economies' TNI first.¹⁷ It is made up of the average of four shares: (1) FDI inflows as a percentage of gross fixed capital formation; (2) FDI inward stocks as a percentage of GDP; (3) value added of foreign affiliates as a percentage of GDP; and (4) employment of foreign affiliates as a percentage of total employment. The resulting number is a proxy for the extent of globalization.

Where does Canada stand, according to UNCTAD? The value for Canada is 15.5, which puts it in the middle of the pack. Amongst developed countries, Japan is on the very low end at 1.1, next to the United States which comes in at 6.4. On the very high end we find small European countries like Hungary (33.5) and at the top, Belgium (65.9). The weighted average of the group is 11.8, which means Canada's political economy is more transnational than the average country, given its relative size.

How does the transnationalization of domestic political economies stack up against the transnationalization of the largest corporations? Beginning with its *World*

¹⁷ The transnational index is as of 2005, but the data which feeds into it is from 2003-2005. The data can be downloaded from: http://unctad.org/Sections/dite_dir/docs/wir2008_transnationality_chart_en.xls.

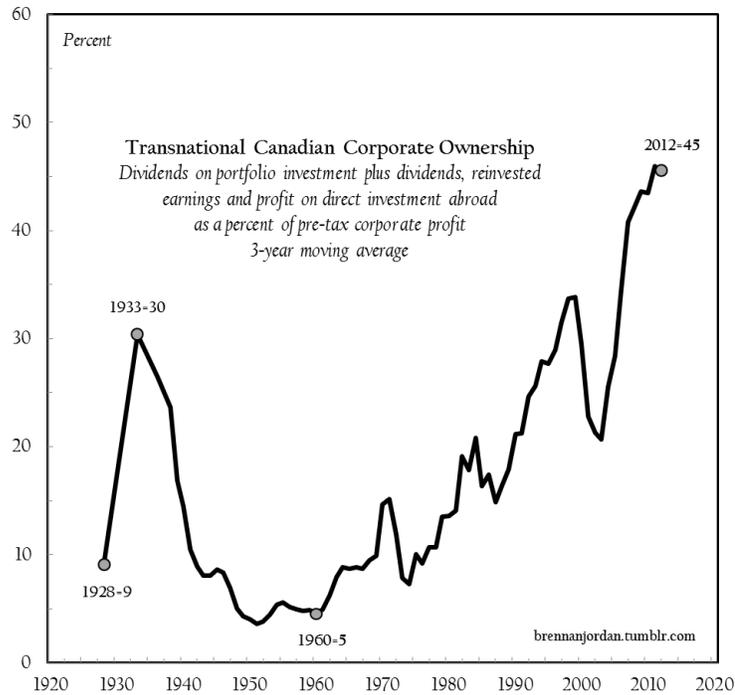
Investment Report in 1995, UNCTAD has published a TNI for the 100 largest non-financial corporations in the world. The index is calculated as the average of: (1) foreign assets to total assets; (2) foreign sales to total sales; and (3) foreign employment to total employment. In 1993, at the inception of the UNCTAD data, the average TNI for the top 100 firms was 47. This metric climbed to 54 by 1998 and reached 56 by 2003 (UNCTAD 2007: 15, Table 7). The UNCTADs' *World Investment Report* (2010: 18, Table 1.8) notes that the TNI climbed through the financial crisis, reaching an all-time high of 63.4 in 2008. So nearly two-thirds of the operations of the largest firms are globalized. With this context in mind, how internationalized is Canadian capital?

Figure 5.11 develops a proxy for the globalization of Canadian business ownership, computed as follows: the sum of dividends on portfolio investment plus dividends, reinvested earnings and profit on foreign direct investment all as a percent of total pre-tax corporate profit.¹⁸ When this metric rises, the profits from the foreign operations of Canadian-based firms are increasing relative to the profits from domestic operations and vice versa. This is a loose proxy for the 'transnationality' of Canadian corporate ownership, but it suffers from numerous defects. First, it is an aggregate metric which will conceal all the disaggregate changes within the corporate sector. We are primarily interested in dominant capital, not capital as such, and this metric buries dominant capital in the corporate universe. And second, it ignores sales, assets and employees, which are also good indicators of the extent of globalization. The chief virtue

¹⁸ This measure is inspired by a similar measure developed by Nitzan and Bichler (2009: 357), Figure 15.6.

of this proxy is that it is simple and reliable data are available such that we can map its history over a longer time horizon. What does this proxy tell us?

Figure 5.11
The Globalization of Canadian Corporate Ownership, 1928-2012



Note: data interpolated between 1928, 1933, 1936 and 1938 (continuous thereafter).
Source: total pre-tax corporate profit from Historical Statistics of Canada, Series F3 (1926-1960) and Cansim Table 380-0016 (1961-2011); dividends on portfolio investment, and dividends, reinvested earnings and profit on direct investment abroad from Cansim Table 376-0012.

Figure 5.11 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 percent in 1933. A three decade-long decline began thereafter such that, by 1960, the profits of Canadian corporations were almost entirely domestic in origin. A long term rise in foreign operations began thereafter, reaching a high of 46 percent in 2011. Recall: the 'host economy' TNI for Canada was 15.5 and the TNI for the top 100 non-financial corporations was 63 in 2008, so it appears that the proxy developed in Figure 5.11 puts

Canada's corporate sector in between these two metrics. Canada's corporate sector is more globalized than the entire Canadian political economy but less globalized than the 100 largest non-financial multinational corporations.

It is probably fair to conclude that 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, probably ranging in the hundreds, account for the bulk of the profit associated with Canadian direct investment abroad. This assumption 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 percent of all Canadian firms accounted for the entirety of foreign receipts.

What's more, there is a very high level of concentration within those 1,300 firms: the top 159 Canadian-based TNCs accounted for 50 percent all foreign assets, with the top 20 accounting for 40 percent.¹⁹ To restate in slightly different terms: approximately one percent of one percent of Canadian firms account for nearly half the foreign operations of the corporate universe, which is a remarkable high level of concentration. So even though Figure 5.11 depicts the extent of transnationalization for the Canadian corporate universe, we can safely presume that the top 60 firms account for the bulk of the foreign operations of Canadian firms.

Two questions present themselves. First, why do we see a secular decline during the 1930s and 1940s and a secular rise since the 1950s in the extent of

¹⁹ These facts are extracted from Rao, Legault and Ahmad (1994: 107).

transnationalization? Second, what accounts for the semi-cyclical pattern of this measure? In other words, are there identifiable processes that are driving the de-globalization and re-globalization of Canadian corporate ownership? This and other questions will be addressed in Chapter 6.

5.10 Summary

So what do we know now? Dominant capital can be approximated by 60 firms. This is a numerically small bloc whose membership is remarkably stable over time. In many respects, this bloc of firms dominates the Canadian equity market and drives the political economy. By some measures, the power of this bloc diminished across the Keynesian era and by others it increased. During the past three decades of neoliberal globalization, however, there seems to be an unambiguous increase in the differential power of capital.

In terms of ownership, the corporate sector remains under the control of a small clique of proprietors whose large equity stakes assure them control over many large firms. In terms of performance, the corporate sector as a whole and dominant capital in particular outperformed global benchmarks during the past decade. And finally, the corporate sector globalized throughout the 1920s, de-globalized from the 1930s to the 1950s and then re-globalized thereafter, reaching a historic high in recent years.

A few questions follow. First, why do the various measures of aggregate concentration increase over time and what accounts for their pattern? Second, are there identifiable processes that can account for the differential performance of dominant capital? More specifically, what role has breadth (amalgamation) and depth (stagflation)

played in the evolution of large firms across the twentieth century? And finally, what processes are driving the globalization of the Canadian corporate sector? These and other questions will be addressed in Chapters 6 through 10.

Mergers and Acquisitions: The Market-Destroying Enhancement of Market Power

Gambling is when you roll the dice; business is when you control the dice.
- Peter Munk, Founder and Chairman of Barrick Gold¹

Exposure to commodities and market exchange is a seemingly inescapable aspect of life in contemporary capitalism. A new historical subject came into being to capture the fact that individuals are perpetually engaged in the purchase of commodities: 'the consumer'. Many Canadians would readily identify as consumers insofar as they regularly engage in the acquisition of goods and services. And while market exchange is a common feature of life in contemporary Canada, there is a type of market exchange which most Canadians do not directly participate in and yet it has played a central role in the development of Canadian capitalism: the market for corporate ownership and control.

The acquisition of corporate organizations through merger or acquisition 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

¹ Barrick Gold is the largest gold mining company in the world. Quoted in Newman (1998: 193).

ordinary sense of the term ‘market exchange’.² Second, commodities are typically acquired for one of two purposes: as inputs in a production process or for direct consumption by the purchaser. The acquisition of a corporate organization, in contrast, is neither directly ‘consumed’ nor is the organization itself used as an ‘input’ in a production process. And third, the acquisition of a corporate organization has an unusual property: it has the potential to eliminate markets as the basis for exchange. Corporate amalgamation is (potentially, at least) a form of market-destroying market exchange. These aspects of corporate amalgamation create something of a puzzle. Exactly what is ‘acquired’ in a merger or acquisition and why would an investor engage in this type of market exchange? Furthermore, what are the long-term consequences of this type of market exchange on the structure and performance of large Canadian-based firms?

Chapter 5 chronicled the postwar evolution of large Canadian-based firms and demonstrated that, by numerous metrics, corporate power increased over the past three decades. Three questions followed. First, how do we account for the secular increase in aggregate concentration? Second, how do we account for the secular increase in the transnationalization of Canadian corporate ownership? And finally, what role has mergers and acquisitions played in fuelling differential accumulation? Provisional answers to these questions will be supplied through an investigation of the history of corporate amalgamation in Canada. Large firms developed historically and if we are to explain their growth we need to understand the role of M&A. In response to the

² ‘Markets’ and ‘market exchange’ may be understood locations in virtual or physical space and time in which owners of property meet prospective buyers of property in order to exchange property. Corporate organizations usually control the production of goods and/or services for the purpose of being sold on a market. Outside of equity and debt markets, we do not normally think of corporate organizations as being produced for sale on a market.

questions outlined above, this chapter will advance three arguments: M&A play a pivotal role in increasing aggregate concentration; M&A contribute to the enlargement of differential earnings; and finally, evidence indicates that M&A are a crucial ingredient in the globalization of Canadian corporate ownership.

The chapter is organized into seven sections. The first section maps the history of green-field investment ('external breadth') as a way of setting the stage for M&A ('internal breadth'). The second reviews some of the qualitative history of M&A domestically and internationally and then uses N&B's tools to unpack the quantitative history of corporate amalgamation in Canada. The third surveys existing studies of M&A and the fourth chronicles the role that M&A have played in transforming and enlarging corporate power. The fifth section uncovers some of the history of cross-border M&A and assesses whether corporate Canada is being 'hollowed out', as some Canadian political economists fear (Arthurs 2000). The sixth section examines the role global amalgamation has played in transforming the foreign ownership of Canadian equities and the seventh closes by providing a synopsis and some corollary questions.

6.1 External Breadth: Green-Field Investment

What role has breadth played in fuelling differential accumulation? Before we can begin to answer this question we need to review how N&B frame the relationship between breadth and differential accumulation. N&B (2009: 327) suggest that capitalization (K) can be expressed as a formula comprised of four 'elementary particles': future earnings

(E), hype (H), a risk coefficient (δ) and what they call a ‘confident normal rate of return’ (r_c). They convey the formula this way:

$$1. \quad K = \frac{E \times H}{r_c \times \delta}$$

Differential capitalization (DK), by implication, is a ratio of the average capitalization of dominant capital (which they denote using the D subscript) and the average of the universe of listed companies (which they express without a subscript). Because the normal rate of return is common to both dominant capital and the universe of listed corporations, they drop it from the equation, thus arriving at:

$$2. \quad DK = \frac{K_D}{K} = \frac{\left(\frac{E_D}{E}\right) \times \left(\frac{H_D}{H}\right)}{\left(\frac{\delta_D}{\delta}\right)}$$

N&B tell us that dominant capital can differentially accumulate through a combination of the following three processes: (1) increasing differential earnings (E_D/E); (2) increasing differential hype (H_D/H); or (3) reducing differential risk (δ_D/δ). It follows, they claim, that in order for us to understand the quantitative expression of dominant capital’s differential performance we need to understand the historical power processes, which are partly qualitative, that propel differential earnings, risk and hype (2009: 327-8).

As they see it, differential earnings are the most potent long-term ingredient of differential capitalization. They express the level of earnings (E) this way:

$$3. \quad E = \textit{employees} \times \frac{E}{\textit{employees}} = \textit{employees} \times \textit{earnings per employee}$$

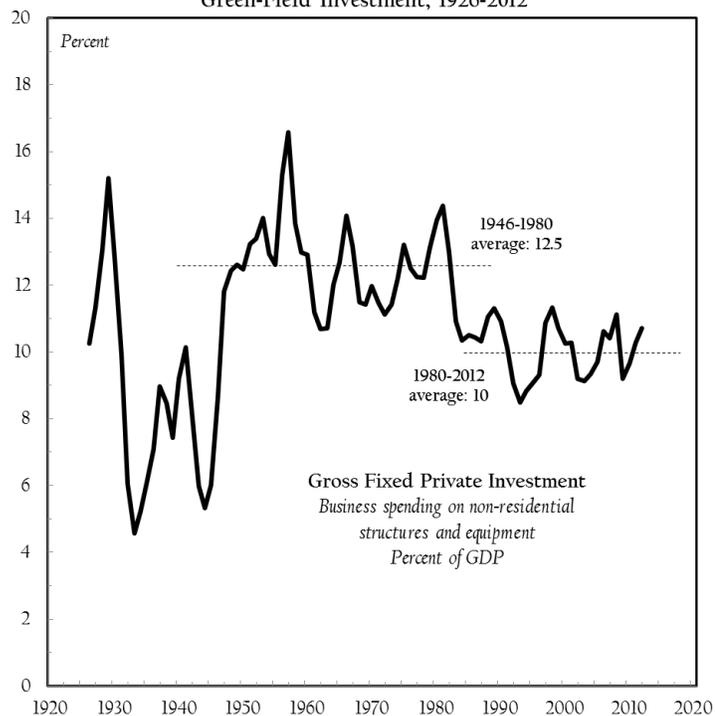
The level of earnings for a given firm is the product of the number of employees multiplied by the average earnings per employee. Through equation (3), N&B claim that a firm can raise its differential earnings by increasing the formal size of the organization (measured as the number of employees) or by deepening the 'elemental power per unit of organization' (measured as earnings per employee). The former process they label 'breadth' and the latter 'depth' (2009: 328). The derivation of breadth and depth out of the constituent parts of capitalization culminates in the assertion that dominant capital firms have two broad pathways open to them in their quest for differential accumulation: (1) increase employment faster than the average; (2) increase earnings per employee faster than the average (2009: 329). Adding 'internal' and 'external' dimensions leads to the classification scheme relayed in Table 2.1 (p. 49).

Green-field investment or 'external breadth' involves proprietors paying to have new capacity built and/or adding net new employment. N&B label it 'external' because, from a societal standpoint, it amounts to a net increase in industrial capacity. They identify two limits to green-field investment: (1) a dominant capital firm is limited by the extent of the waged labour force; (2) the more immediate limit is the downward pressure on prices and earnings per employee resulting from additional capacity. In other words, increasing external breadth poses a threat to depth (2009: 329-30). What does external breadth look like in Canada?

Figure 6.1 portrays green-field investment in Canada from 1926-2012, measured as the dollar value of business spending on non-residential structures, machinery and equipment as a percent of GDP. Green-field investment sharply declined in 1929 and did

not rebound in a significant way until the end of the Second World War. The Canadian Government spent heavily from 1939-1945 to prosecute the war and then radically retrenched its spending after 1945, which may help explain the pattern in that period. Following the Second World War, business sharply increased green-field investment. Despite the heavy cyclicality the first few decades of the postwar era experienced an upward trend in green-field investment, even though the postwar peak was in 1957.

Figure 6.1
Green-Field Investment, 1926-2012



Source: gross fixed private investment from Historical Statistics of Canada, Series F23+24 (1926-1960), Cansim Table 380-0017 (1961-1980) and 384-0038 (1981-2012); nominal GDP from Global Financial Data (1920-1926), Historical Statistics of Canada, Series F13 (1927-1960) and Cansim Table 380-0016 (1961-2012).

Between 1981 and 1993 green-field investment fell dramatically before stabilizing at a lower level. Whereas Canadian business spent roughly 12.5 percent of GDP on the expansion of industrial capacity in the Keynesian era, in the neoliberal era that figure fell

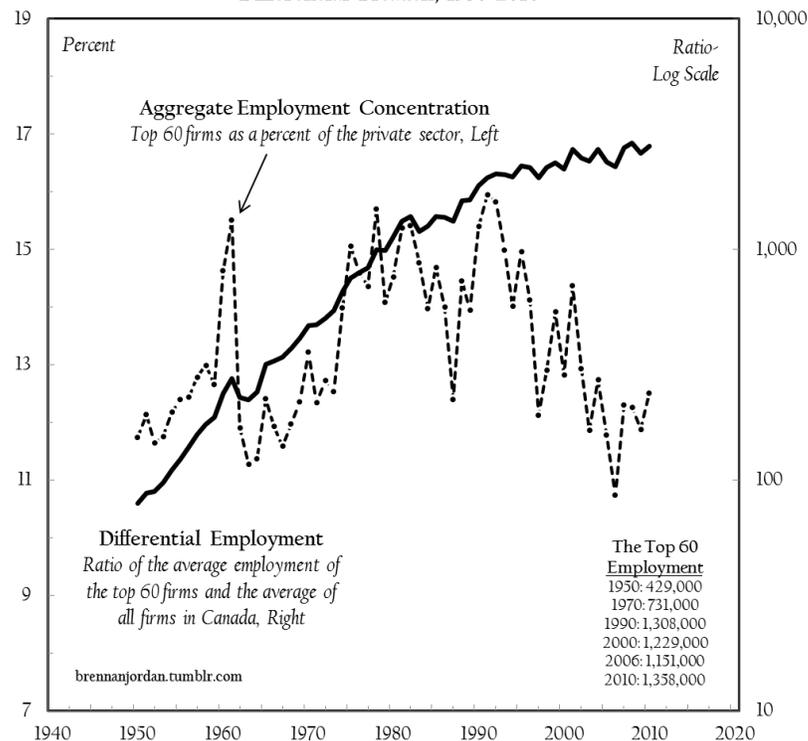
to just 10 percent of GDP. It is also noteworthy that the trade and investment liberalization (TAIL) regime instituted in 1988 did nothing to increase business spending on the expansion of industrial capacity. The cyclical peak reached in 1998 was the lowest peak in the postwar period. At the onset of the 'free trade' era in 1989, green-field investment was 11.3 percent of GDP. In the subsequent period not a single year reached that level. Even the increased exploitation of Western Canada's energy resources (which should have been most evident between 2003 and 2008) did not increase green-field investment. In sum, when we contrast the experience of the Keynesian welfare era (1945-1980) with neoliberal globalization (1980-2012), we see a move from rapid capacity expansion to industrial capacity stagnation.

Moving from external breadth to differential breadth yields the two series in Figure 6.2. The broken line portrays aggregate employment concentration in Canada, measured as the employment of the top 60 firms as a percent of private sector.³ The thick black line captures differential breadth, measured as a ratio of the average employment of the top 60 firms and the average employment of all private sector firms. Aggregate employment concentration varied from year to year, but the secular trend was one of higher concentration between 1950 and 1990 and lower concentration thereafter. In contrast, differential employment climbed rapidly in the four decades after 1950, rising from approximately 80 in 1950 to 2,000 by 1990, but only increased modestly after 1990.

³ Davis and Cobb (2010: 47) find a negative association between employment concentration and income inequality in the U.S. and elsewhere. The correlation between employment concentration and income inequality in the U.S. from 1950-2006 is -0.80, for example. In Canada, the correlation between employment concentration and the 0.1 percent income share from 1950-2010 is -0.62, which lends empirical support to Davis and Cobb's broader argument that employment concentration may reduce inequality.

Inset within Figure 6.2 is a table which suggests why differential breadth slowed in recent years. It lists total employment for the top 60 firms at different points in time, rounded to the nearest thousand. In 1950 the top 60 firms employed approximately 429,000 people, rising to 731,000 in 1970 and topping 1.3 million by 1990. By the year 2000, total employment dropped to 1.2 million and in 2006, just before the crisis, total employment fell to nearly 1.1 million before settling at 1.4 million in 2010.

Figure 6.2
Differential Breadth, 1950-2010



Note: Private sector employment in Canada had to be estimated between 1950 and 1975. For the years 1960-1975, an industrial employment index was used (with rebasing). For the years 1950-1959, the growth rate of total employment was used. **Source:** Common shares outstanding, closing share price and number of employees for the top 60 firms from Compustat through WRDS; total employment and private sector employment in Canada from Cansim Table 282-0012 (1976-2010), industrial employment index from Historical Statistics of Canada, Series D528 (1960-1975).

Treated as a bloc, the largest firms in Canada effectively ceased to expand employment after 1990. The private sector, by contrast, increased employment by one-

third over the same period. The total number of corporations in Canada grew by four-fifths since 1990 (the likely cause being the rise of incorporated 'self-employment'), so the modest increase in differential employment was not driven by changes in the numerator (the average employment of the top 60 firms), but by changes in the denominator (the corporate universe).

Taken together, the facts represented in Figure 6.1 and 6.2 are the beginnings of an answer to the question raised in Chapter 3. Recall that Table 3.1 documented GDP growth in Canada across the postwar era. The decades between 1940 and 1980 witnessed rapid growth while the decades from 1980 through 2010 witnessed slower growth. We wanted to know what accounted for the change in growth between the two periods. The past few decades have seen corporate Canada spend comparatively less on expanding industrial capacity (Figure 6.1). This period also roughly corresponded with the largest firms failing to expand employment, even though differential employment has increased modestly (Figure 6.2). This suggests that the heightened stagnation experienced in Canada in recent decades might be related to the retrenchment of external breadth.

From the standpoint of differential accumulation, we should not expect large firms to continuously increase green-field employment faster than the average. N&B assert that such a strategy would be 'suicidal'. The chief goal, they say, is not to increase the formal size of the organization as such (breadth), but to increase differential earnings (breadth multiplied by depth) (2009: 335). The threat of excess capacity means that expanding breadth externally is not the best path towards differential accumulation. As

they see it, a better route for dominant capital is internal breadth through mergers and acquisitions.

6.2 Internal Breadth: Mergers and Acquisitions

Shifting from external to internal breadth brings us closer to dominant capital and differential accumulation because, as N&B tell us, small and large firms alike expand industrial capacity and increase employment, but corporate amalgamation is a game initiated almost exclusively by large firms (2009: 339). Reviewing the historical backdrop of mergers and acquisitions will help us make sense of the role they have played in fuelling differential accumulation.

The narrative around the development of M&A from the late nineteenth to the early twenty-first centuries is one of a series of ‘waves’. Gaughan (2007) tells us that, using the absolute number of M&A, merger activity was largely confined to the United States till the latter part of the twentieth century, with Europe and other developed societies playing a marginal role. Developing societies only began to participate in M&A activity in a major way in the closing decade of the twentieth century. The absolute number of M&A in Canada is small relative to the U.S., but the pattern in the former closely tracks that of the latter. Accordingly, the history of corporate amalgamation in the U.S. and Canada will be told side-by-side.

The first merger wave in the United States began after the Depression of 1883 and lasted until 1904. The major form that M&A took was horizontal, meaning 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) argues that the drive for monopoly did not go unnoticed by regulators, who drafted the Sherman Antitrust Act in 1890 in an effort to combat the power of trusts.

The first merger wave in Canada began slightly later. Spurts of M&A activity (measured in terms of the absolute number of acquisitions) can be seen in 1889-93, 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 relative size, the scale of the activity was significant (Marchildon 1996: 289, 292). Price-fixing had been legalized in Sir John A. MacDonald’s *Anti-Combines Law* (1889) 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* (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 (1950: 31) because vertical mergers — combinations in the same sector amongst firms that stand in a buyer-seller relationship — predominated. It is thought that the U.S. Congress’s passage of the Clayton Act of

1914, which made it more difficult to merge for monopoly, was one reason why firms chose to expand outside their industries (Gaughan 2007: 38).⁴

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 failures. 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 which characterized it 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 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. Another feature of the fifth wave was the emergence of a developing country-domiciled acquirer, whose size

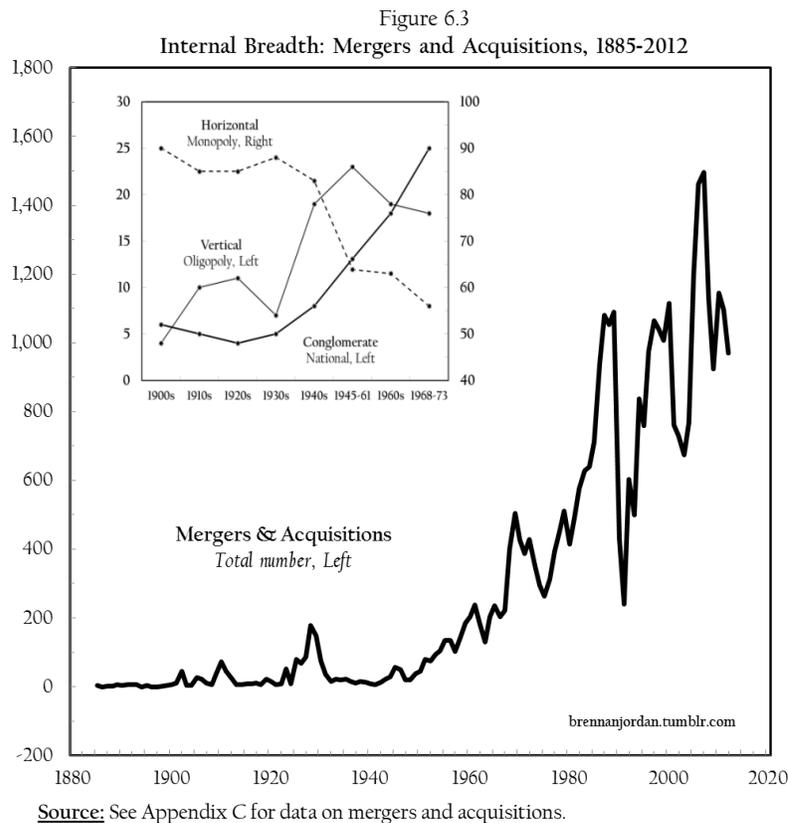
⁴ We will explore N&Bs argument — that firms have approached their envelope of their own industries, sectors and national political economy’s — below.

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 Mulroney Progressive Conservatives 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 U.S. A sixth merger wave began in 2003 and lasted to 2007 and its defining feature, for Canada at any rate, was the absorption 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 materials swept up their rivals.

To the best of the author's knowledge, a continuous data series on mergers and acquisitions does not exist for Canada. Using data drawn from numerous sources, the evolution of M&A activity in Canada is partially captured in Figure 6.3, which portrays the number of M&A from 1885-2012 (see Appendix C for an explanation of the various sources). The peaks of the six merger waves correspond with business cycle peaks and are observable on the chart. The inset figure maps the type of merger from the first decade of the twentieth century through to the 1970s. If the story about M&A that was

recounted above is accurate, then we should expect the following: horizontal (monopoly) combinations should begin as the most common form of merger in the first merger wave (1910); as we proceed to 1929, vertical (oligopolistic) combinations should increase in prevalence and horizontal combinations should diminish; as we proceed to the third merger wave in the late 1960s, conglomerate mergers should become comparatively more important, with horizontal and vertical combinations declining. This is exactly what the inset figure demonstrates.



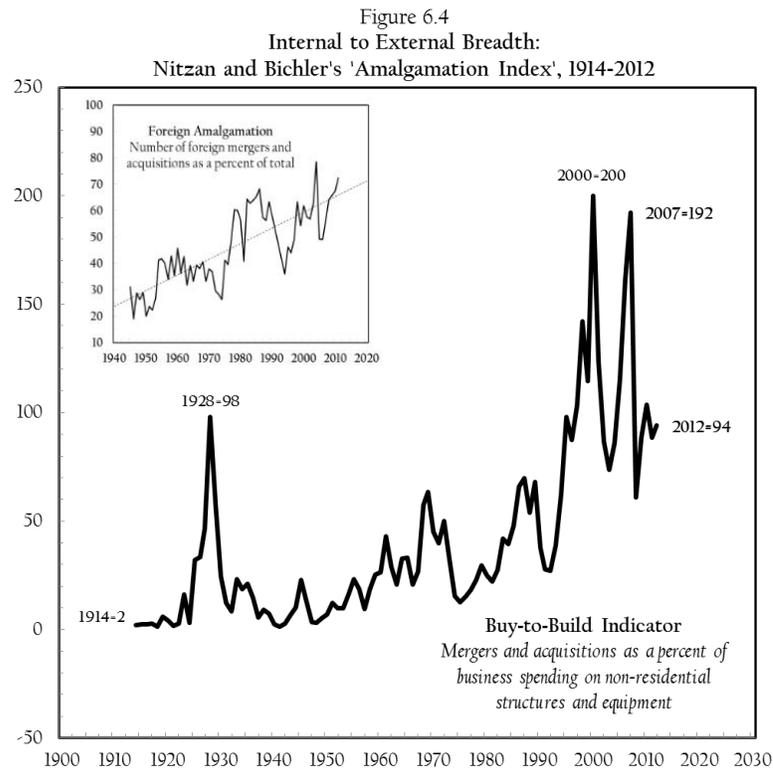
In their discussion of the evolution of M&A, N&B ask why there are M&A cycles in the first place and how these cycles relate to the development of dominant capital. The metaphor they use in discussing the increasing importance of M&A is the need for large

firms to 'break their envelope'. The emergence of large firms coincided with the first merger wave, N&B tell us. Firms expanded within their original industries, eventually arriving at a leading (and often monopolistic) position. At this point, further expansion required that large firms penetrate their *industrial universe*, their 'envelope', and expand outwards across an entire sector. This involved large firms absorbing firms up the supply chain towards extraction and down the supply chain towards the ultimate consumer. The consequence was the formation of vertically-integrated, oligopolistic market structures. Further expansion required that large firms 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 wave'. This line of reasoning leads to N&B's assertion that the inner logic of M&A has within it 'spatial integration' and 'globalization' (2009: 330, 348-9).⁵ This is a testable claim, for it might well be the case that the trend in cross-border amalgamation either stays steady or even declines over time. We will assess this claim below.

Another way of examining the growing importance of M&A is by contrasting it with green-field investment. N&B (2009: 338) plot a 'buy-to-build' indicator which captures the basic calculus open to proprietors: the purchase of existing capacity in the

⁵ Evidence suggests that the fourth and fifth merger booms in the two closing decades of the twentieth century were dominated by horizontal acquisitions, thus leading to renewed industry concentration. Given the logic laid out by N&B, it seems reasonable to suppose that the movement towards cross-border M&A would begin with firms acquiring foreign rivals within their core industries (see Pryor 2001).

form of M&A or the payment to have it built anew. This ratio depicts the relationship between internal and external breadth and it is plotted for Canada in Figure 6.4.



Note: data on non-residential structures 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 C for data on mergers and acquisitions; gross fixed private investment from Historical Statistics of Canada, Series F23+24 (1926-1960), Cansim Table 380-0017 (1961-1980) and 384-0038 (1981-2012).

There are three things worth noting. First, the series more clearly demonstrates the wave-like pattern of M&A over the past century. The second, third, fourth, fifth and sixth merger waves are more clearly discernible in Figure 6.4 than they are in Figure 6.3. The second feature to note is the increasing importance of M&A relative to green-field growth. In the three-quarters of a century from 1914-1988, for every dollar spent on building new capacity, 23 cents was spent on M&A (on average). In the quarter century since 1988, every dollar spent on expanding capacity has seen (on average) 93 cents spent

on M&A — a four-fold increase. Third, the inset figure shows the proportion of total M&A (measured by the total number) accounted for by cross-border M&A. The data spans 1945-2012 and clearly demonstrates the accelerated globalization of corporation amalgamation. It, too, demonstrates a wave-like pattern with each successive peak reaching a higher degree of internationalization. So N&B's assertion that M&A should show a tendency for 'spatial integration' and 'globalization' survives refutation, at least in the Canadian context.

The history of green-field investment and M&A in Canada is interesting in its own right, but what we are really after is the developmental tendencies of the largest firms in Canada, which means that we should wish to know what bearing these processes have on the institutional and organizational structure of the political economy. In the next section we will take on some of the theories offered to explain M&A. We will then be prepared to examine the role breadth has played in restructuring the corporate sector.

6.3 Amalgamation: A Black Box in Political Economy?

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, an intended effect, will be either incoherent or meaningless unless it is logically tied to an underlying cause or core motivation. Though seemingly straightforward, the identification of motivational energy and post-merger consequences is not easy. Consider the difficulties surrounding motivation. What counts as a valid

motive and how can we discover what it is? After all, motivation is not a physical fact; it is metaphysical and thus has the potential to be unknown even to the person who manifests it. Will the motivation be the same in all cases and across all individuals or will there be variation? What happens if there are multiple motivations at play? How do we determine which are central and which are peripheral?

In terms of post-merger outcomes, what are the relevant measures? Should we look at stock prices, accounting data or industrial measures? Do we look at the impact of a merger on the participating firms in isolation or do we extend the scope to include the industry, sector or the entire market structure? And what is the relevant time horizon? Do the first few days or months after a merger announcement suffice or should we elongate the time horizon to include years or even decades? Researchers have answered these questions differently, and as a consequence, there does not appear to be much in the way of a consensus on M&A, hence the black box analogy.

One of the most extensive studies ever conducted on M&A in Canada was the *Report of Royal Commission on Corporate Concentration* (known as *The Bryce Report*, 1978). In terms of uncovering M&A motives, the *Bryce Report* relied upon evidence captured in surveys from the owners of merged firms. The authors begin with an important admission: 'we should not expect to find pursuit of enhanced market power cited in the public record as a merger motive', a seemingly safe presumption (1978: 148). Condensing their rather long elaboration, the list of merger motives includes: (1) an 'attractive investment' at a 'reasonable price'; (2) efficiency and economies of scale; (3) obtaining access to a lucrative market, a reliable source of supply or the improvement of product

quality; (4) the 'rationalization' of an industry; (5) the desire to enter an industry or expand within it without 'creating excess capacity' or 'upsetting the price structure'; (6) tax exemptions; and (7) the desire by 'dynamic men' to 'create a corporate empire' (1978: 150-3).

The list is deeply revelatory.⁶ The first motive, an 'attractive investment', is a tautology. It doesn't explain why an investment is 'attractive' and what makes for a 'reasonable price'. The second motive, increased efficiency, sounds desirable. However, efficiency is much more difficult concept to sort out than mainstream economists assume. After all, we might ask: efficiency *for whom* and *in what way* and *how measured*? The third motive, enhanced product quality, cannot be directly tied to mergers in the first place insofar as a merger is a legal combination of business units, not the synchronization of industrial processes.

Motives four through seven all hinge on business actions to deepen the distribution and so, in capital as power terms, boost differential accumulation. The fourth motive, the 'rationalization' of an industry, is business jargon for the restriction of productive capacity and diminishment of industrial serviceability. Plant and equipment will be left idle and workers will be separated from their work (i.e., fired). Fifth, the desire to expand into an industry without changing the price structure speaks wholly to the desire to redirect income streams while maintaining or deepening earnings margins. Tax exemption, the sixth motive, is also about distribution, but in this case it centres on

⁶ Brander (1988: 113-4) argues that just because there are private gains flowing from M&A activity, it does not follow that the public interest is being served. Many who have authored studies on M&A in Canada appear to hold the opposite assumption, namely that if a merger benefits shareholders it is automatically beneficial to other stakeholders or to society at large. *A priori* assumptions about the automatic beneficence of M&A will not be made in this study.

redistributing the tax burden. In the seventh and final motive, corporate empire, the allusion to power is unmistakable and does not require elaboration.

Long as the *Bryce Report* list of merger motives is, it is not complete. Growth is the most common motive cited but feeding out of growth are the twin concepts 'operating synergies' and 'financial synergies'. Operating synergies refer to enlarged revenues or diminished costs (economies of scale or scope) while financial synergies usually come from a reduction in the cost of capital (Gaughan 2007: 117, 124-5). Knuble, Krause and Sadeque (1991) cite geographic and product line expansion, favourable regulations and cheaper inputs as overarching motives. Baldwin, Beckstead, Gellatly and Peters (2000) find that M&A activity is motivated by diversification strategies. They argue that large firms which operate in saturated industries have a basic choice available to them: they can absorb competitors up the production chain or down the distribution chain with a view to enhanced efficiency (through cost containment).⁷ The second choice is to acquire firms in unrelated sectors in order to diversify, and in so doing, reduce risk (by insulating themselves from 'demand shocks', for example). Besides cost-cutting and risk reduction, another motive includes the acquisition of a strategic asset such as research and development capabilities, patents, trademarks, etc. The ultimate motivator, for these researchers, appears to be the maximization of shareholder value.⁸

Shifting from merger motives to outcomes, the literature on M&A in Canada, Brander (1988: III) argues, reveals two broad positions: those who viewed M&A activity

⁷ Caves (1987) and Scherer (1988a) question whether amalgamation leads to enhanced efficiency.

⁸ The view advanced by Baldwin *et al.* (2000) is consistent with arguments advanced by Penrose (1959) and Marris (1964) who assert that firms diversify through M&A in order to grow.

favourably argue that Canadian firms need to grow larger if they are to compete in global markets, while their opponents tended to see M&A as creating corporate leviathans that 'wield enormous power' and 'dominate the economy'. Studies on post-merger performance in Canada document mixed results. Baldwin and Gorecki (1987), Baldwin and Caves (1992) and Baldwin (1995) find that takeovers have a positive impact on the combined firm in terms of market share, productivity and profitability. Jog and Riding (1988) and Tarasofsky and Corvari (1991) find that approximately an equal number of M&A succeed or fail. Financial event studies, like those performed by Eckbo (1986; 1988) and Eckbo and Thorburn (2000) posit that takeovers increase stock prices and fetch significant positive average announcement returns for shareholders. André, Kooli and L'Her (2004) use a longer time frame for their event study and find just the opposite, namely that Canadian acquirers significantly underperform. Amplifying the diversity of results, Ben-Amar and André (2006) argue that Canadian shareholders obtain abnormally high returns at the date of announcement relative to results in the U.S.

Eckbo (1988: 206) summarizes a common viewpoint among merger studies in Canada by arguing that M&A promote the 'efficient allocation of corporate resources', which he conceives to be a socially useful function. M&A not only lower the 'transaction costs' of corporate resource reallocation, he states, but they also discipline managers who might not pursue shareholder wealth maximization strategies, thus helping explain why the (purported) separation of ownership from control has endured as a corporate form (1986: 258).

Outside Canada, Scherer (1988b) finds that much of the M&A activity of the 1960s and 1970s was later reversed. And while stock prices might have risen at the time of announcement, he notes, pre-merger targets usually performed better in relation to their post-merger form. Agrawal and Mandelker (1992) document negative and significant abnormal results, Loderer and Martin (1992) find negative but insignificant abnormal returns in the post-merger years and Gugler, Mueller Yortoglu and Zulehner (2003) find a post cross-border acquisition decrease in the market value of acquiring firms.

Within mainstream thought, the research on M&A filters into two broad approaches. The approaches are distinguished primarily by what they seek to explain and the methodology they use to arrive at answers.⁹ The financial approach looks at M&A as a market for corporate control that shifts business assets towards those who will most efficiently and profitably employ them. Mergers are evaluated favourably if share prices rise after a merger announcement relative to a reference group (so called 'financial event studies'). The assumption is that financial markets will judge, through pre- and post-merger share prices, whether the merger is likely to enhance efficiency and profitability, thus raising the overall market value of a firm.

The industrial organization approach examines the long-term performance of mergers, usually using profitability or other accounting data as a barometer of merger success. This approach concedes that efficiency may play a role in terms of motives and

⁹ The following overview of the approaches and theories is adapted from Khemani (1991: 2-4) and Mcdougall (1995: 1-4).

consequences, but the drive for monopoly and market power are also taken as important merger motives and post-merger consequences.¹⁰

There have been comparatively few Marxist analyses of M&A in Canada. The studies that have been performed tend to take as their point of departure the work of Baran and Sweezy (1966), among others. Clement, for example, sees heightened concentration as an inevitable outcome of the historical development of capitalism (1975: 31). The amalgamation process, he explains, creates fewer and larger corporate units and culminates in the creation of a 'monopoly sector' that replaces competitive markets with increasingly centralized planning (1977a: 132-5). Carroll and Klassen view M&A as feeding the accumulation process, first by centralizing capital into fewer units and then by concentrating it (2010: 10). Veltmeyer explains how concentration unfolds (1987: 27). Larger firms have higher rates of profit on average, thus enabling them to grow faster through 'internal accumulation', i.e., by ploughing their enlarged earnings into expansion. In the Marxist analysis, then, M&A contribute directly to heightened concentration through the absorption of other firms and indirectly by increasing firm size, enlarging the rate of profit and enabling firms to grow through internal accumulation.

¹⁰ These two broad approaches have spawned three theories: internalization theory, technological competence theory and transaction cost theory. Internalization theory presupposes that profitable firms possess intangible assets that make them desirable takeover targets. These intangible assets are hard to acquire because of barriers to entry, high transaction costs, etc., thus making M&A the least onerous route for obtaining them. This theory is usually used to explain horizontal mergers. Closely related to internalization theory is the technological competence theory, which emphasizes the growing importance of 'technological assets'. These technological assets can be parsed according to whether the knowledge they embody can be codified (i.e., recorded as information that others can easily use) or cannot be codified (specific learned abilities that are not easy to replicate, practical knowledge, etc.). The latter are thought to be of supreme importance in terms of business performance, thus inducing firms to try to acquire it through M&A. Transaction cost theory is predicated on the notion that coordination problems exist within particular markets and that firms respond by replacing market transactions between firms with intra-firm transfers (Williamson 1975). According to this theory, individual firms participate in M&A to cut costs and enlarge profits. From a societal standpoint, M&A are thought to enhance total efficiency.

To summarize, scholars working within the financial approach view M&A activity through the prism of enhanced efficiency and wealth maximization. Amalgamation motivations are thought to derive from profit maximization, which grows out of the utility maximizing calculus of rational agents. The financial approach ignores power as a motivating factor and the amassment of power as an institutional outcome. The industrial organization approach assumes that firms are motivated by profit maximization, thus inducing efforts to enhance efficiency. However, it also makes room for 'market power' in its explanations (see Khemani 1988: 31-33, for example). Despite this, scholars using the industrial organization approach have not detailed exactly how M&A fuel the growth of corporate power. It is presupposed that M&A are part of the drive for monopoly and increased market power, but existing studies have not empirically documented this assertion. Finally, Marxists have typically seen M&A as concentrating and centralizing capital, and thus indirectly incorporate power into the explanatory picture. However, their studies suffer from similar shortcomings insofar as they do not empirically document the linkages between amalgamation and power. So what is the relationship between M&A and power?

6.4 Amalgamation and Power

The *Bryce Report* (1978: 156) asserts that there is no long-term relationship between M&A activity and corporate concentration in Canada.¹¹ Eckbo (1983) claims that, as far as the

¹¹ This conclusion was challenged by Stanbury and Waverman (1979). The *Bryce Report* also invited criticism from Radwanski (1979) and Clement (1979) for wholly embracing a business standpoint in assessing the relationship between corporate power and Canadian society.

Canadian evidence goes, enhanced market power neither serves as a merger motive nor as a post-merger consequence. Instead, he claims that post-merger gains are the result of enhanced efficiency. Eckbo (1985) also asserts that the evidence for mergers in the U.S. does not support the market power hypothesis. Gaughan (2007: 149) summarizes: there is little evidence that firms are motivated to merge to increase monopoly power. It is time to test these claims against the historical evidence in Canada.

The first question is whether there is a relationship between relative firm size (the institutional-organizational structure of the corporate sector) and profitability (pricing-distributive power). Lafrance (2012) finds that medium-sized firms are more profitable than both large and small firms. In Canada, the relationship between performance and size, she says, takes an inverted U-shape: as firms increase in size they become more profitable, but beyond a certain point increased size is associated with lower profitability. Firms with 5 to 20 employees tend to be more profitable than their larger counterparts, thus indicating a non-linear relationship between size and profitability. The difficulty with Lafrance's study is the selection of measures. She classifies firm size according to the number of employees and measures profitability through return on assets (ROA), tabulated as earnings before interest and taxes divided by total assets. Given Lafrance's suppositions about measurement, it is indeed puzzling that larger firms have lower profitability than do medium-sized firms. However, the puzzle is more apparent than real.

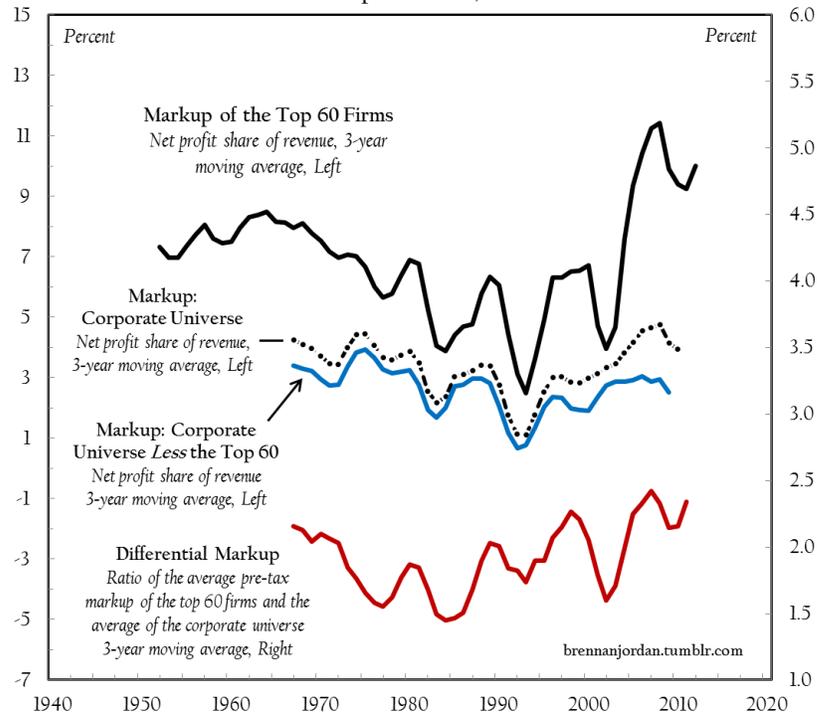
Borrowing tools from N&B's toolkit allows us to construct a markedly different picture. First, N&B classify firm size according to equity market value. The advantage

with this classification scheme is that it embraces the vantage point of investors, whose perception of the flow of future earnings (and thus the present value of listed firms) shapes political-economic development. Second, in place of ROA, N&B (2009: 50-1) build upon Kalecki's 'degree of monopoly', which they measure using the markup — the percent of profit in sales revenue — and which is understood in this context to be a quantitative proxy for market power. Kalecki devised the concept to capture price-formation within semi-monopolistic settings. Among the numerous factors influencing the degree of monopoly, Kalecki (1943a: 49-50) tells us, are the 'process of concentration' and subsequent 'formation of giant corporations'.¹² The percent of profit in sales is a more appropriate metric in this instance because it contrasts two flows, whereas Lafrance's use of earnings against assets contrasts a flow with a stock.

Figure 6.5 depicts four series: the upper part of the figure contains the net markup for the top 60 firms, the corporate universe as a whole and the corporate universe *less* the top 60 firms. The differential (gross) markup of the top 60 firms is in the bottom portion of the figure. Net markups are included because they capture the impact of taxation and the ability of firms, especially large firms, to avoid taxation. Differential gross markups are also included to capture the more straightforward differences between large and small firms in terms of pre-tax earnings margins.

¹² Other factors affecting the degree of monopoly include the power of trade unions, which will be examined in Chapter 8 and 10. Kalecki (1938: 65) asserts that the degree of monopoly also has a bearing on the distribution of income amongst classes, a claim we will also examine in Chapter 8 and 9.

Figure 6.5
The Markup in Canada, 1952-2012



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; Cansim Tables 380-0029 and 180-0001, 180-0002 and 180-0003 for net corporate profit and total corporate revenue, respectively.

A few things warrant our attention. First, despite heavy cyclicity, the long-term pattern is V-shaped for the top 60 firms and for the corporate universe. Both series trended downward till the early 1990s, trended upward thereafter and reached historic highs in 2007-08. Second, the overall pattern changes when we remove the top 60 firms from the corporate universe.¹³ The reason for including the non-dominant capital corporate universe is to discern what impact, if any, the top 60 firms has on the average markup of the corporate universe. The impact is considerable. Instead of reaching a

¹³ The correlation coefficient for the markup of the top 60 and the corporate universe is 0.81 between 1967 and 2010. The correlation for the top 60 and the non-dominant capital corporate universe falls to 0.47 over the same period (all series smoothed as three year moving averages).

historic high in 2007-08, the non-dominant capital corporate universe reached a series high in 1975. The overall trend from the 1960s onward was downward for this group. Third, the markup of the top 60 firms is higher than for the corporate universe, which is suggestive of linkages between size and power. Despite the cyclicity and the difference in respective levels, the data suggest that the dominant capital markup reached half-century highs in recent years. Fourth and finally, the differential markup trended downward from the mid-1960s through the mid-1980s and trended upward thereafter, which bolsters the claim about heightened power at the top of the corporate dominance hierarchy in recent times.

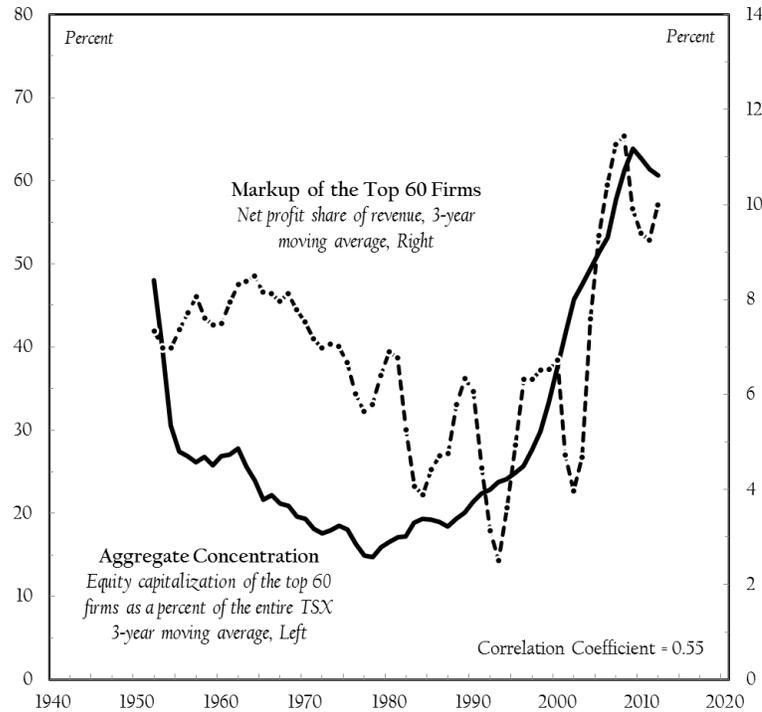
As reviewed in Chapter 4, Means (1935) connected concentration and prices in a way which indicated that the existence of larger corporate units leads to 'non-classical' price formation or 'administered prices'. Kalecki also connected the existence of larger corporate units with differences in price formation. 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 (see Bowring 1986, for example). As reviewed in Chapter 5, numerous schools of thought understand aggregate concentration to be a proxy for corporate power. The question to be addressed is: do increases (decreases) in the level of aggregate concentration bear any relationship to increases (decreases) in the markup of the largest firms in Canada? In other words, there is a linear relationship between the relative position of the largest firms and the extent of their market power.

Figure 6.6 begins to answer this question by presenting two series. The thick black line measures the aggregate concentration of equity capitalization and the thin broken line measures the markup of the top 60 firms. The former may be understood as a proxy for the institutional-organizational structure of the corporate sector and the latter for the market power of the largest firms. The two series are positively correlated over the long term. Aggregate concentration declined from the early 1950s to the late 1970s and climbed thereafter. The markup trended downward till the early 1990s and rose thereafter. As large firms took up more 'market space' in recent decades, their market power increased. Concentration and the markup reached historic highs in recent years, indicating that relative size is closely associated with market power. Lafrance's argument about the non-linearity of size and profitability is invalidated when we measure size through capitalization and when we benchmark profitability against revenue.

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 far more difficult to uncover. In the language of classical and neoclassical economics, 'perfect competition' is a condition in which 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.¹⁴

Figure 6.6
Corporate Concentration and Market Power, 1952-2012



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 from Global Financial Data, TSX Review, e-Review and Factbook.

Blair argues 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 continues, as dominant proprietors and executives openly or tacitly agree that firms should avoid the

¹⁴ See Means (1972b) for an elaboration. See Bowring (1986) for a discussion of the dual economy and the resulting differences in competitive behaviour, performance and market power.

disruptions associated with 'price competition' and aim, instead, at a healthy 'target profit rate' (1972: 60-61).

Olson explains some of the mechanics (and impediments) that individuals and institutions face in organizing for collective action through the building of coalitions.

The larger the number of individuals or firms that would benefit from a collective good, the smaller the share of the gains from action in the group interest that will accrue to the individual or firm that undertakes the action... the incentive for group action diminishes as group size increases, so that large groups are less able to act in their common interest than small ones (1982: 31).

The numeric scale of groups like (non-unionized) workers, taxpayers and consumers makes it difficult to organize for collective action. The incentives, Olson explains, are not strong enough to pull such groups together. One reason for this is that the services provided by such coalitions are often distributed to every member of the coalition equally, and among broad coalitions, this makes the 'per unit' benefit small. What's more, the cost of organizing such coalitions may be large, which acts as an additional impediment to collective action.

The opposite logic is at play with small groups like dominant capital firms (operating in oligopolistic markets). In the context of the coordinating activities between large firms — activities that would include setting market prices, containing the rate of industrial expansion or lobbying — because they are few in number, the organizational burden is much smaller. What's more, such firms stand to disproportionately benefit from collective action. Smaller groups, Olson asserts, possess disproportionate 'organizational power' or 'cartelistic power per capita' (1982: 41). It is imperative to note that the activities of such coalitions will tend to benefit coalition members, even though said activities may reduce total societal efficiency or hamper the

growth of aggregate income. These negative effects arising from coalitional behaviour will be felt more strongly by non-coalitions members, i.e., by society at large.

This line of reasoning helps explain why shifts in the relative position of the largest firms in Canada (measured through aggregate concentration) are linked with the changes in the markup of the largest firms. Though qualitative in character and somewhat messy, we should presume that the reduction of competitive pressures resulting from oligopolistic market structures can unfold in any number of ways. The point is that the *qualitative* collusion and cooperation among large firms has *quantitative* manifestations. This line of reasoning may also prove useful in subsequent chapters, notably Chapter 7, which chronicles the concurrent rise of large firms amidst the deceleration of GDP growth, and in Chapters 9 and 10, which explore the distribution of income.

Let's illustrate this thinking with an example. Potash Corporations' activities around capacity utilization and the profit-pricing structure (detailed in Chapter 2) is but one instance indicating that collusion and tacit agreement unfolds even in the context of globalized markets. Recall that Potash Corporation 'slashed production' to 'protect prices' because their 'strategy' was premised on the belief that 'price is much more important than volume'. This activity led it to be designated the 'industry disciplinarian' (Bouw 2012). In this instance, clandestine collusion was not even necessary; an open agreement amongst the global players was in place to hedge against the threat of higher inventories and the associated reduction in prices and profit margins. In the language of Veblen, industry is subordinate to business in this market. In the language of Olson, the

'selective incentives' were in place to entice the major players to cooperate (1982: 29). And from the standpoint of N&B's framework, this has plenty to do with power.

Recall: at the end of Chapter 5 we asked what accounts for the cyclical pattern and secular increase in aggregate concentration over the postwar period. Figure 6.6 establishes a link between concentration and market power, thus heightening the importance of finding a satisfactory answer to the question. We are now prepared to address the question: does amalgamation fuel concentration? Figure 6.7 contrasts the buy-to-build indicator, measured as mergers and acquisitions as a percent of business spending on fixed assets, with the concentration of corporate assets, measured as the total assets held by the top 60 firms as a percent of the Canadian corporate universe. The two series are tightly and positively correlated over half a century, which supports the contention that amalgamation fuels concentration.

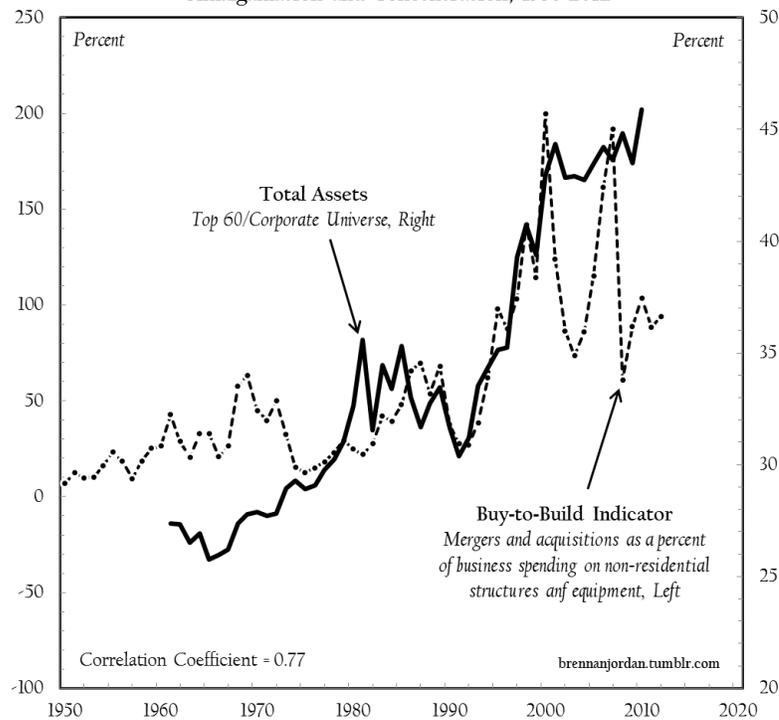
The amalgamation index appears more cyclical than asset concentration, which makes sense when we consider that each amalgamation wave serves to concentrate corporate assets. However, when the wave subsides firms (more often than not) do not divest themselves of their newly acquired assets.¹⁵ Thus, while amalgamation is wave-like in its pattern its consequences for concentration tend to be cumulative.¹⁶ Asset concentration increased from the mid-1960s through the early 1980s in tandem with the conglomerate merger wave before declining for a decade. In the 1990s the overall level of

¹⁵ This is partially explained by the fact that we are comparing a flow with a stock.

¹⁶ Khemani (1988: 19, 31-33) notes that Canada's level of aggregate concentration is high and has increased over time. Furthermore, he cites empirical research which documents a positive relationship between the level of aggregate concentration and firm profitability, which is suggestive of links between takeover activity, high levels of concentration and increased market power. Potential spillover effects, he says, include higher levels of wealth and income inequality. The findings documented in this and later chapters support Khemani's assertions.

asset concentration rose by one-half, fuelled in part by the largest merger wave in Canadian history. These findings are in contrast to the *Bryce Report*, which did not find a relationship between M&A activity and corporate concentration. It is also in sharp contrast to the scholars reviewed in the previous section who argue that the pursuit and attainment of enhanced power is neither a merger motive nor a post-merger consequence.

Figure 6.7
Amalgamation and 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. **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; 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 C for data on mergers and acquisitions.

But the relationship between amalgamation and power has other dimensions as well. Consider what N&B say about the relationship between differential earnings, on

the one hand, and breadth and depth, on the other (2009: 329). The differential earnings of dominant capital, they say, can be portrayed through the following equation:

$$4. \frac{E_D}{E} = \left(\frac{\text{employees}_D}{\text{employees}} \right) \times \left(\frac{\text{earnings per employee}_D}{\text{earnings per employee}} \right)$$

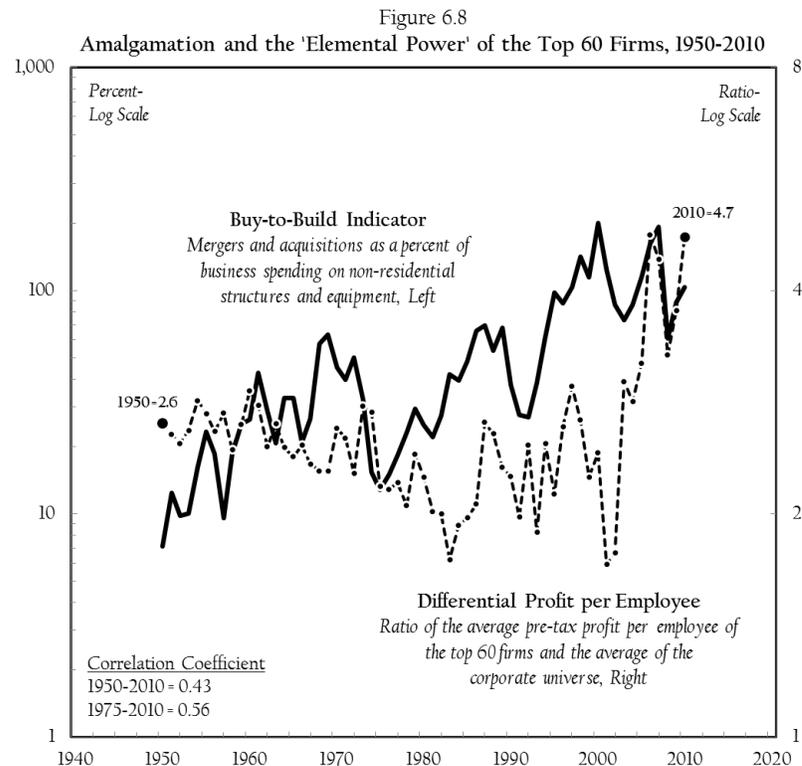
Where (E) denotes the level of earnings, the subscript D refers to a dominant capital firm and the absence of a subscript refers to the average. Differential earnings can be boosted by increasing employment faster than the average (breadth) or by increasing earnings per employee faster than the average (depth). The latter, they say, captures the ‘elemental power per unit of organization’ and speaks to the ability of dominant proprietors to project their indirect power across society as a whole. They summarize:

Seen from a differential-accumulation perspective, amalgamation is a power process whose goal is to beat the average and redistribute control. Its main appeal to capitalists is that it contributes directly to differential breadth, yet without undermining and sometimes boosting the potential for differential depth (2009: 346).

Let’s put this claim to the test. We have discovered that aggregate asset concentration has increased in Canada over the past half century and that this process unfolds side-by-side the increasing markup of large firms. We have also demonstrated that concentration moves in tandem with amalgamation waves. So are N&B correct in asserting that M&A also serve to protect and possibly deepen differential depth?

Figure 6.8 maps two series. The buy-to-build indicator is plotted next to N&B’s measure of differential depth, the latter computed as a ratio of the average profit per employee of the top 60 firms to the private sector. In 1950 the average profit per employee of a firm in the top 60 was 2.6 times that of an average firm in the business sector. By 2010 that ratio increased to 4.7. This implies that, as of 2010, the ‘elemental power’ of

dominant capital was nearly five times what it was in the business sector — nearly twice the level in 1950. The statistical strength of the association is weak, but it grows stronger over time.



Note: Private sector employment in Canada had to be estimated from 1950-1975. For the years 1960-1975, an industrial employment index was used (with rebasing). For the years 1950-1959, total employment was used (with rebasing). **Source:** See Appendix C 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 (1981-2010); differential profit per employee for the top 60 firms from Canadian Financial Markets Research Centre and Compustat through WRDS for common shares outstanding, closing share price, pre-tax profit and total employees; 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 (1961-2010); total employment and private sector employment in Canada from Cansim Table 282-0012 (1976-2010), industrial employment index from Historical Statistics of Canada, Series D528 (1960-1975).

The positive correlation between the two series suggests that N&B's assertion holds in the Canadian context. However, the fact that the two series move together, not inversely, might interrupt another of N&B's assertions, namely that breadth and depth

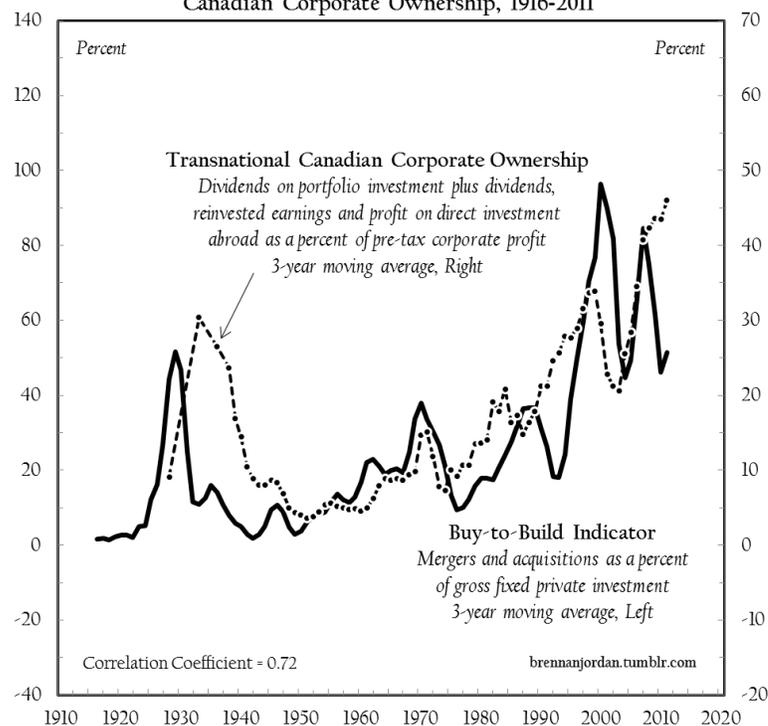
tend to move inversely to each other. Figure 6.8 suggests this is not so.¹⁷ As merger waves contribute to heightened concentration, it appears that the profit per employee of large firms increases. Recall the end of Chapter 5, which asked how we can account for the globalization of Canadian corporate ownership across the past century given the pattern it takes in Figure 5.13. N&B hypothesize (2009: 332, proposition 5) 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 breadth?

According to Figure 6.9, the answer is ‘yes’. The thick black line portrays N&B’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. Recall the inset chart in Figure 6.4, which showed that cross-border acquisitions have become more prevalent in the decades since 1945. This is consistent with N&B’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 these two decades, reaching a historic high.

¹⁷ This assertion is qualified by the fact that Figure 6.8 contrasts the *regime* of breadth (M&A) with a *measure* of depth (profit per employee), which do not necessarily belong in the same analytical category.

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. However, from Figure 6.4 we know that the level of foreign acquisitions relative to domestic acquisitions steadily increased since 1945. But why would foreign income decline relative to domestic income after the merger wave subsides?

Figure 6.9
Amalgamation and the Globalization of
Canadian Corporate Ownership, 1916-2011



Note: Data on corporate transnationality interpolated between 1928, 1933, 1936 and 1938 (continuous thereafter). **Source:** See Appendix C 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 (1981-2011); 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 (1961-2011).

Each of the major merger waves in Canada was followed by a deep recession (1929, 1973-74, 1981, 1990 and 2000-01) and it is possible that large Canadian firms that built up their foreign assets during the merger wave divested themselves of a portion of those foreign 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). But it wouldn't make sense to acquire foreign assets during the boom only to *fully* divest in the bust, so the long-term consequences of foreign acquisitions tend to be a rise in foreign income relative to domestic income.

Let's review the progression laid out in this section. Large firms have greater market power than their rivals in the corporate universe (Figure 6.5) and this power is closely tied to the concentration of equity market capitalization (Figure 6.6). Amalgamation seems to be a factor in the concentration of corporate assets (Figure 6.7). Amalgamation has also contributed to the deepening of differential depth (Figure 6.8) and helps explain what is driving the globalization of Canadian corporate ownership (Figure 6.9).

Recall that one of N&B's key claims (2009: 332, proposition 8) is that the process of differential accumulation is driven over the long-term by M&A. The research presented here supports their contention for Canada. Some questions follow. What impact has international investment in general, and cross-border amalgamation in particular, had on transforming the structure of Canadian corporate ownership? Has the global amalgamation drive of the past few decades led to the 'hollowing out' of corporate Canada, as some scholars (Arthurs 2000, for example) fear?

6.5 Is Corporate Canada Being ‘Hollowed Out’?

In Chapter 4 we reviewed how some scholars understood the role of multinational corporations and foreign investment in international affairs. On one end of the spectrum we find the liberal internationalism of Vernon (1971), who would have us believe that the expansion of multinational corporations abroad through foreign direct investment (FDI) is a progressive process insofar as it serves to enhance national prosperity and promote global efficiency. On the other end of the spectrum we find the Marxian-inspired stance of Hymer (1979), who asserts that developing societies that play host to large flows of FDI from the developed world lose their ability to steer domestic development and thus sacrifice a portion of their national autonomy. In Canada, most of the research on foreign investment and cross-border M&A has tended toward the liberal internationalist end of the spectrum, albeit with a few notable exceptions.

In terms of background facts on foreign investment, Statistics Canada (2010: 69) reports that there are roughly 2,000 Canadian-based multinationals, which means that approximately 0.1 percent of Canadian firms participate in international investment (calculation based on author’s archives).¹⁸ The 100 largest Canadian multinationals, they tell us, account for 80 percent of the total direct investment abroad — a figure which brings us very close to our proxy for dominant capital (the top 60 firms). So the process of international investment amongst Canadian firms is highly concentrated. At present,

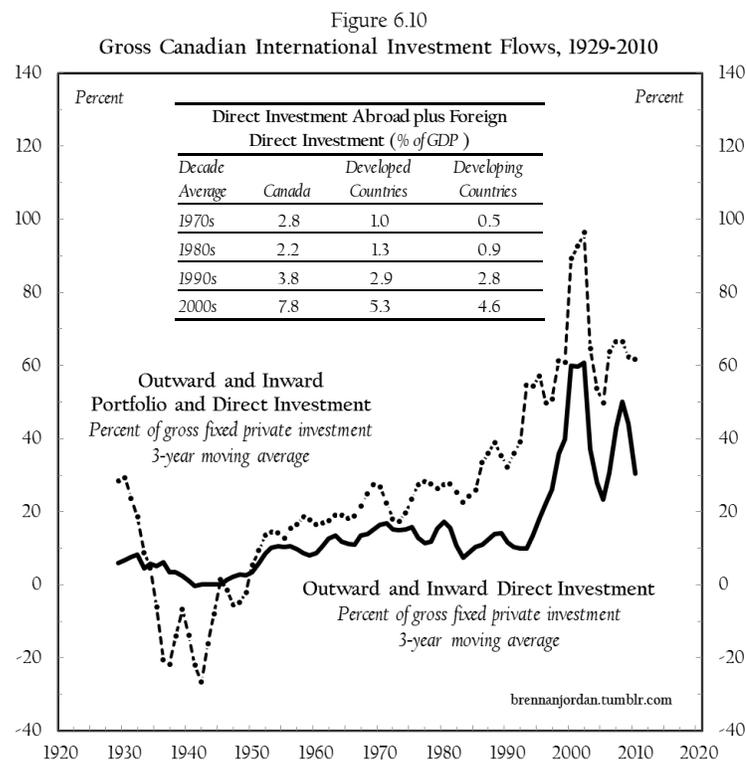
¹⁸ The motivations for FDI are very similar to those for M&A, so we need not duplicate our efforts in this respect. Globerman (1994: 3-4) provides a list of FDI motives, which can be parsed and condensed as follows: (1) pursuit of higher revenues or lower costs, (2) enhanced ability to reach and service customers, (3) increased market power and (4) risk reduction. Statistics Canada defines a multinational corporation as a firm that engages in foreign direct investment and owns or controls ‘value-adding’ activities in more than one country (see Baldwin and Gellatly 2007: 14).

there are approximately 70,000 multinational corporations around the world — a four-fold increase since 1990 and these firms make up one-third of global trade, most of it intra-firm.¹⁹

In developed countries, 85 percent of FDI inflows are made up of M&A (in 2006). This is in stark contrast to developing societies, where only one-third of FDI takes the form of M&A. In terms of inward and outward FDI for Canada, the U.S. is both the top destination and the top source. The U.K. comes in at a distant second followed by European countries (Rao, Souare and Wang 2009: 1-4). In terms of the industrial location of inward FDI, Baldwin and Gellatly (2005) claim that the sectoral mix has stayed relatively stable over the three decades between 1961 and 1991. For the 1990s, the large inflow of FDI was concentrated in those sectors that already displayed high degrees of foreign control, Taylor (2001) reports. Likewise, Chow (1997) and Marth (2004) indicate that most foreign investment has taken place in finance and insurance, energy and materials — precisely those sectors that register as the most heavily weighted on the TSX. And finally, Acharya and Rao (2008: 6) note that among OECD countries, Canada is the fifth highest in terms of inward FDI restrictiveness and is more restrictive than the 42-country average in all sectors except electricity. It is also more restrictive than the U.S. in all sectors aside from finance.

¹⁹ The concentration of Canadian direct investment abroad (CDIA) abroad appears extraordinarily high. Baldwin and Gellatly (2007: 37-38) relay research performed by Gorecki (1990; 1992) which indicates that, as of the mid-1980s, one-third of CDIA was attributable to the eight largest investor firms. Chow (1994: 56) reports that 93 percent of CDIA is held by 10 percent of Canadian multinationals. And globally, Rao, Legault and Ahmad (1994) assert that one percent of all multinationals account for nearly 50 percent of the total world stock of outward direct investment.

To add further context to our examination consider Figure 6.10, which maps the history of gross Canadian international investment flows from the late 1920s onward. The thick black line captures gross direct investment flows and the thin broken line captures the sum of portfolio plus direct investment flows, both as a percent of gross fixed private investment. The inset table measures the decade average gross direct investment flows as a percent of GDP for Canada, Developed and Developing Countries.



Source: Portfolio and direct investment flows from Cansim Table 376-0002; gross fixed private investment from Historical Statistics of Canada, Series F136 (1927-1960) and Statistics Canada, National Income and Expenditure Accounts, Table 2 (1961-2010); gross direct investment flows and GDP for Canada, Developed Countries and Developing Countries from UNCTAD Statistics (www.unctad.org/fdistatistics).

Direct investment moved horizontally for the decades spanning the late 1920s to the early 1990s, staying within a range of 0 to 20 percent. This historical trend broke down in the early 1990s just as Canada entered into a trade and investment liberalization

regime (TAIL hereafter) with the United States and Mexico. Direct investment surged in the 1990s before going into steep decline after the market downturn and recession of 2000-01. It rebounded briefly thereafter, and then after the crisis of 2008 it declined again. Despite the recent decline, the past two decades stand out as being a period of intense international investment in Canada. The pattern with gross total investment — the sum of portfolio and direct — is somewhat different. Total investment flows fell off a cliff after 1929 and do not recover until after the Second World War, at which time it steadily rose until the takeoff in the early 1990s. Again, the 2000-01 market downturn and recession acted as an inflection point.

Distinguishing portfolio from direct investment is useful because, as discussed in Chapter 5, a 10 percent ownership threshold serves as a reasonable proxy for changes in effective control. Whereas the sum of portfolio and direct investment captures the overall change in international ownership, honing in on direct investment helps us make sense of the changing distribution of corporate control. The inset table indicates that Canada's participation in global investment was and is historically high. In the 1970s, gross FDI flows (relative to GDP) in Canada were nearly triple the level in Developed Countries and nearly six times the level in the developing world. These ratios have declined considerably, but Canadian participation in global investment remains above the Developed and the Developing Country averages.

The explosion in international investment in the 1990s sets the context for Harry Arthurs (2000) question: is corporate Canada being 'hollowed out'. As Arthurs views it, the question is closely related to economic power. Changes in corporate governance, he

says, led to declining autonomy for the subsidiaries of foreign transnationals. This not only reduced Canadian representation on the boards of foreign transnationals and diminished the autonomy of local management, but it threatened the market for specialized professional services in key cities such as Toronto, Montreal and Vancouver. With large Canadian firms getting swept up in the amalgamation wave of the 1990s, this effectively meant the hollowing out, not just of corporate Canada, but of entire cities and regions. In Arthur's distressed question we hear the echo of Kari Levitt (1970), who saw heavy inflows of FDI into Canada as undermining national autonomy, something she considered akin to a 'silent surrender'.

Arthurs and Levitt stand on the end of the spectrum, near Hymer, which views foreign investment with trepidation. But on this they are nearly alone in Canada. Most studies performed tend to draw favourable conclusions from higher levels of foreign investment, even foreign takeovers of Canadian-based firms.²⁰ On the benefits of inward FDI, Baldwin (1995) finds that foreign controlled firms have higher labour productivity, pay higher wages and perform better than domestic firms. A study by Statistics Canada (1981) finds that foreign firms are much likelier to engage in trade and that they account for the bulk of domestic imports into Canada. Olineck and McMechan (1996) suggest that U.S.-controlled firms account for the majority of Canadian exports to the United States. So Canada's trade exposure increases with higher levels of FDI.

With respect to the hollowing out hypothesis, most researchers agree that the evidence does not support it. Whereas Arthurs focused on changes in corporate

²⁰ Baldwin and Gellatly (2007) provide an overview of the research done at Statistics Canada on multinational corporations and foreign investment. The review in this paragraph draws extensively on their summation.

governance, the hollowing out debate has tended to centre on net Canadian cross-border acquisitions and head office activities. Baldwin, Beackstead and Brown (2003) and Beckstead and Brown (2006) do not find evidence that would suggest that head office functions were being reduced in the 1990s or 2000s. In fact, Baldwin and Brown (2004) find evidence from the manufacturing sector which suggests that higher levels of foreign ownership contribute to head office formation and employment.

For the period 1997-2002, Marth (2004:1-2) reports that Canadian-based firms were net acquirers of foreign firms as a whole and U.S.-based firms in particular. He notes, however, that the dollar value of inward acquisitions was greater than the dollar value of outward acquisitions. Hirshorn (2008: 35) also denies the existence of hollowing out. Instead, he argues that both inward and outward acquisitions contribute to head office growth in Canada. On the issue of large takeovers, Grant and Bloom (2008: 40-41) examine deals in excess of \$500 million (in constant dollars) between 1994 and 2007 and find that Canadian firms were more likely to be acquired by other Canadian firms than they were by foreign firms. What's more, Canadian firms acquired more foreign firms than were acquired by foreign firms. They speculate that the value of the Canadian dollar may have played a role in fuelling outward Canadian acquisitions.²¹ Despite this, foreign acquisitions tended to be larger than Canadian acquisitions. And in terms of head office functions, they suggest, Canadian firms are more likely to downsize the head office of a domestic acquisition than are foreign firms (2008: 49).

²¹ This assertion will be examined in Section 6.7.

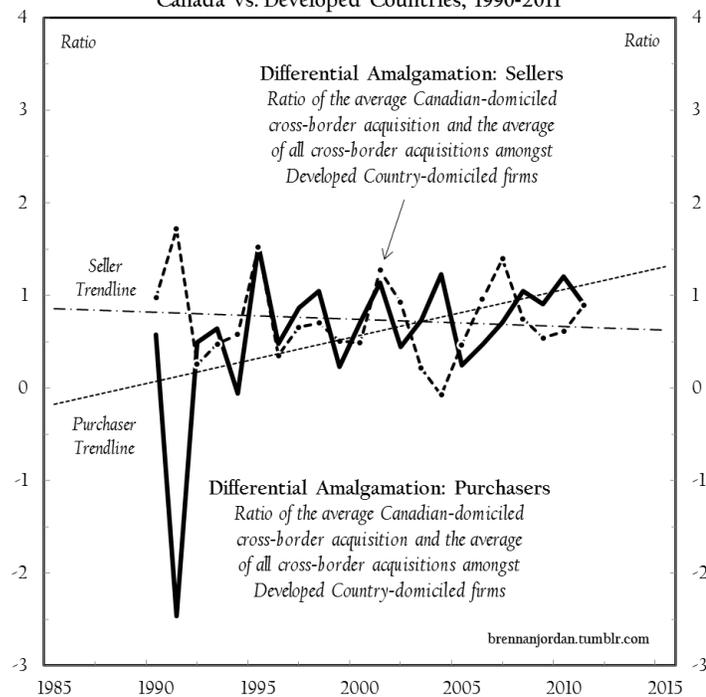
Carroll and Klassen (2010: 22) view the matter more critically, but still conclude that the evidence for hollowing out is thin. They note that a number of large Canadian firms have fallen from leading positions, but other Canadian-based firms have taken their place. They see the period of intense takeover activity as constituting 'regional elite reproduction' in North America, not hollowing out.

The studies reviewed here appear to unanimously agree that hollowing out is not occurring in Canada. However, the method of arriving at this answer varies and it almost always excludes what is happening in comparable jurisdictions. Given that the two decades since 1990 have been a period of intense takeover activity around the world, how have Canadian-based firms behaved in relation to firms in comparable jurisdictions? The hollowing out question might become clearer if it is couched in differential terms. Insofar as the hollowing out metaphor makes sense, it could be said to take place if one or both of the following were to occur: (1) the average rate of Canadian acquisitions abroad is slower than in comparable jurisdictions; (2) the average rate of takeovers of Canadian-based firms is faster than in comparable jurisdictions. Given the global nature of merger waves, is corporate Canada absorbing foreign firms faster than the average or are Canadian firms being taken over faster than the average?

Figure 6.11 presents the answer to this question for the years 1990-2011. The thick black line tells the story for purchasers. It is a ratio which uses the average Canadian cross-border acquisition (measured as the total dollar value divided by total number of acquisitions) for the numerator and the average Developed Country-domiciled acquisition for the denominator. The thin broken line measures the same two things, but

for sellers. Canadian-based firms acquired foreign firms faster than the Developed Country average, as indicated by the positive trend line. And on the seller side, Canadian-based firms sold to foreign-based firms more slowly than the Developed Country average, as indicated by the negative trend line. Couched in differential terms, corporate Canada is not being hollowed out; it is doing the hollowing out.

Figure 6.11
Differential Cross-Border Amalgamation:
Canada vs. Developed Countries, 1990-2011



Note: differential amalgamation is computed as a ratio of the average transaction value (total dollar value divided by total number of acquisitions) of a Canadian-domiciled purchaser/seller and the average value of a Developed Country-domiciled purchaser/seller.
Source: numeric and dollar value of total cross-border M&A from UNCTAD Cross-Border M&A Database, Web Tables 9-12 (www.unctad.org/fdistatistics).

We should be careful about drawing conclusions from this data, if only because it registers changes at an aggregate level. This study is primarily concerned with the activities of large firms, not the universe of firms as such. That being so, what happens when we increase the resolution and specifically examine large acquisitions? Table 6.1

contrasts aggregate and disaggregate statistics on Canadian cross-border acquisitions. The three columns to the left register decade averages for the total number, total dollar value and average size of all cross-border M&A in current dollars. The three columns to the right capture the same three measures for billion dollar acquisitions in constant dollars.

The average number of overall cross-border acquisitions nearly doubled from the 1990s to the 2000s and the average dollar value more than tripled. Whereas the average acquisition in the 1990s was valued at \$40 million USD, in the 2000s it more than doubled to \$90 million USD. In gross terms there were nearly ten thousand acquisitions between 1990 and 2009. Corporate Canada was a net acquirer of nearly 500 firms, but registered as a net seller in terms of dollar value, at nearly \$25 billion USD. So Canadian firms did more purchasing of foreign firms, but the value of Canadian acquisitions abroad tended to be smaller than the value of foreign acquisitions of Canadian-based firms.

Table 6.1
Cross-Border Amalgamation in Canada

Decade Averages	<i>Total Cross-Border Acquisitions</i>			<i>Billion Dollar Cross-Border Acquisitions ‡</i>		
	Number	Dollar Value†	Average Size†	Number	Dollar Value*	Average Size*
1980s	--	--		3	8.3	2.9
1990s	345	13.8	0.04	8	27.1	3.2
2000s	606	51.8	0.09	22	79.8	3.6
<i>Total Gross Values</i>	9,511	656.4	0.07	329	1,135.4	3.45
<i>Total Net Values</i>	491	-24.4		11	-117.5	

† Billions of nominal \$U.S. Dollars ‡ Data begins in 1982 * Billions of constant (2010) \$U.S. Dollars

Note: There is a discrepancy between the dollar value of all cross-border acquisitions and of billion dollar cross-border acquisitions, the latter being considerably larger than the former. It is unclear why this is so, but one possible answer might come from the way UNCTAD registers cross-border M&A. Cross-border M&A sales are calculated on a net basis as follows: sales of firms in the host economy to foreign TNCs minus sales of foreign affiliates in the host economy. The data cover only those deals that involved an acquisition of an equity stake of more than 10 percent. **Source:** Numeric and dollar value of total cross-border M&A from UNCTAD Cross-Border M&A Database, Web Tables 9-12 (www.unctad.org/fdistatistics); billion dollar deals from SDC Platinum through

Thomson Reuters for the years 1982-1993 and Financial Post Crosbie Mergers and Acquisitions for the years 1994-2009; U.S. Consumer Price Index from the Bureau of Labor Statistics through Global Insight.

Shifting from aggregate to large (billion dollar) cross-border M&A activity, the total number and dollar value of billion dollar deals nearly tripled in each decade, rising from an average of three per year in the 1980s to 22 per year in the 2000s. The average size in inflation-adjusted terms also rose in each decade. Of the 329 billion dollar deals between 1982 and 2009, Canadian firms were net acquirers. But even though Canadian firms netted 11 foreign firms, the dollar value of Canadian acquisitions abroad tended to be smaller than that of foreign acquisitions of Canadian-based firms. Of the approximately \$1.1 trillion USD in corporate assets that traded hands over the three decades, Canadian firms netted negative \$118 billion. This indicates that, among the large players, Canadian purchases tended to be considerably smaller than Canadian sales. This result adds some support to Arthurs' claim that corporate Canada is being hollowed out. Adjusting for size, large Canadian-based firms are disappearing at a faster rate than they are absorbing firms abroad.

Now that we have examined the gross, net and differential aspects global amalgamation, how has the structure of foreign corporate ownership changed over time and how does Canada stack up against comparable jurisdictions in terms of its international exposure?

6.6 Transnational Canadian Corporate Ownership

Foreign ownership has been a major concern of political economists in Canada from the birth of Canadian Political Economy. Scholars like Innis (1930) examined Canada's

colonial history and questioned why important decisions about Canada's industrial future were perpetually being settled outside its borders. Levitt (1970) struck an intellectual chord with her generation by expressing fear about high levels of foreign ownership. As she saw it, Canada was the richest dependent country in the world and the chief instrument of its dependence was American FDI. As continental integration accelerated and American control of Canadian industry intensified, Canada would become re-colonized and forfeit its political-economic sovereignty, she argued (1970: 9).

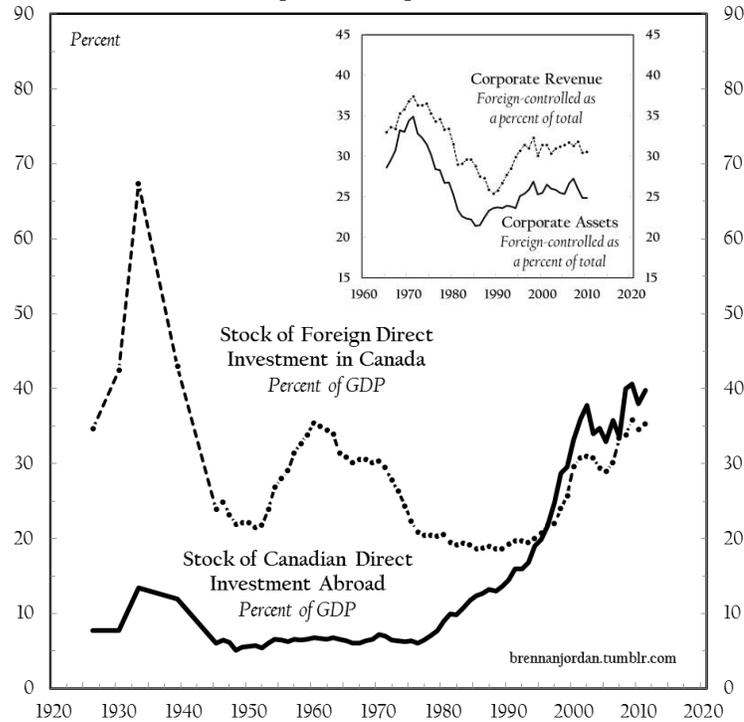
It was apparent to Levitt that this process wasn't primarily about markets. After all, large firms were replacing markets with centralized planning. In practice, the fact of planning meant that a tension would arise between the policy planning done by Canadian governments and the business planning done by American corporations (1970: 73, 118-19). It was inevitable, she thought, that large American firms would use the American State to protect their investments abroad. So as American multinationals exported ownership claims to Canada, Canadians would be pulled more closely into the American orbit. And as Canada's corporate and technocratic elite were drawn closer to the American imperium, it would become increasingly difficult to defend the very idea of Canadian independence (1970: 142). Laxer (1989) followed Levitt in trying to sort out Canada's dependent economic status. Arthurs (2000) is just 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 American-led globalization.

Levitt and others raise a legitimate fear: how can a society consider itself sovereign when important decisions about its national future are made by foreigners? A

counter argument would run as follows. Multinational corporations, irrespective of their national domicile, have the same ultimate objective: differential accumulation. For the sake of this goal they will sacrifice productive efficiency and industrial serviceability. And while the proprietors and executives who control the organization might embody nationalist sentiments, at the end of the day if they do not submit themselves to the requirements of differential accumulation their institutional survival will be threatened. Many aspects of the corporate organization are geared towards the differential enhancement of shareholder wealth. This implies, as Veblen recognized and N&B echo, the subjugation of industry to business. Whether the decisions are made by individuals who carry a foreign passport, the objectives of the firm will be couched in differential business terms, not industrial terms. To borrow a clichéd tautology, 'business is business'. So why does it matter if a firm is headquartered in another jurisdiction?

As we've already noted in Chapter 5, Canadians own just over 50 percent of the shares traded on the Toronto Stock Exchange, thus ownership of Canadian equities is already global. The location of corporate owners matters from the standpoint of legal jurisdiction, of course, but business is not coterminous with industry, so the fear about foreign decisions (business) controlling the economic (industrial) future of Canadians might be misplaced. That critique aside, how has the secular increase in foreign investment in recent decades transformed the structure of foreign ownership in Canada? Figure 6.12 maps the history of foreign ownership from the 1920s onward. The thick black line captures the stock of Canadian direct investment abroad (CDIA) and the broken line captures the stock of FDI in Canada, both as a percent of GDP. The inset chart tabulates the share of corporate revenue and assets controlled by foreign interests.

Figure 6.12
Foreign Ownership, 1926-2011



Note: for CDIA and FDI, data are interpolated between 1926, 1930, 1933, and 1939 and are continuous after 1945. Foreign control of corporate revenue and corporate assets are tabulated using two separate series. The years 1965-2000 come from Baldwin and Gellatly (2005), Table 1, p. 18. The second series runs from 1999-2010 and comes from Cansim Table 179-0004. Data for the years 2001 to 2010 are rebased to reflect the difference between the two series. **Source:** stock of direct investment from Cansim Table 376-0037; nominal GDP from Historical Statistics of Canada, Series F13 (1927-1960) and Cansim Table 380-0016 (1961-2011).

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. The foreign ownership of Canada 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. Morck *et. al.* (2005: 117), for example, speculate that the nationalist manoeuvres taken by the Trudeau Liberals, particularly the Foreign Investment Review Agency (FIRA), contributed to the decline of foreign ownership. The declining significance of foreign ownership is more perceptible in the inset figure. The

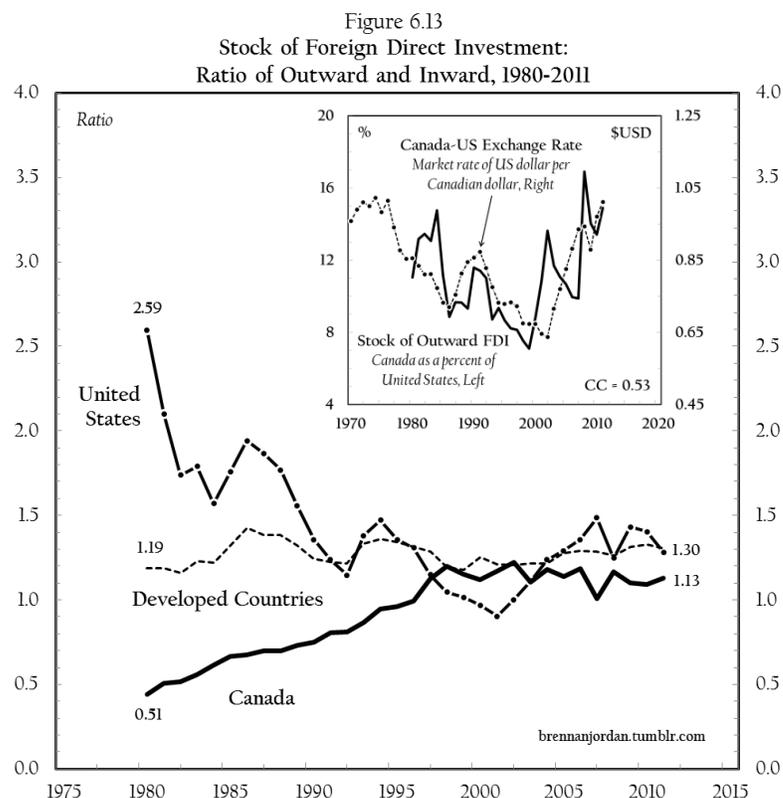
percent of corporate revenue and assets that are under foreign control declined from the early 1970s when the FIRA was instituted to the late 1980s when the Mulroney Tories signed the Canada-U.S. FTA. Both measures climbed throughout the 1990s before stabilizing over the past decade.

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. The outward orientation of Canadian capitalists was almost non-existent. That orientation 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 really historic moment comes 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 last three decades, and while the 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, then how does Canada compare with comparable jurisdictions? Figure 6.13 generates a ratio of the stock of outward to inward FDI for Canada, the U.S. and the Developed Countries. Historically, the U.S. and the Developed Countries had outward-to-inward ratio's well in excess of 1.0. As is evident from the figure, Canada was an outlier as late as the 1980s insofar as it had more inward than outward FDI. As of 2011, Canada is nearer the U.S. and Developed Countries, both of

whose ratio of outward to inward FDI was approximately 1.30, with Canada not very different at 1.13.

Why has the outward orientation of corporate Canada increased in recent decades? The answer to this question is likely to be complex, but consider the issue of currency valuation. The inset chart in Figure 6.13 contrasts the value of the Canadian dollar relative to the U.S. dollar and the value of the stock of Canadian outward FDI as a percent of the stock of American outward FDI. Arthurs' (2000) hollowing out thesis came in the context of a quarter-century-long depreciation in the value of the Canadian dollar relative to the U.S. dollar. That depreciation might have induced the fear that Canadian assets would be foreign acquired at 'fire sale' prices.



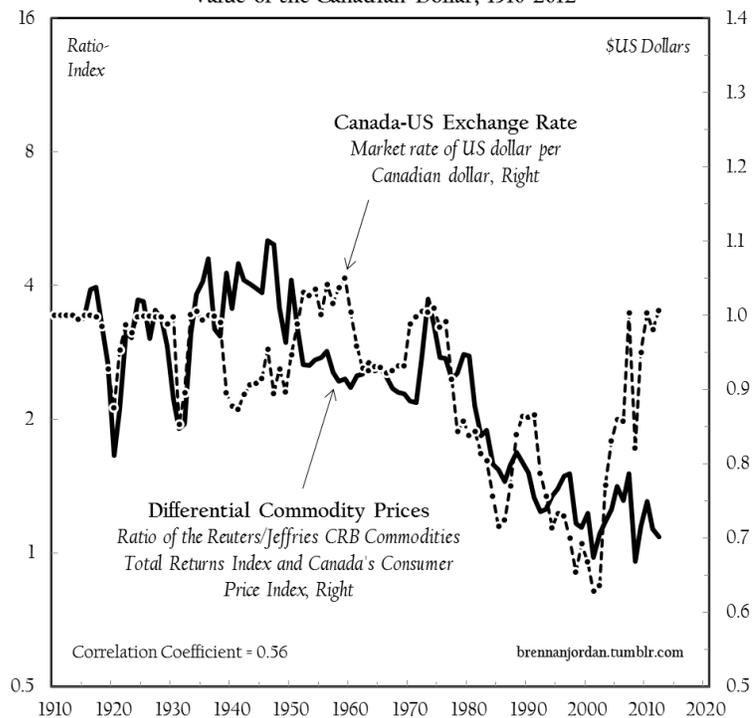
Note: stock of direct investment denominated in \$U.S. dollars. **Source:** inward and outward stock of FDI from UNCTAD Statistics; Canada-U.S. exchange rate from Global Financial Data.

Georgopoulos (2008) asks whether there is a relationship between Canada's relative currency valuation and foreign M&A activity. The results of his research indicate that foreign M&A activity will increase in response to changes in the relative value of the currency, but only in high research and development industries (2008: 452). But as the inset chart clearly shows, the relative value of the Canadian dollar is closely associated with the outward orientation of Canadian capitalists, as measured by the stock of outward FDI. It makes sense, at least hypothetically, that a stronger Canadian dollar is more likely to induce Canadian capitalists to make acquisitions abroad than they would if the relative value of the dollar was lower. There are plainly many other factors at play including corporate profits, credit conditions and, because Canadian equity is so heavily bound up with materials and energy, commodity prices.

Given that the relative value of the Canadian dollar appears to play a role in the outward acquisition activities of capitalists, and so the structure of corporate ownership, what shapes the relative value of the Canadian dollar? Figure 6.14 stacks the relative value of the Canadian dollar up against differential commodity prices, the latter computed as a ratio of the Returns/Jeffries CRB Commodities Total Returns Index and Canada's consumer price index. Commodity prices fluctuated heavily between the First and Second World War, reaching a series high in 1946. Over the postwar era, commodity prices steadily declined, with two significant exceptions: the early 1970s and the period between 2000 and 2007, which saw significant increases. The relative value of the Canadian dollar, on the other hand, also fluctuated greatly in the first half of the twentieth century, reaching a series high in 1959 (where it traded at \$1.05 USD). The

Canadian dollar declined precipitously between 1974 and 2001, closing at \$0.628 USD. By 2007 the Canadian dollar was trading above the American dollar yet again. Given that the two series stretch back to the First World War, it is striking how closely synchronized their fluctuations are.

Figure 6.14
Differential Commodity Prices and the Value of the Canadian Dollar, 1910-2012



Source: Exchange rate, Reuters/Jeffries-CRB Total Returns Index and consumer price index from Global Financial Data.

Thus, the increase in the relative value of the Canadian dollar since 2001 might be one reason why Canadian proprietors have increased their foreign holdings relative to American proprietors. The question arises: if Canadian capitalists have gone on a global buying spree on account of the high Canadian dollar and the high commodity prices that fuel it, how do we account for differential commodity prices? Is it 'demand and supply' or

'scarcity' that shapes base commodity prices, and by implication, the relative value of the Canadian dollar, or is it something else? This question will be addressed in Chapter 9.

6.7 Summary

This chapter has detailed some of the history of mergers and acquisitions in Canada. There appear to be strong linkages between M&A, on the one hand, and corporate asset concentration and the globalization of Canadian corporate ownership, on the other. In other words, internal breadth through merger and acquisition has been one of the main pathways that large firms take in their quest for differential accumulation.

This chapter also contributed to the 'hollowing out' debate by introducing the concept of 'differential amalgamation'. The evidence suggests that Canadian-based firms have been purchasing foreign firms faster than the Developed Country average and selling out to foreign interests more slowly than the Developed Country average. This pattern suggests that corporate Canada is not being hollowed out; it is doing the hollowing out. However, disaggregate evidence indicates that Arthurs' hollowing out hypothesis is not entirely wrong. At the level of billion dollar acquisitions, corporate Canada has been a net seller in terms of dollar value since the early 1980s.

The history of foreign investment and foreign ownership was also disclosed and the connection these processes have to currency valuation and differential commodity prices was outlined. Large Canadian-based firms have matured in recent decades as evidenced by their heightened acquisition activities abroad, which appear to be a partial consequence of high commodity prices and a high Canadian dollar.

Chapters 5 and 6 outlined the structure of the corporate sector and detailed some of its transformations. Chapter 7 continues the inquiry by focusing on the pattern of growth and stagnation in Canada. How do we account for the shift from rapid growth in the immediate decades of the postwar period to the stagnant growth in the decades since 1980? What role has the development of large firms played in propelling growth and stagnation in Canada?

From Robust Growth to Stagnant Growth

For a substantial and very influential part of the modern industrial population, recession, stagnation, and the underemployment equilibrium are not adverse phenomena and are much to be preferred to the relevant corrective action.

- John Kenneth Galbraith¹

In the academic and the popular imagination, growth is what lifts nations out of poverty. Growth is associated with modernization, technological advancement, material security and mass prosperity. The reasons why nations strive for growth are not far removed from why individuals desire a growth in their personal income: enhanced security, expanded comfort and a fuller realization of human capabilities. The overt objective of Adam Smith's, *Wealth of Nations* — perhaps *the* foundational text of modern political economy — was to determine why some nations are comparatively wealthier than others. Growth, in short, has occupied a central position in the economic imagination in recent centuries. Twentieth century political economists were driven to understand the determinants of growth, too. However, the opposite of growth, namely stagnation, recession and depression also attracted considerable attention. Linkages between depression, political upheaval and revolution in the past century made it imperative for political economists to understand what promotes (and what undermines) growth.

¹Quoted in Kirshner (1998: 76), footnote 50.

In contemporary Canada, government officials, business leaders, economists, policy makers and the citizenry at large seem perpetually concerned with GDP growth. There are good reasons for this. The rate of growth has an impact on tax revenues and budget deficits, health care spending and education funding, infrastructure improvements and housing starts, corporate revenue and consumer spending, and more recently, the realization that human civilization may be trespassing on ecological boundaries. Much of the 'economic' phenomena witnessed in contemporary Canada are linked with the rate of GDP growth. And, almost as a matter of definition, the quality of life enjoyed by Canadians is intimately bound up with the growth of their incomes.²

The early decades of the postwar era exhibited rapid growth and the decades since 1980 have exhibited comparatively sluggish growth (stagnation) in Canada and other OECD countries. Why has growth slowed in recent decades in Canada? More specifically, how do we account for the shift from robust growth in the Keynesian era (roughly 1945-1980) to the sluggish growth of the neoliberal era (1980-present)? Is the stagnation of recent decades related to the development of large firms? The present chapter will map the history of GDP growth in Canada and explore some of its determinants. The primary objective will be to sort out what role, if any, large firms have played in propelling growth/stagnation in postwar Canada.

² Subjective assessments of happiness rise with income, but only up to a point. Kahneman and Deaton (2010), for example, parse assessments of well-being in the U.S. into two compartments: day-to-day emotional well-being and overall life satisfaction. They find that both assessments rise as individuals climb the income scale. However, 'diminishing returns' eventually set in and happiness 'plateaus' around \$75,000 in annual income. Beyond that point, more income does not translate into more happiness. This subject will be revisited in Chapter 8.

It must be stressed that the present Chapter will not aim at a complete explanation of the determinants of GDP growth. The subject is sufficiently complex to warrant an entire study, perhaps an entire academic career. Urbanization, demographic shifts, technological change and many other factors have a bearing on growth. However, many of these factors fall outside the purview of this study. Another caveat pertains to the location of causal mechanisms. While manifesting itself at a domestic level, the pattern of growth/stagnation in postwar Canada is similar to that found in other advanced societies. This complicates its study. If the pattern of growth in Canada is also exhibited by comparable jurisdictions, then putting the explanatory emphasis on national developments might be misplaced. Nevertheless, insofar as there are domestic aspects to growth and stagnation in Canada we can search for domestic causes while recognizing the limitation of such an approach. With some stylized facts in hand we will formulate broad generalizations about some of the determinants of growth in Canada.

The Chapter is carved into seven sections. The first section maps the history of GDP growth and unemployment in Canada as a way of contextualizing the discussion that follows. The second section explores some of the determinants of growth in Canada by honing in on three variables: the unemployment rate, green-field investment and government spending. The third section disaggregates the political economy and contrasts the top 60 firms with the private sector to see if large firms have exacerbated or alleviated the stagnation tendencies of postwar Canadian capitalism. The fourth section queries whether or not rapid growth is something that should be desired by large firms, theoretically speaking. Assembling arguments made by Nitzan and Bichler, Veblen and

Kalecki, a case can be made that moderate stagnation is 'optimal' from the standpoint of large firms.

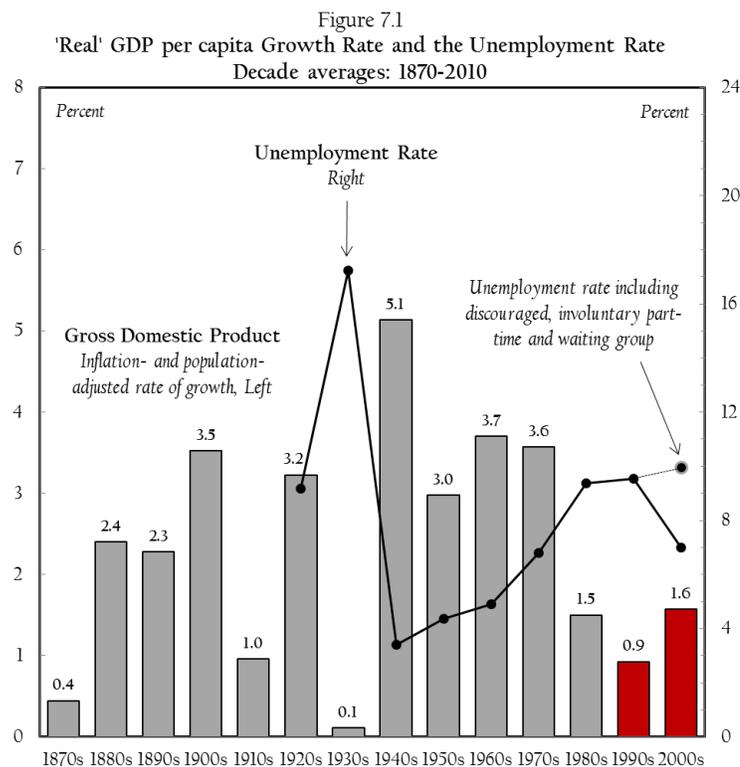
Sections five and six explore what impact the development of large firms may have had on the rate of growth in Canada. Three aspects are highlighted: first, the size and income position of the largest firms; second, the decision by the corporate sector to stockpile cash; and third, changes in the corporate income tax regime. There is evidence to suggest that stagnation may be a partial consequence of increasing corporate concentration. The seventh section provides a summary of some of the key arguments and poses some questions to be addressed in Section III of the dissertation.

7.1 Mapping the History of Growth and Stagnation in Canada

In Chapter 3 (Table 3.1) we learned that the level of growth in Canada was relatively high in the immediate postwar period (1950 to 1980) compared with the succeeding period (1980 to 2010). A similar pattern is evident in the United States and in the OECD as a whole. The political-economic shift from a Keynesian welfare regime towards neoliberal globalization has been documented in great detail both inside and outside Canada.³ The program of deregulation, privatization, tax cuts and trade and investment liberalization was largely sold to the Canadian public as a way of accelerating GDP growth. So why was the period immediately following 1945 characterized by rapid growth and the period after 1980 characterized by slow growth (stagnation)? Let's explore this question by putting the history of growth in deep historical context.

³ Two of the best pieces of scholarship exploring the shift toward neoliberal globalization in Canada are Clarkson (2002) and McBride (2005). Harvey (2005) supplies a critical take on the neoliberal program globally.

Figure 7.1 provides a picture of growth and stagnation in Canada using two measures. The bars represent the decade average rates of inflation-adjusted GDP growth per capita from 1870 to 2010. The 1990s and 2000s are shaded in red to remind the reader that they represent the period after the Canada-U.S. Free Trade Agreement (CUFTA) was put in place. The linear series captures the decade average unemployment rate from 1920 through 2010. An additional data point was added in the 2000s to capture the rise of precarity in the Canadian labour market, measured as the official unemployment rate plus discouraged workers, involuntary part-time workers and the waiting group (data are only available for that decade).



Source: GDP from Global Financial Data (1870-1925), Historical Statistics of Canada, Series F13 (1926-1960) and Cansim Tables 380-0016 (1961-1980) and 384-0037 (1981-2010); unemployment rates from Global Financial Data (1920-1975) and Cansim Table 282-0086 (1976-2010). CPI and total Canadian population from Global Financial Data.

Viewing the facts in deep historical context enables us to see how poorly the neoliberal era has performed in terms of GDP growth, especially the so-called ‘free trade’ era. The 1930s and 1940s were historic extremes in Canada. Stagnation reached a historic high in the 1930s: the unemployment rate soared and GDP growth was virtually nil. In the following decade, Canada moved closer to full employment than at any point in its history and, as a partial consequence, the rate of growth in that decade reached a historic high.⁴ In contrast to the 1940s, one could say that *all* postwar decades exhibited high and rising stagnation. On the unemployment side of things we see increasing stagnation in each successive decade from a low reached in the 1940s to a high in the 1990s. The first decade of the new millennia appeared to have lower unemployment than any decade since the 1970s, but when we factor in the rise of labour market precarity (not to mention ‘self-employment’), unemployment remained high even in the 2000s. Under this interpretation the neoliberal era exhibited *heightened* stagnation.

Despite increasing unemployment over the postwar decades, GDP growth was historically high in the Keynesian era. By way of contrast, the 1980s was the worst growth decade since the 1930s, the 1990s was worse than the 1980s and the 2000s was roughly the same as the 1980s. Therefore, we can unequivocally say that, despite many advertisements to the contrary, neoliberal institutions and policies (importantly and especially the ‘free trade’ agreements) did not lead to accelerated growth. Instead,

⁴ In Chapter 10 we will (conceptually and empirically) explore the experience of the 1940s in greater detail.

Canadians have experienced heightened stagnation.⁵ How do we explain the shift from robust to stagnant growth in Canada?

7.2 Some Long-Term Drivers of Growth

To explain slower GDP growth from one period to the next one has to make an attempt to explain growth as such. So what drives GDP growth in Canada? Given the complexity surrounding the determinants of growth, we will restrict the focus to a few basic factors: unemployment, business spending on industrial capacity ('green-field investment') and government spending.⁶ We begin with unemployment. A simple explanation for the rate of GDP growth is implied in Figure 7.1: decades with a higher unemployment rate tended to exhibit lower growth and decades with a lower unemployment rate tended to display higher growth.

The 1930s and 1940s offer the clearest example of this relationship. The 1930s was the lowest growth decade on record and exhibited the highest level of unemployment on record. In the 1940s, the Canadian State put people back to work in unprecedented numbers, pushing unemployment to historic lows and, in the process, helped propel the rate of GDP growth a historic high. For the most part, this pattern held in the postwar decades as well. In very basic terms, it appears that the rate of growth is bound up with

⁵ Brennan (2013a; 2013b) explores some of the distributional impacts of trade and investment liberalization in Canada, including a discussion of the failed predictions vis-à-vis GDP growth.

⁶ This short list is not meant to preclude the recognition that there are other factors which propel growth, including technological change and innovation, for instance. However, from a Veblenian standpoint, 'innovation' and 'technological change' are primarily *industrial* categories, not *business* categories. This means that such variables reside outside the scope of this study (for theoretical reasons). This does not imply that these variables are unimportant from a growth standpoint.

the proportion of the workforce that is able to find paid employment, which makes intuitive sense.⁷

Recall Veblen's distinction of 'business' from 'industry': the expansion of productive capacity (industry) involves proprietors paying (business) to have new infrastructure and equipment built. Is there a relationship between green-field investment and GDP growth? Figure 7.2 contrasts the rate of change of business spending on non-residential structures and equipment 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 ('secular') trend.

The relationship between the two series is remarkably close over the past fourteen decades. Green-field investment soared between the early 1930s and early 1940s, held steady till the early 1950s and then fell precipitously in the early 1960s. Despite the drop, the rate of growth of green-field investment 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. How do these facts relate to processes explored in previous chapters?⁸

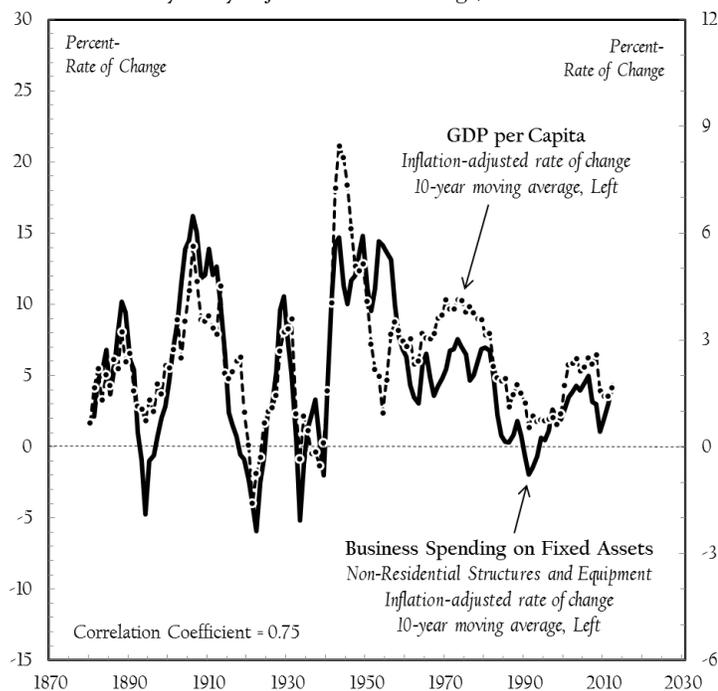
In Chapter 6 we explored the history of corporate mergers and acquisitions ('internal breadth') and noted that the major merger waves grew in size during and after the 1980s. Between 1914 and 1988, the dollar value of mergers and acquisitions

⁷ However, one might argue that this just pushes the explanatory emphasis back one level because we are now compelled to explain what determines the unemployment rate. Instead of trying to explain the unemployment rate, we will proceed with an explanation of growth (while recognizing that the two are closely associated).

⁸ Unsurprisingly, the rate of change business spending on fixed assets (adjusted for inflation) is negatively correlated (-0.41) with the overall unemployment rate from 1919-2012 (and the strength of the relationship increases to -0.51 if we take the cyclically-adjusted trend of each series).

represented roughly 23 percent of the dollar value of green-field investment. Between 1988 and 2012, the dollar value of mergers and acquisitions soared to roughly 93 percent of the dollar value of green-field investment — a four-fold increase. If business investment has three component parts — the maintenance of existing industrial capacity (gross), the creation of new industrial capacity (net) and the redistribution of control of existing industrial capacity (amalgamation) — and if the former two processes are closely associated with GDP growth, then it follows that a surge in the relative value of mergers and acquisitions should depress the rate of GDP growth. Stated differently, the acceleration of corporate amalgamation plays a role in decelerating GDP growth.⁹

Figure 7.2
Green-Field Investment and GDP per Capita:
Cyclically-adjusted Rate of Change, 1870-2012



Note: data for expenditures on non-residential structures and equipment only dates to 1926. For the period prior to 1926, the inflation-adjusted rate of change of gross fixed private investment (includes residential and non-residential structures and equipment) is used as a proxy. **Source:** inflation-adjusted GDP from Global Financial Data (1870-1925),

⁹ In Chapter 10 we will probe some of the consequences of amalgamation on the distribution of income.

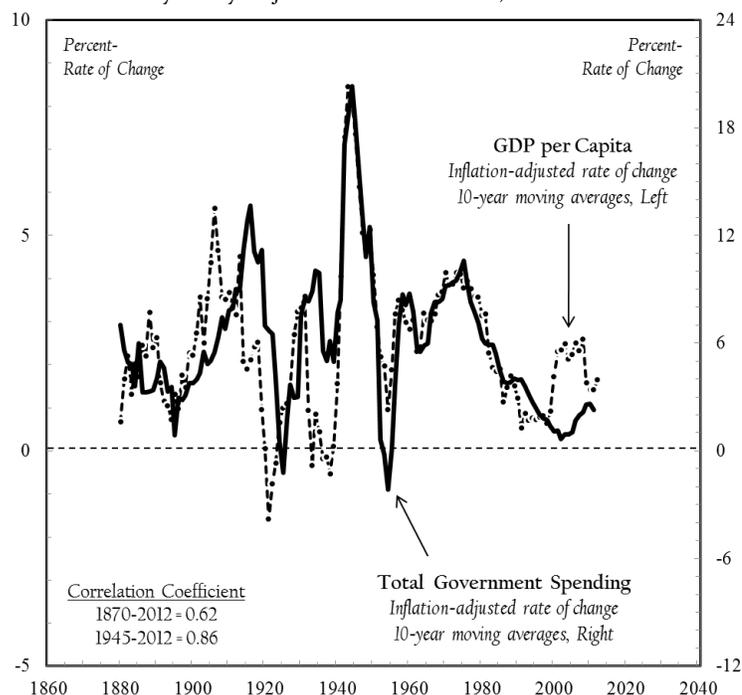
nominal GDP from Historical Statistics of Canada, Series F13 (1926-1960) and Cansim Tables 380-0016 (1961-1980) and 384-0037 (1981-2012); CPI and total Canadian population from Global Financial Data; expenditures on gross fixed private investment from Urquhart (1993: 16), Table 1.2 (1871-1926); expenditures on non-residential structures and equipment from Historical Statistics of Canada, Series F23+F24 (1926-1980) and Cansim Table 384-0038 (1981-2012).

We would be remiss if we neglected the role of government in promoting or impeding growth. In conventional economic theorizing, the private sector is deemed to be productive, dynamic and wealth-generating (and is often deemed the domain of 'freedom'). The disciplining effect of competition combined with the coordinating effect of market signals means, in conventional theory, that resources in the private sector will be put to efficient use. The public sector, by contrast, is sometimes conceived as parasitic, static and wealth-redistributing (a 'necessary evil'). Because government is a monopoly and tax revenue is generated through coercive means, the deployment of tax revenue in the form of government spending will tend to be misallocated because of the absence of price signals. This logic implies that the growth of the public sector through increases in government spending (generated through increased borrowing or higher taxation) might lead to slower GDP growth (by 'crowding out' private investment or by other means).

What is the relationship between government spending and growth? Do increases in government spending impede growth? Figure 7.3 contrasts the rate of change of total government spending and the rate of change of GDP per capita. Both series are adjusted for inflation and smoothed as ten-year moving averages to highlight the secular trend. There is a tight and persistent relationship between the two series and the strength of the relationship increases over time. Government spending soared to a historic high between 1939 and 1945, largely as a consequence of the war effort. GDP growth also reached a historic high during the same period. In the decade following the

War government spending radically decelerated and was negative for a few years. Between the mid-1950s and the mid-1970s, government spending accelerated once more before going into long-term decline after 1975. The pattern of GDP growth is markedly similar.

Figure 7.3
Government Spending and GDP per Capita:
Cyclically-Adjusted Rates of Growth, 1880-2012



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 and total population from Global Financial Data; total government spending (all levels) from Urquhart (1993: 17-18), Table 1.3 (1870-1926), Historical Statistics of Canada, Series F116 (1926-1960) and Cansim Table 380-0022 (1961-2011).

Canadians built their welfare state in the Keynesian era — transportation infrastructure, health care and post-secondary institutions, a social safety net as well as a modern civil service — and these activities are linked with the expansion of government spending and rapid GDP growth. Beginning in the mid-1970s, both the rate of GDP growth and the rate change of government spending decelerated. There isn't enough

information to draw a firm conclusion here, but the evidence suggests that accelerating government spending may have been a key ingredient in the high rate of growth witnessed in the Keynesian era, and correspondingly, decelerating government spending a key aspect of the heightened stagnation experienced in the neoliberal era.

We have to be careful in imputing causality in this instance: it may be the case that government spending accelerates in periods of rapid growth and decelerates in periods of weaker growth, so the causal direction may run in the opposite direction. Despite the caution, the facts in Figure 7.3 suggest that increases in government spending are not associated with depressed rates of growth. As the largest ‘economic unit’ in society, it makes intuitive sense that a secular increase in government spending should help propel growth. What role has the development of large firms played in propelling growth and stagnation?

7.3 Containing Creativity: Large Firms and Stagnation

Thus far, the discussion of growth and stagnation has unfolded on an aggregate level. Table 7.1 begins to disaggregate the historical picture by contrasting rates of growth for the private sector with those found among the top 60 firms. The second column captures GDP growth per capita (adjusted for inflation). The remaining columns plot two variables: the rate of growth of business spending on fixed assets (adjusted for inflation) and the rate of growth of employment. The information is assembled as decade averages, with the bottom three rows contrasting the average for the Keynesian period (1950-1980), the neoliberal period (1980-2012) and the difference between the two periods.

As alluded to in Figure 7.1, the neoliberal period not only failed to bring accelerated growth; it witnessed deeper stagnation, with the overall rate of growth falling by three-fifths between the two periods. If business spending on fixed assets and employment are two key drivers of growth, how do the largest firms compare with the private sector? Did large firms lead the shift to heightened stagnation?

Table 7.1
Green-Field Investment and Employment:
Aggregate and Disaggregate Rates of Growth

Period	GDP per Capita*	<i>Private Sector</i>		<i>Top 60 Firms</i>	
		Total Spending on Fixed Assets*	Total Employment	Average Spending on Fixed Assets*	Average Employment
1950s	3.0	6.8	1.9	--	2.7
1960s	3.7	4.8	2.6	10.1	2.8
1970s	3.6	6.8	2.4	8.4	3.9
1980s	1.5	0.8	2.1	3.2	2.2
1990s	0.9	1.9	0.9	3.4	1.2
2000s	1.6	1.0	1.5	6.4	0.3
1950-1980	3.3	6.1	2.3	9.6†	3.3
1980-2012	1.4	2.1	1.5	5.1	1.2
% difference	-1.9	-4.0	-0.8	-4.5	-2.1

* Inflation-adjusted

† 1960-1980

Note: total private sector employment was estimated between 1950 and 1975 using an industrial composite employment index, with proper rebasing. **Source:** GDP from Historical Statistics of Canada, Series F13 (1926-1960) and Cansim Tables 380-0016 (1961-1980) and 384-0037 (1981-2012); consumer price index and total Canadian population from Global Financial Data; business investment in non-residential structures and equipment from Historical Statistics of Canada, Series F23+F24 (1950-1960) and Cansim Tables 380-0017 (1961-1980) and 384-0038 (1981-2012); private sector employment from Historical Statistics of Canada, Series D528 (1950-1975) and Cansim Table 282-0012 (1976-2012); employment and 'capital expenditures' for the top 60 firms from Compustat through WRDS.

Let's begin with business spending on fixed assets ('green-field investment'). The private sector spent heavily between 1950 and 1980, ranging from five to seven percent in average annual growth. This rate slowed drastically in the succeeding decades, falling within a range of one to two percent. The top 60 firms spent at a faster rate on fixed assets in every period, ranging from eight to ten percent in the Keynesian period and

falling to a range of three to six percent in the neoliberal period. Note that business spending on fixed assets by the top 60 firms doubled from the 1990s to the 2000s. This is likely due to the fact that materials and energy firms are over-represented in Canada and there has been a commodity boom since 2003. Despite the fact that the rate of growth of business spending on fixed assets among the top 60 firms was higher than the private sector in every period, the percentage decline between the Keynesian and neoliberal periods was *greater* among the top 60 firms: the rate of growth fell by 4 percent for the private sector and 4.5 percent for the top 60 firms.

In the Keynesian period, the private sector expanded employment at an average annual rate of 2.3 percent per year, falling to 1.5 percent in the neoliberal period. The largest 60 firms expanded employment at an average annual rate of 3.3 percent in the Keynesian period, falling to just 1.2 percent per year in the neoliberal period. The three-fifths decline in the rate of employment growth among the top 60 firms is matched by a three-fifths decline in the rate of GDP per capita growth over the same two periods.

So what does this information tell us? As has already been discussed, it appears that the rate of growth is closely associated with business spending on fixed assets and with employment. The rate of growth of green-field investment fell over the two periods for both the private sector and for the top 60 firms. However, the rate of growth fell *more* for the top 60 firms, which suggests that they led the shift to slower growth. This claim is bolstered by trends in employment. In the Keynesian period, the top 60 firms expanded employment *faster* than the private sector average, but in the neoliberal period they expanded employment *slower* than the private sector average. This information suggests

that the largest corporate units played a key role in accelerating growth in the Keynesian era and accelerating stagnation in the neoliberal era.

A point of clarification is required on the matter of corporate motivation and business intention. This study has deliberately shied away from an examination of human motivation, intention and other subjective phenomena, opting instead to focus on the objective aspects of political-economic development, such as measurable shifts in the institutional and organizational environment. Whether large firms deliberately slowed spending on industrial expansion is (as far as this study is concerned) not the primary issue. Even if it were, it would not be possible to sort out business intention and motivation across the universe of corporations (in the aggregate).

It is analytically significant that the various measures of business performance probed in Chapter 5 and 6 — the profit share of national income, aggregate concentration, the markup and differential accumulation — were low and/or falling in the Keynesian era (a period of rapid growth) and were high and/or climbing in the neoliberal era (a period of sluggish growth). Mainstream economic thinking might presume that rapid growth is something that is (or ought to be) desired by business, but Canadian business performed poorly in decades of rapid growth and performed exceptionally well amidst sluggish growth. This does not confirm that business prefers sluggish to rapid growth, but it makes the mainstream assumption about business motivation vis-à-vis growth more suspect.

Why is it that the robust growth of the Keynesian era occurred with low and falling measures of business performance but the sluggish growth of the neoliberal era

appeared with high and rising measures of business performance? Do these facts imply that business prefers sluggish to rapid growth?

7.4 Is Stagnation Good for Business?

A common assumption in contemporary Canada — shared by politicians, policy makers, economists and the broader citizenry — is that business favours rapid growth. After all, governments undertake all sorts of activities to ‘prime the capitalist pump’ and ‘create conditions favourable for growth’. The multiple layers of Canadian government have reduced regulations, signed trade and investment liberalization agreements, cut corporate income tax rates, privatized state assets, curtailed budgetary deficits, etc., in the hope (officially, if not factually) that business will hire Canadian workers, invest in expansionary projects, and consequently, the growth process will accelerate. But what if rapid growth is a threat to business?

Utilizing some of Veblen’s concepts, N&B build an argument as to why business fears both excessive slack and full capacity utilization. Glut and maximum growth alike, they tell us, produce the same outcome: a collapse in profitability. N&B provide a thought experiment to illustrate their reasoning. What would happen if all the major industries in a developed capitalist society were to produce at full socio-technological capacity rather than at ‘what the traffic will bear’? The torrent of goods and services that would flood the market (and accumulate as inventory) would put enormous downward pressure on prices and ‘undermine the tacit agreements and open cooperation among

dominant firms'. The end result would be depression and, potentially, political disintegration (2009: 236).

N&B assert that business profitability requires production, but not a 'free run of production'. Corporate institutions need to control the direction of industrial activity, they say, but they also need to curtail the expansion of industrial activities below full socio-technological potential. This situation, which they label 'business as usual', entails proprietors centring their business activities between two extremes: at one pole is excessive glut and depression, which generates low capitalist earnings, and at the other pole is full capacity utilization, which also leads to low capitalist earnings.

N&B empirically support their claim that the optimal business distribution involves a moderate degree of stagnation and under-capacity utilization by contrasting capitalist earnings and unemployment in the United States from the 1920s onward. At the height of the Great Depression, unemployment (their proxy for 'industry') was comparatively high and capitalist earnings (their proxy for 'business', measured as profit and net interest as a percent of national income) was historically low. A short decade later, during and shortly after the Second World War, both unemployment and capitalist earnings approached historic lows again. In the first instance, there was excessive slack and in the second instance there was not enough slack. The ideal position for business owners — the optimal distribution — is between the two extremes, with a moderate degree of stagnation (2009: 237-9).

In 'The Political Aspects of Full Employment', Kalecki (1943b) captures another aspect of the counter-intuitive relationship between growth and business performance.

As a consequence of government spending (financed through government borrowing), Kalecki argued that full employment had become a realistic public policy goal by the 1930s and 1940s. However, he went on to contend that the business class would staunchly oppose the policy measures required to achieve full employment. Kalecki cited a variety of reasons, but one stands out: if, through deficits, government could maintain full employment then

‘the sack’ would cease to play its role as a disciplinary measure. The social position of the boss would be undermined and the self assurance and class consciousness of the working class would grow. Strikes for wage increases and improvements in conditions of work would create political tension... and [an increase] in wage rates [would result] from the stronger bargaining power of the workers... (1943b: 140-1)

Interpreting Kalecki broadly, the control of unemployment by large corporate units may be thought of as an institutional weapon insofar as it constrains the aspirations and demands of the workforce. In the context of relatively high unemployment, the portion of the labour market that is employed will be less likely to press for higher compensation or improved working conditions. The threat of unemployment and idle capacity will tend to temper the demands of workers. But with a government policy of full employment, labour market precarity would be lessened and the workforce could grow emboldened to demand improved compensation and working conditions. This implies that the sluggish growth (stagnation) associated with moderate unemployment may be welcomed by business as a substitute to the full employment potential associated with the financial capabilities of the modern state.

This may be why, in the epigraph to the present chapter, Galbraith stated that there is a portion of the citizenry who are in favour of stagnation and underemployment: business owners and top executives may favour slower growth because it elevates the

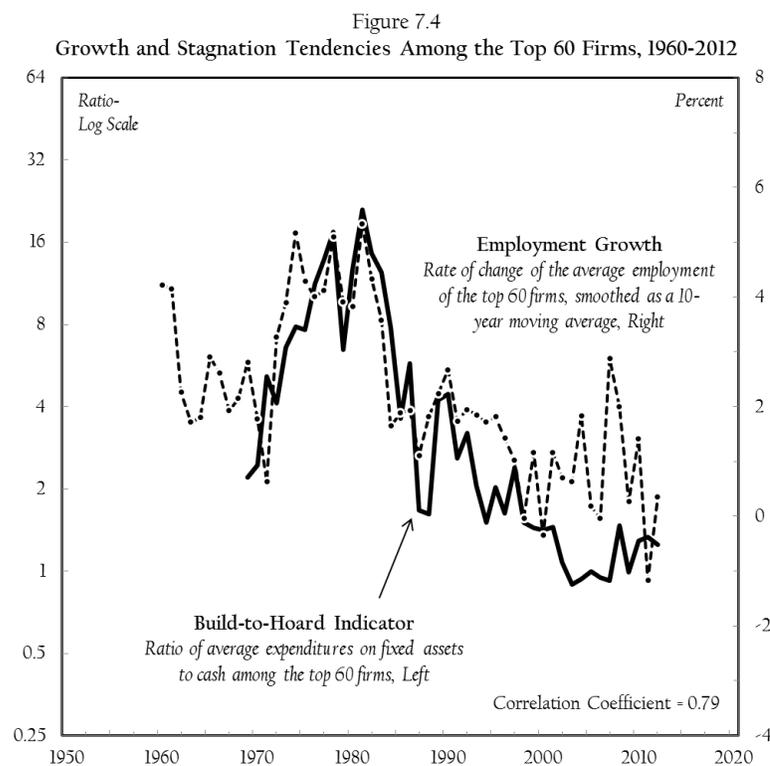
social position of business while depressing the aspirations of much of the workforce. So rather than full employment and rapid growth being something desired by business, it could pose a serious institutional threat. If moderate stagnation is something that will be welcomed by business as a substitute for robust growth, then how does the evolution of large firms fit into the stagnation picture?

7.5 Corporate Concentration and Stagnation

There is another way in which the activities of large firms may have contributed to the slower growth of recent decades and it is linked with their relative size and position. Consider what Mark Carney, former Governor of the Bank of Canada, said in a speech to the Canadian Auto Workers union in 2012: he 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. Let’s explore the meaning behind Carney’s words by honing in on the activities of the largest firms.

Figure 7.4 contrasts two series. The thin broken line captures the rate of growth of average employment among the top 60 firms, smoothed as ten-year moving averages to highlight the cyclically-adjusted trend (since a rate of change can swing wildly from year to year). The thick black line plots a ‘build-to-hoard’ ratio for the top 60 firms, measured as average expenditure on fixed assets to cash. Despite contrasting a flow (investment in fixed assets) with a stock (cash), the ratio is useful in that it captures a basic calculation

made by all large firms: (1) what proportion of assets should be held in the form of cash; and (2) how much should be spent on the expansion of industrial capacity. By contrasting *actual* money spent on fixed assets with the level of cash — money that *could* be spent on fixed assets — we get a picture of the growth/stagnation tendencies among large firms.



Source: common shares outstanding, closing share price, employment, capital expenditures and cash from Computstat through WRDS.

From a growth standpoint, Carney was right to chastise corporate Canada. Among the largest firms, the reduction in expenditures on fixed assets relative to cash is closely associated with the stagnation of employment growth. Note the trend: in the 1960s and 1970s, employment growth was relatively high and trended upward. Expenditures on fixed assets relative to cash were also high and trended upward. In the

decades after 1980, the rate of employment growth slowed and remained relatively low. So too did the spending on fixed assets (relative to cash). It appears that decisions made by the top 60 firms around employment, green-field investment and cash were a partial driver of the shift towards heightened stagnation in Canada.

Carney apparently thought that corporate Canada was too motivated by the desire for liquidity and not motivated enough to deploy its considerable resources on growth-enhancing activities. Why would corporate Canada be motivated to hold large quantities of cash rather than investing it in new fixed assets? Many factors are at play, so we'll just list a few. First, in a volatile market, prices and profitability may fall considerably in a downturn. Having more cash on hand helps stabilize earnings by having the resources to cover fixed costs amidst declining prices. This may be more applicable for the firms operating in industries with greater price variation, such as materials and energy firms, for instance.

Second, having large quantities of cash on hand can help elevate market capitalization by reducing risk. Investors often evaluate a firm based on its dividend payment history (the level and stability of its payments). By holding larger quantities of cash, firms can stabilize their dividend payments over the business cycle.

Third, possessing larger quantities of cash makes snap acquisition decisions easier to realize. Acquisitions amongst large firms are often financed through debt, but many small- and medium-sized acquisitions are made using cash.

Fourth, a lower level of inflation makes the 'penalty' associated with holding cash less severe. Sitting on a large pile of cash when annual inflation is 10 percent is far costlier

than cash-hoarding at an inflation rate of 2 percent, which may be one reason why the proportion of cash declined in the 1960s and 1970s, just as the level of inflation was ramping up, and grew in the 1990s and 2000s — the period when the annual rate of inflation was declining and/or low.¹⁰

The reasons why large firms hold a greater quantity of cash are complex and may be a consequence of many factors, but why it is that firms *obtain* large quantities of cash in the first place is, perhaps, the more immediate question. If large firms can ‘choose’ a cash-heavy portfolio, what conditions must be in place for that to be an option? Stated differently, is the growth of larger more profitable firms a pre-condition for the hoarding of cash? Before we explore that question, let’s pause to consider something that should pose a challenge to mainstream macro economists in Canada.

Since the late 1970s, the Canadian political economy has been restructured along neoliberal lines. State assets have been privatized, trade and investment has been liberalized, corporate income tax rates have been reduced, inflation is low and stable, government debt is historically low and, apart from the recent crisis, budget deficits have been low or in surplus. Corporate profitability has also soared, approaching a historic extreme and average hourly earnings have stagnated (unionization itself having declined) since the 1970s. So why have employment growth, green-field investment and GDP growth stalled? If governments at all levels have restructured the Canadian political

¹⁰ Discussion of the interest rate and monetary policy is deliberately omitted. Both have a bearing on the decisions by firms to hold larger (or lesser) quantities of cash. Such a discussion would take us outside the scope of this study.

economy to create conditions favourable to business, then why don't we see rapid employment growth and industrial expansion?

In his *General Theory*, Keynes argues that the economy can remain in a period of prolonged underemployment and stagnation in the context of unhindered markets.¹¹ This view was foreign to many economists in the 1930s who assumed the truth of 'Say's Law of Markets' — a doctrine 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 reasoning implied that the unencumbered market would tend towards equilibrium — full employment and stable prices — thus making the persistence of glut impossible (see Hunt 2002: 135-9).¹²

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 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. Keynes referred to this gap as 'hoarding'.

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: 160-1, emphasis in original).

Issuing a rebuttal to the conservative economic doctrine of J.B. Say, Keynes argues that 'hoarding' can lead to glut and stagnation. What's more, the difference between saving

¹¹ Keynes offers a variety of reasons for this, including the 'liquidity trap', the 'low interest-elasticity of investment' and the 'stickiness' of money wages. See Blaug (1968: 642-7) for a discussion.

¹² Blaug notes that Say's Law only holds in a barter economy. In a monetary economy there can be a general oversupply of commodities if there is an excess demand for money (1968: 145-6).

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 (see Hunt 2002: 413-4 for a discussion).¹³

Let us take Keynes' idea of 'hoarding' and connect it with the distribution of factor income amongst large firms (since this is a type of distribution too). We've already seen that the growth rate of employment among large firms resembles the level of green-field investment relative to cash (Figure 7.4). 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 firms manages to increase its income share through a deepening of earnings margins, then it will obtain a larger proportion of the 'funds available' to control green-field spending.

We have already documented that the growth of firm size (concentration) is associated with enhanced market power (registered in the markup). It follows that larger firms claim have a greater income share and, by implication, more extensive control over investment decisions. If these large firms stockpile a larger quantity of cash (to reduce risk, facilitate snap acquisitions or for some other reason), then 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 stagnation.

¹³ It is not the author's purpose to rehash the intricacies of Keynes argument or to highlight all the differences between the classical doctrine and Keynes', but merely to seize one aspect of it, namely his discussion of hoarding. Even then, the concept of hoarding was related to the quantity of money, the rate of interest, liquidity preferences, etc. What's more, Keynes spoke about the 'propensity to hoard' (1936: 174) in the *aggregate*, whereas the analysis here centres on largest firms in the corporate sector. And stagnation is obviously facilitated by more than just the 'propensity to hoard', though this is one aspect of it.

Let's explore this line of reasoning empirically. Figure 7.5 contrasts two series: the thin broken line portrays the relative position of the top 60 firms in the Canadian political economy by dividing net profit by GDP. The thick black line is total corporate cash, measured as domestic and foreign currency and deposits as a percent of the total assets amongst all private non-financial corporations. The two series are tightly intertwined over half a century.¹⁴



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 Computstat through WRDS; total corporate assets and corporate cash from Cansim Tables 378-0054 (1961-1989) and 378-0121 (1990-2012).

Between the early 1960s and the early 1990s, the stockpile of corporate cash averaged four percent and the band within which is varied was narrow, falling between

¹⁴ Cash (as a percent of assets) among the top 60 firms is also strongly correlated with the net income of the top 60 firms (as a percent of GDP) (the correlation is 0.65) and is also strongly correlated with cash as a percent of assets among the non-financial corporate universe (0.66).

three and five percent. This pattern broke down in the 1990s, just as the TAIL regime came into effect, a major merger wave commenced and the rate of inflation dropped precipitously, stabilizing at a low level. Between 1990 and 2012 (the year of Carney's speech), the stockpile of corporate cash nearly tripled from 4 to 11 percent of assets. This is a significant fact on its own, but it becomes more significant when we plot it against the income position of the largest firms. For the four decades between 1950 and 1990, the income share of the largest firms was effectively flat, averaging two percent, and falling within a range of one to three percent. This pattern broke down after 1990 as well, and the income share of the top 60 firms more than doubled over the next two decades, reaching a historic extreme in 2007.

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 prices), 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 intention or not). It is in this way that the growth of large firms may indirectly contribute to slower growth, thus making stagnation the 'flip side' of increasing corporate concentration.

As previously mentioned, between the Keynesian and neoliberal era's public policy in Canada was reconfigured to create conditions more favourable to business. The official purpose of the policy shift was to accelerate growth. Is it possible that some of the policy measures may have contributed to the stagnation of recent decades?

7.6 The Corporate Income Tax Regime and Stagnation

There is another aspect to this story that bears investigation. The income share of the largest firms captured in Figure 7.5 is net of corporate income taxes. This means that the effects of changes in corporate income tax (CIT) rate are built into the picture. In recent decades successive Canadian governments, Liberal or Conservative, have aggressively reduced CIT rates. CIT rate reductions were often advertised to the Canadian public for two reasons. First, they were supposed to lead to accelerated GDP growth. In mainstream theory, reductions in CIT rates mean a reduction in the cost of capital, thus inducing a greater supply of capital. Cutting CIT rates, so the reasoning goes, leaves firms with a greater proportion of their profits, and thus with more resources to plough back into job-creating investment projects. The resultant addition to economic activity is supposed to create additional tax revenue that more than offsets the lost revenue resulting from the CIT rate reductions. Thus, CIT rate reductions 'pay for themselves'. And second, CIT rate reductions were advertised as being 'necessary' to maintain global tax competitiveness.¹⁵ Canadians were told that if other jurisdictions slashed CIT rates,

¹⁵ 'Necessary' is put in scare quotes because it is often those on the political Right who make this argument. This is puzzling because the concept of necessity is in direct conflict with freedom and personal responsibility — two of the core values (in principle, if not in practice) held by those on the political Right.

Canada would become a less attractive place to invest, and consequently, would lose out on future investment and growth opportunities.¹⁶

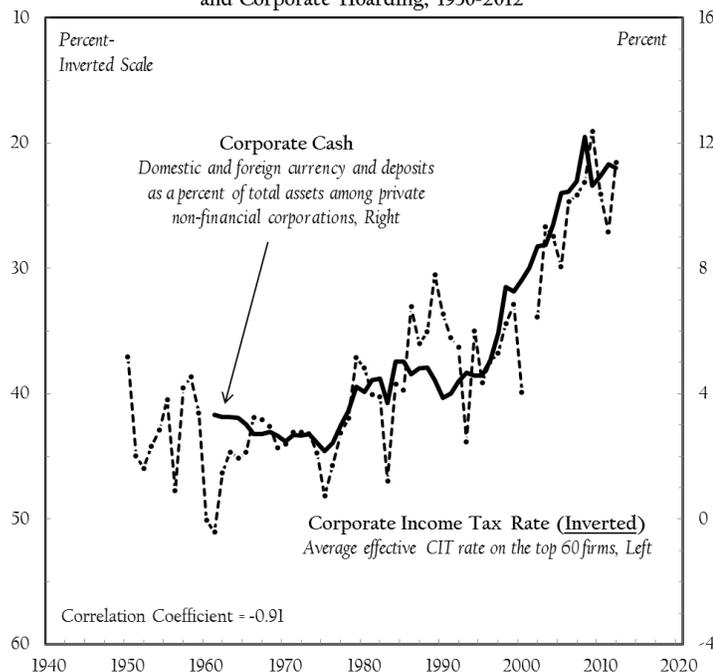
It is outside the scope of this study to examine the investment and growth consequences of CIT rate reductions in any detail, but it is worth mentioning that, over the long-haul, there does not appear to be a positive relationship between effective CIT rate reductions and either employment growth or investment in new industrial capacity. Whether we look at the effective *federal* CIT rate or the effective *overall* CIT rate, whether we look at the top 60 firms or the private sector in the aggregate, or whether we look at employment growth or business investment in fixed assets, there simply is no long-term relationship between CIT rate reductions and enhanced growth.

If the hoarding of cash by large firms helps propel stagnation, do reductions in CIT rates enable firms to acquire a larger stock of cash? According to Figure 7.6, the answer is 'yes'. The thick black line captures corporate cash, measured as domestic and foreign currency and deposits as a percent of the total assets amongst all private non-financial corporations. The thin broken line is the average effective CIT rate on the largest 60 Canadian-based firms, measured as income tax as a percent of pre-tax income. Note that the CIT rate is positioned on an inverted scale to facilitate its comparison with the level of cash.

¹⁶ Jack Mintz of the University of Calgary is sometimes described as the 'tax czar' of Canada. Publishing an annual report on global tax competitiveness, Mintz claims that the reduction of CIT rates in Canada has led to more investment and improved economic growth with no significant decreases in government budgetary revenues (because of a corresponding increase in the corporate tax base). See Chen and Mintz (2012), for example.

There is a tight and *negative* relationship between the stock of cash held by non-financial corporations (relative to assets) and the effective CIT rate. Average effective CIT rates trended upward in the 1950s, peaking at 51 percent in 1961, and trended downward thereafter, reaching a low of 19 percent in 2009. This represents a two-thirds reduction in just half a century. The holding of cash relative to assets in the non-financial corporate sector followed the opposite pattern, falling in the 1960s, rising gradually in the 1970s and 1980s before surging in the 1990s and 2000s, just as the government frenzy for CIT rate reductions set in.

Figure 7.6
Corporate Income Tax Rates on the Largest Firms
and Corporate Hoarding, 1950-2012



Source: common shares outstanding, closing share price, pre-tax income and income taxes paid from Compustat through WRDS; total corporate assets and corporate cash from Cansim Tables 378-0054 (1961-1989) and 378-0121 (1990-2012).

So there are two mutually reinforcing processes at work here. As large firms grow in size, their income share in the political economy appears to deepen. And as the tax rate

on that income share is reduced, corporate income net of tax is enlarged, thus facilitating the stockpiling of cash. Instead of CIT reductions leading to accelerated growth, as is often advertised, it may be the case that CIT rate reductions led to accelerated stagnation.

As already stressed, corporate decisions about the holding of cash are impacted by many factors, such that the establishment of a simple causal link here is not possible. However, it seems plausible — and is empirically supportable — that tax give-aways in the form of CIT rate reductions leave firms with a larger quantity of cash. If that cash is ploughed into acquisitions, dividends or is simply stockpiled, as opposed to spent on expansionary industrial activities, then CIT rate reductions may be part of the causal picture vis-à-vis the stagnation of recent decades.

7.7 Summary

Let's summarize what's been argued in this chapter, beginning with a restatement of the disclaimers. The pattern of GDP growth in Canada is not unique. It is similar to the pattern in the United States and to the OECD countries as a whole. The present study has largely ignored the international aspects of GDP growth, opting instead to focus on the national aspects. This constrains what can be said about the determinants of growth in Canada. The same is true for the pattern of business spending on fixed assets, which also appears to track international trends. A second disclaimer centred on the making of mono-causal claims. Corporate decisions around the holding of cash, for example, are impacted by many factors that were not probed in this chapter, thus limiting the conclusions that may be drawn.

The disclaimers aside, the present chapter has sought to tell a story about the national aspects of GDP growth in Canada which bears some proximity to the development of large firms. The shift from robust growth in the Keynesian era to the stagnation of the neoliberal era that we observe in the aggregate political economy is not only exhibited by the top 60 firms — it appears that their activities have exacerbated both trends. Both employment and spending on fixed assets among the largest firms grew at a rapid pace between 1950 and 1980 and slowed considerably in the decades that followed. This may be part of the reason for sluggish growth after 1980.

The income share and cash held by the largest firms remained relatively low in the Keynesian period and soared in the neoliberal period. Chapter 6 uncovered a surge in M&A activity in the neoliberal era. As firms grew in relative size, their earnings margins increased and their income share deepened. With a greater share of national income under their control, large firms also increased the extent of their control over investment decisions. And because growth is driven, in part, by green-field investment, and the latter drastically fell in the neoliberal era as a consequence of heightened merger activity, we speculated that the growth of large firms helped usher in slower GDP growth. This implies that heightened stagnation and a deeper corporate distribution (measured in terms of size and income share) are related. Corporate income tax rate reductions do not appear to have led to accelerated GDP growth. Ironically, CIT rate reductions may have contributed to stagnation by leaving a greater proportion of income in the hands of large firms to be hoarded in the form of cash.

According to the epigraph of this chapter, Galbraith would have us believe that some segments of the citizenry prefer stagnation to robust growth. Given the facts outlined in the present and previous chapters, there is some basis for his counter-intuitive contention. After all, the corporate profit share of national income, the markup, aggregate concentration and differential accumulation were all low and trending downward in the Keynesian era — the period when GDP growth was high and accelerating. In the neoliberal decades, corporate profits began to soar, the markup was high and rising, and the relative position of the largest firms increased dramatically. This period corresponded with weak growth. Given this, it is far from self-evident that dominant capital firms prefer robust growth. Indeed, moderate stagnation may be the preferred condition.

Section II mapped the development of large firms, explored the history of corporate amalgamation and prodded some of the determinants of GDP growth. Section III will explore the distribution of income and assets among firms and households. Some questions to be addressed are as follows. How should we understand the distribution of income in contemporary capitalism? Has the distribution of income in Canada changed in recent times? If it has, how do we account for the level and pattern of income inequality in Canada? How does inflation fit into the picture? Is inflation linked with social conflict? If it is, are there clear ‘winners’ and ‘losers’ from Canadian inflation? And what do distributional outcomes tell us about the evolving nature of commodified power in Canada?

Conceptualizing the Distribution of Income

The produce of the earth... is divided among three classes of the community... To determine the laws which regulate this distribution is the principal problem in Political Economy...

- David Ricardo (1817)

As the epigraph indicates, Ricardo believed that the primary task of political economy is to lay bare the underlying patterns and regularities which govern the distribution of income and wealth. Given the centrality of income and wealth in conditioning human possibilities on both an individual and social scale, it's no wonder he thought it imperative to come to a satisfactory account of distribution. This study has probed the development of large firms by mapping their structure and chronicling their growth pathways. Some questions follow. Are there distributive consequences associated with the growth of large firms? Stated differently, is there a relationship between the organizational structure of the corporate sector and the distribution of income?

These questions will be addressed in Chapters 8 through 10. The present chapter will explore some of the conceptual aspects of distribution as an analytical primer for the empirical research in Chapter 9 and 10. Why is the distribution of income socially significant? How have competing schools of thought tried to understand the distribution of income in general? What explanatory principles have been advanced to account for

recent changes in the level of income inequality in North America? And finally, do the schools of thought drawn upon in this study (capital as power, institutionalism, Post Keynesianism) have anything to offer in terms of explaining why the distribution of income fluctuates over time and how changes in the level of inequality might be interpreted?

The argument in the present chapter will unfold over six sections. The first section will document the evolution of personal income inequality over the past century, and in so doing, present the puzzle to be solved. The second section will explore why income inequality matters by reviewing the work of two British epidemiologists who have recently compiled a large body of research detailing the socially corrosive effects of heightened inequality. It will also try to make a small contribution to this literature by outlining the historical relationship between income inequality and democratic engagement in Canada.

The third section will critically review some of the hypotheses generated in recent times to explain the increasing income inequality experienced in some advanced political economy's. The fourth section will use some of the tools laid out by Veblen, Kalecki and N&B to conceptualize how an alternative explanation for the distribution of income in Canada might be generated. This alternative explanation emphasizes how changes in the institutional environment — especially (but not only) the relative size of the largest firms, union density and the extent of governmental activities — shape bargaining and exchange. The fifth will trace a line from Nitzan and Bichler's writings back through Cornelius Castoriadis to Aristotle with a view to coming to terms with some of the

philosophical issues that underpin exchange and distribution. The sixth section will summarize some of the key claims to emerge throughout the chapter.

An important omission must be articulated. Any fulsome analysis of the distribution of income requires an examination of the size, orientation and scope of the State. The various organs of government can affect the distribution of income in numerous ways, some direct, others indirect. Perhaps the most obvious example of the State's direct impact on the distribution of income is use of the tax-and-transfer system. The various sources of taxation, the level of taxation and the extent of monetary entitlement directly shape the distribution of personal income. There are many indirect areas of government activity that also shape the level of inequality, such as the State's attitude and legal stance towards collective bargaining and labour unions, competition and anti-trust policy, monetary policy as well as other areas of regulation, including public ownership, trade and investment liberalization and environmental protection, to name a few. The following investigation into the distribution of Canadian income will bypass many aspects of State power and governance, focusing instead on market structure and on the broader interplay between corporate and labour organizations, while recognizing the limits of such an approach.

8.1 A Snapshot of Income Inequality in Canada

Personal income inequality is only one aspect of the distribution puzzle. Other aspects include the distribution of income between wages, profit and interest and the distribution of wealth (understood as financial assets and physical assets).

Concentrating on personal income inequality is the least onerous route into an examination of inequality and the major reason is the availability of long-term data. The analytical importance of personal income inequality is amplified when we consider the political attention it has received in recent years thanks in part to the Occupy Movement and similar popular struggles.

Studies of personal income inequality often begin with the Gini coefficient, which is a broad measure of inequality.¹ Statistics Canada publishes data on the Gini coefficient from 1976 onward. Until a decade ago this would have been the most common metric used in assessing inequality in Canada. However, a group of researchers surrounding Thomas Piketty of the Paris School of Economics and Emmanuel Saez of Berkeley have since uncovered the history of the top income share over the past century.² Piketty (2003) and Piketty and Saez (2003) first documented the top income share in France and the United States over the twentieth century. In France, the top percentile income share gradually declined from 1920 until the Second World War, fell rapidly during the War and then continued to decline, albeit at a slower pace, in the decades to follow before inching upward after 1980.

The story with the United States is different. The top percentile income share was volatile between 1913 and 1939, fell rapidly during the Second World War, declined gradually during the decades following the War before surging upward around 1980. Whereas the top income share in France is L-shaped, in the United States it is U-shaped.

¹ The Gini coefficient ranges from a low of zero (perfect equality) to a high of one (perfect inequality) and it denotes the percent of national income that would have to be redistributed in order to perfectly equalize incomes.

² Datasets on more than two dozen countries can be found at The World Top Income Database: <http://topincomes.g-mond.parisschoolofeconomics.eu>.

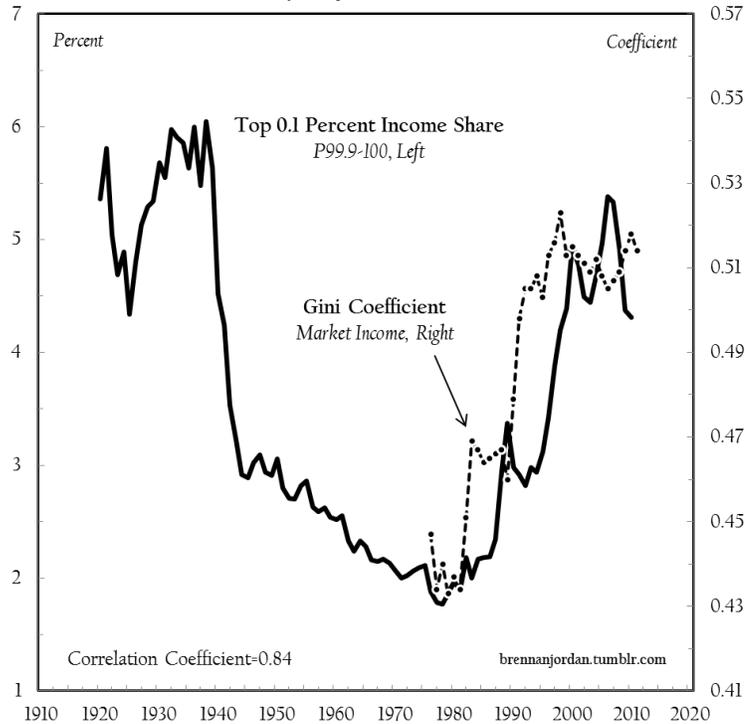
Piketty and Saez note that the latter finding challenges the view of inequality advanced by Simon Kuznets (1955), who hypothesized that as societies modernize, income inequality will take an *inverted* U-shape. Kuznets speculated that as more people migrate from a rural/agricultural economic setting to an urban/industrial setting, inequality would first rise, eventually stabilize and then fall. Piketty and Saez's research on the United States showed the opposite.

Saez teamed up with Michael Veall to document the top income share in Canada. Using tax filer data, they detail the share of national income going to the top income share from 1920 onward.³ The picture that emerges for Canada is very similar to that of the United States and other English-speaking countries.⁴ Figure 8.1 plots the top 0.1 percent income share and the Gini coefficient from 1920 and 1976, respectively. The top 0.1 percent income share is comprised (roughly) of the richest 26,000 individuals whose pre-tax income in 2010 was \$563,000 or more. Numerically, this number is far too large to be associated with dominant capital, but we can safely assume that the core of its membership is comprised of the dominant proprietors and corporate executives who together make up the Canadian Establishment. The Gini coefficient, by contrast, is a broad measure of income inequality.

³ See Saez and Veall (2005; 2007) and Veall (2010; 2012). Piketty (2005), Piketty and Saez (2006) survey the results of the initial studies on the top income share, Atkinson, Piketty and Saez (2011) provide an overview of the methodology and main empirical findings for the more than 20 countries studied, Alvaredo, Atkinson, Piketty and Saez (2013) and Atkinson and Morelli (2012) empirically summarize the top income share data for 25 countries and Piketty and Saez (2013) unpack why the top percentile income share has increased in rich Anglo societies while remaining stable in rich non-Anglo societies.

⁴ Top income share data for Canada used in this chapter come from Saez and Veall (2007), Veall (2010) and Veall (2012) with series updated to 2010 by Michael Veall. Data were retrieved from the World Top Incomes Database.

Figure 8.1
Income Inequality in Canada, 1920-2011



Note: the top 0.1 percent income share excludes capital gains. It splices together (in 1982) two series that have different methodological and source breaks.
Source: Gini coefficient from Cansim Table 202-0705; top income share from Saez and Veall (2007), Veall (2010) and Veall (2012), retrieved online from: <http://topincomes.g-mond.parisschoolofeconomics.eu/>.

The data indicate that the top income share was halved during the Second World War, declined gradually during the first few decades of the postwar era and then surged upward from the late 1970s onward. The Gini coefficient moves in tandem with the top income share, suggesting that the latter is a good proxy for the former.⁵

In terms of periodizing the data, we can identify three more-or-less distinct phases: the quarter century from 1920-1945 is characterized by crises which involve the eclipse of classical liberalism and its replacement by versions of statism. In Eastern and Western Europe, national and international socialism take route while in North America,

⁵ Leigh (2007) finds that for 13 rich societies, the top percentile income share is a good proxy for broader measures of inequality such as the Gini coefficient.

Great Britain and elsewhere, a liberal Keynesian welfare state begins to emerge. The second period spans 1945 through the late 1970s and, for Canada at any rate, corresponds with the growth and consolidation of the Keynesian welfare state. The third period begins in the late 1970s and is coterminous with the ascent and consolidation of neoliberal globalization. The facts surrounding income inequality in Canada fit this periodization scheme. The shocks associated with the Second World War radically reconfigured the distribution of income, the Keynesian welfare era saw heightened equality and neoliberal globalization has brought heightened inequality.

Until recently it was thought that income inequality in Canada was being driven by the top quintile or top decile (Yalnizyan 2007, for example). Saez and Veall's data, by contrast, shows that inequality is being driven by the top percentile and that the distribution within this bracket is highly stratified. This finding has led some to claim that North Americans have entered into a 'New Gilded Age', with levels of inequality not seen since the 1920s (see Yalnizyan 2010; Stiglitz 2011).

If personal income inequality in Canada fluctuates with the top income share, a pressing question emerges: how can we account for its level and pattern? The answer to this question is bound to be multifaceted and complex. Before addressing this question in Chapter 9 and 10, we need to understand why income inequality matters.

8.2 Why Income Inequality Matters

In 2009 two British epidemiologists named Richard Wilkinson and Kate Pickett published *The Spirit Level*. The thrust of their argument is that rich societies with less

income inequality — less relative poverty — do better on a wide range of social indicators even if they have lower absolute levels of wealth. Their research demonstrates that in the early stages of development, as societies modernize, there are many broad-based improvements to people's lives, notably life expectancy and happiness. But the relationship between national income per capita and life expectancy and happiness has limits. These gains from growth diminish over time and eventually level off. Once a society crosses a threshold, in their research it is GDP per capita of \$25,000 USD, the above gains from growth plateau (2010: 8).⁶

Wilkinson and Pickett note that the social problems in rich societies tend to be concentrated in the lower part of the social hierarchy: people die sooner, are less happy and generally fare worse if they are in the bottom income brackets. However, when they compare across rich societies they find that these social problems bear little or no relation to levels of *average* income. Across a wide range of social indicators such as levels of trust, mental illness (including drug and alcohol addiction), life expectancy, infant mortality, obesity, children's educational performance, teenage births, homicide, imprisonment rates and social mobility, they find that all the problems associated with

⁶ To be clear: this is average income per person. This does not imply that individuals who attain this income cannot be made better off from the standpoint of life expectancy or happiness with more income. Instead, it means that in a society like Canada where national income per capita approaches \$40,000 USD, Canadians have surpassed the point where more economic growth can be expected to contribute to increased *average* life expectancy and happiness. The 'economics of happiness' literature suggests something slightly different. Kahneman and Deaton (2010), for example, parse subjective assessments of well-being in the United States into two compartments: day-to-day emotional well-being and overall life satisfaction. They find that both assessments of well-being rise as individuals climb up the income scale. However, 'diminishing returns' eventually set in and, for emotional well-being or 'happiness', it plateaus around \$75,000 in annual income. Beyond that point, more income does not translate into more happiness. See Holmes (2010) for a discussion. Other literature on the economics of happiness suggests that the relationship between GDP per capita and subjective well-being may be more complex than Wilkinson and Pickett admit. See Easterlin (2001), Easterlin *et. al.* (2010), Helliwell and Barrington-Leigh (2010), Helliwell, Layard and Sachs (2012: chapter 2) and Stevenson and Wolfers (2008), for a small sample.

being at the bottom of the social hierarchy are more common in more unequal societies. This is another way of saying there is a positive relationship between income inequality and social pathology.

This claim undermines the view that social problems are caused by poor material conditions. If the latter were true then richer societies would do better than poorer ones. What matters, they contend, is not absolute poverty, but *relative* poverty. Their conclusion: ours is the first generation in the history of humanity for whom improvements in the quality of life are not tied to increases in material comfort. Rather, reducing inequality is the best way to improve the quality of our social environment and social life, and this even applies to people at the very top of the social hierarchy (2010: 275). If this conclusion is correct then inequality should no longer be thought of as a 'progressive' value; it should be understood as a broad barometer of social well-being.

The list of social ills that Wilkinson and Pickett generate is certainly long, but there might be an important omission. Consider a recent headline: 'Canadians quickly losing faith in their democracy' (Mackrael 2012). The survey of citizen sentiments was undertaken by Samara, a non-profit, non-partisan political research organization and it shows that only 55 percent of Canadians report being satisfied with the quality of their democracy. This is a historic low point and it represents a 20 percent decline in under a decade. The discontent appears to be attributable to a divergence between the views and interests of the citizenry and the responsiveness of elected officials (Anderson, Hilderman and Loat 2012).

Samara also surveyed the ‘politically disengaged’ to find out why they do not participate in the political process (Bastedo, Chu, Hilderman and Turcotte 2011). Disengagement, they find, is not confined to declining voter turnout, but includes party membership, political donations and protest activities. The authors find some surprising features of the politically disengaged: (1) their unwillingness to participate cannot be reduced to political apathy or ignorance — many are well-informed; (2) nor can their disengagement be attributed to a lack of democratic values — many embrace them. Among the factors unifying the politically disengaged is the perception that politics is an ‘insiders game’ and that they stand on the outside. Government, bureaucrats and the media are ‘working for someone else’ and are unresponsive to their needs (Anderson *et. al.* 2011: 3).

What’s more alarming is that many came to this conclusion after having participated in the political process. In other words, they *became* outsiders, which is to say they did not cynically assume that politics was the exclusive game of the privileged. Instead, they learned from experience that ‘engagement is futile’ and that the political process is unresponsive to their views and interests (Anderson *et. al.* 2011: 4).

Heightened political disengagement is not confined to Canada. In 2001, the American Political Science Association created a Task Force on Inequality and American Democracy (APSA Task Force for short) to study the ways in which trends in inequalities impacted democratic participation and governance. The APSA Task Force argued that rising concentrations of income and wealth threaten the ideals of equal citizenship and democratic governance because it amplifies the political voice of the

privileged while muting the political voice of the underprivileged (APSA Task Force 2004: 18). Besides noting that political participation in the United States is highly stratified along socio-economic lines and that governing institutions are more responsive to affluent Americans, the authors of The Report express their fear that rising inequality will exacerbate these trends by threatening the values of fairness and inclusion which underwrite the ideals of equal citizenship (2004: 5-6).

The fears expressed by the APSA Task Force are supported by subsequent research. Solt (2008) finds that higher levels of income inequality are positively associated with lower levels of political participation amongst all income groups except the most affluent. This finding is one possible answer, Solt asserts, to researchers (Brody 1978 is the example he uses) who wonder why political participation is declining in developed democracies. The Meltzer-Richards model presumes that economic inequality would be mitigated in democracies because broad swathes of the electorate in lower income groups would support redistributive policies. And while this thesis seemed plausible (on the grounds that people tend to vote in their self-interest), Solt hypothesizes that redistributive policy can be avoided if the most affluent citizens can remove it from the policy agenda or if they can depress political engagement by making the democratic process itself meaningless to lower income groups.

Evidence for the United States supplied by Gilens (2005) supports Solt's hypothesis. Gilens finds that governments tend to respond to the interests of the public in general, but when the public is parsed according to socio-economic status, policy decisions strongly reflect the preferences of the top income group and bear no

relationship to the preferences lower income groups. This might be one reason why all but the most affluent choose not to participate with the same intensity (2005: 793).⁷

It seems intuitive that as the distribution of personal income and wealth becomes more unequal, with the rich pulling away from the rest of society, government priorities and behaviour might become more closely attuned to the most affluent members of the society. Even in the context of democratic institutions, the concentration of corporate assets and income may have an impact on the activities and orientation of government which, in turn, may produce a negative feedback loop on the levels of political engagement among lower income groups. The question arises: is there a relationship between the level of income inequality and level of democratic engagement?

The data in Figure 8.2 suggests that the two phenomena might be related. The thick black line registers personal income inequality in Canada, measured by the Pareto-Lorenz coefficient, and the thin broken line captures voter turnout in federal elections.⁸ The Pareto-Lorenz coefficient captures the concentration of income among the rich (the higher the coefficient, the lower the concentration). The two series are tightly and positively correlated over the past century and the strength of the relationship increases over time.⁹ Income inequality decreased between 1920 and the 1970s and increased thereafter. Voter turnout in federal elections, which may be taken as broad proxy for

⁷ Kelly and Enns (2010) deny that governments are more responsive to rich than poor in terms of their policy priorities. And while heightened economic inequality might lead to depressed democratic engagement, Timmons (2010) argues that, from an international standpoint, there is no evidence to support the opposite position, namely that democratic institutions lessen the level of economic inequality.

⁸ Saez and Veall (2007) compute this coefficient using the top income share estimates. As a rule they were estimated from the top 0.1 percent share within the top 1 percent share: $a=1/[1-\log(S1\%/S0.1\%)/\log(10)]$.

⁹ The Pearson correlation for the United States is 0.30 between 1912 and 2012 and rises to 0.57 between 1944 and 2012 (for presidential elections). In Sweden, a country with a much lower levels of inequality, the correlation is 0.86 between 1948 and 2010 (for parliamentary elections).

democratic engagement, trended upward in the first half of the century, peaked in 1959 and then tumbled to a historic low in 2008. It is worth noting that the 1988 'free trade' election represents a turning point in both metrics; voter turnout dropped precipitously afterwards while income inequality surged.



Source: Pareto-Lorenz Coefficient from Saez and Veall (2007), Veall (2010) and Veall (2012) with series updated to 2010 by Michael Veall. Retrieved from: <http://topincomes.gmond.parisschoolofeconomics.eu/>; voter turnout from Elections Canada, retrieved from: <http://www.elections.ca/content.aspx?section=ele&dir=turn&document=index&lang=e>

It would be unwarranted to argue that heightened income inequality is the monolithic cause of democratic disengagement. Plainly there are many factors which influence the level of political participation. And while there is no way to demonstrate causality, it seems reasonable to suppose that there is a relationship between the concentration of personal income, on the one hand, and the responsiveness of political institutions to the views and interests of the less affluent citizenry, on the other. This

finding is compatible with the studies undertaken by Samara (and others) which indicate that politics is an ‘insiders game’ and that there is a fundamental disjuncture between the ordinary citizen and governing authorities.¹⁰

The findings of Wilkinson and Pickett in tandem with the potential damage that inequality inflicts on the democratic process makes the need to find an answer to the question of what drives income inequality even more imperative. If income inequality proxies as a barometer for social pathology, and if inequality is a threat to the democratic process, then how has the level of inequality in Canada been understood?

8.3 Understanding the Distribution of Income

Kaldor (1955-56) posits that there are four main theories of distribution: a classical theory associated with Ricardo, a Marxian theory, neoclassical theories, which he breaks into two subsets — the marginalist theory associated with Wicksteed, Clark and Marshall and the ‘degree of monopoly’ theory associated with Kalecki — and finally, a Keynesian theory. Brown (2005) argues that institutionalists such as Veblen, Commons and Ayres did not construct a systematic model of distribution, but that it is possible to paste their scattered insights together in a way that would make an institutionalist theory of distribution intelligible. To critically review each theory would be both long and redundant given how much academic attention each has received. Instead, we will concentrate on the neoclassical theory because it informs most of the recent scholarship on the distribution of income.

¹⁰ Tilly (2003: 42) argues that democratic regimes that fail to exercise collective control over ‘financial capital’ or fail to redistribute the value produced from it risk de-democratization. Given the research reviewed here, it is difficult to overstate the corrosiveness of inequality on the health of the body politic.

The core claim that neoclassicists make is that both factor income and personal income are determined by the forces of supply and demand, which in turn, disclose the underlying productivity of the economic inputs/agents (see Samuelson and Nordhaus 2010: Chapter 12 for an exposition). In this line of reasoning, ‘the market’ acts as a mirror: under conditions of perfect competition, the distribution of pecuniary rewards reflects the marginal productivity of the economic actors. The marginal productivity theory of distribution, as it has come to be known, was first articulated by J.B. Clark in his *The Distribution of Wealth* (1899), and it draws a causal line running from production to distribution:

... the distribution of the income of society is controlled by a natural law, and that this law, if it work[s] without friction, [will] give to every agent of production the amount of wealth which that agent creates... the social procedure is true to the principle on which the right of property rests... it assigns to every one what he has specifically produced (1899: v).

Clark continues:

In the final division that takes place within the sub-groups — the division that separates the gross earnings of each of them into wages, interest and profits — a law of production rules. So far as natural laws are unperverted, labor tends to get... what it separately produces; and capital does the same (1899: 21).

Clark summarizes:

... the whole of distribution, as well as the whole of exchange, would be included within the organized process of producing wealth. Unravel the web of the social product, tracing each thread to its source, and you will have solved the problem of distribution (1899: 21).

As Clark sees it, distribution is a consequence of production. The wage rate and the profit rate are determined by the proportional productive contribution labour and capital, implying that each class of income and each individual income earner receives as income the market value of the difference in output attributable to the last unit of ‘input’.

As noted in Chapter 2, the theory advanced by Clark serves not only as a positive theory of distribution, but as a normative principle of distributive justice insofar as it simultaneously specifies the conditions under which the world of fact (*is*) and the world of value (*ought*) coincide.

Even though this theory enjoys considerable influence it has been subject to withering criticism. Recall Chapter 2 once more, which specified Veblen's two-part criticism of neoclassical capital: first, the concept of capital as a stock of physical equipment breaks down in the face of 'capital mobility', which almost always signifies a transfer of ownership titles and legal rights, not a transfer of material-productive entities; and second, the concept of an aggregate production function presupposes that capital has a homogeneous property that can be aggregated in its own material-productive units, but no such property is evident in the actual world. If we are prepared to accept Veblen's replacement definition, namely that capital is financial wealth — a pecuniary fact, not a mechanistic one — then it follows, as Veblen rightly shows, that Clark's theory of 'natural distribution' goes 'up in the air' (1908a: 200).

Veblen argues that the returns to capital will reflect the 'differential advantage' that capitalists secure relative to each other and to the industrial community at large. But this does not imply Marxian-style exploitation, for Veblen asserts that the usefulness of labour, too, is dependent upon the 'community's accumulated technological knowledge' and cannot be specified in atomistic terms. Clark's theory of distribution, Veblen says, amounts to saying: 'the wages paid to labour are just and fair because they are all that is

paid to labour as wages' (1908a: 203). The notion that the distribution of factor or personal income reflects marginal productivity is, under these suppositions, nonsense.

Brown contends that one of the main points of disagreement between institutionalists (like Veblen) and neoclassical orthodoxy is the notion that resources have 'intrinsic worth'. Brown reminds us that Clark's theory presupposes that the 'just price' of resources will be equivalent to their 'inherent value'. Neoclassicists admit, he continues, that direct measurement of the relative productivity of the factors is not possible, but they presuppose that the competitive market will nevertheless reward factors in proportion with their intrinsic worth (2005: 919). This leap of faith should not have been possible after Veblen, but if neoclassicists at mid-century could safely ignore Veblen (who had been in his grave for two decades), the criticism levelled by Joan Robinson (1953-1954; 1959; 1970; 1971) and Piero Sraffa (1960) would be harder to duck. And so, perhaps unwittingly, neoclassicists were lured into the Cambridge capital controversies. The attack on the neoclassical theory of capital and distribution left the very thing Ricardo insisted we need to understand — the division of income between rentiers, capitalists and workers — shrouded in darkness.

Even though the Cambridge capital controversies began as a dispute about the measurement of the quantity of capital in aggregate production functions, Robinson (1981) concludes that it was the meaning of capital that was called into question. The inability to quantify capital in non-price terms was deeply significant, for it meant the loss not only of the aggregate production function, but of the theory of distribution as well. And because 'distribution theory is a special case of the theory of prices', as

Samuelson and Nordhaus (2010: 288) assert, price formation was also lost. Given that the major theory of distribution over the past century is in serious disrepair (whether its proponents know it or not), how have scholars tried to explain the distribution of personal income?

Three decades of increasing income inequality in North America and elsewhere has spawned a large literature trying to pinpoint underlying causes. In what follows we highlight three of the main hypotheses.¹¹ One explanatory scheme focuses on technological change and the resulting alteration in demand for certain types of labour. The skill-biased technological change (SBTC) thesis, as it is known, suggests that technological change increases the demand for high skilled workers and depresses the demand for low skilled workers, thus explaining heightened wage inequality in the United States (a position endorsed by Moore and Ranjan (2005) and contested by Card and DiNardo (2002)).

Others identify 'globalization' as the culprit behind heightened inequality (Krugman 2008, for example). Heightened international trade, particularly the import of manufactured goods by developed societies from developing societies, will have an impact on the wage distribution in rich societies. As developed countries import more labour-intensive manufactured goods from low-wage countries, Krugman argues, one effect will be downward pressure in both relative and absolute terms on the wages of less educated and/or lower skilled workers.

¹¹ Veall (2012) and Volscho and Kelly (2012) provide useful literature reviews. Some of the materials cited in this brief overview were brought to the author's attention through their reviews. Gordon and Dew-Becker (2007) provide a fairly comprehensive survey of the mainstream hypotheses.

A third explanation centres on executive compensation practices. Gabaix and Landier (2008) argue that surging executive compensation closely tracks firm size, and because pay is linked with performance, the growth of the former is explained by the growth of the latter. Bebchuk and Grinstein (2005) argue just the opposite: executive compensation far outstrips firm size and performance. Bebchuk and Fried (2006) document the disjuncture between pay and performance, arguing that the absence of arms-length institutional arrangements on corporate boards enables executives to upwardly influence their level of remuneration. Dysfunctional corporate governance is partially to blame for the surge in top incomes, they say.

These theses suffer from two major difficulties. The fact that top incomes have surged in Canada, the United Kingdom and the United States while remaining flat in France, Germany and Japan — all of which are advanced technological societies whose political economies have globalized — suggests that heightened inequality cannot be solely attributed to either technology (SBTC) or trade (globalization). A more fundamental criticism is derived from the untenability of the marginal productivity theory of distribution, which appears to backstop all three hypotheses. Attributing heightened inequality to SBTC, trade or executive compensation practices presupposes that pecuniary incomes reflect productive contributions, but the causal chain linking the distribution of income with production has never been established. Presupposing its truth is entirely inadequate; each hypothesis ends up ‘begging the question’.

Other hypotheses have been offered which do not directly invoke productivity. Piketty and Saez (2006) identify the role played by changing social norms and

institutional arrangements. This thesis is broad enough to be factually plausible, but it lacks specificity. They do not detail what the social norms and institutional arrangements are, nor do they spell out how and why they are changing. Without an adequate exposition of these aspects, the assertion remains too general to be of much use.

Stiglitz (2012a; 2012b) breaks rank from his economic peers when he describes the impact that politics (read: power) plays in shaping markets. What's more, he discusses the role 'monopoly profits' play in fuelling inequality, but his discussion is predicated on the notion of 'rent seeking'. The difficulty with the concept of rent seeking is that it presupposes that there is a natural (i.e., purely market determined) rate of profit which reflects marginal productivity, which then gets 'distorted' through political lobbying, skewed regulations and other 'special interest' group activities. But no such 'natural' rate has ever been established.

Outside the discipline of economics, scholars using 'power resources theory' (associated with Korpi 1978; 1983 and Stephens 1979) claim that unions and left wing parties reduce pre- and post-tax-and-transfer inequality (see Bradley *et. al.* 2003; Brady 2009; Brady and Sosnaud 2010; Kelly 2005; 2009; Moller *et. al.* 2003). This claim might have some historical and institutional plausibility and it will be explored in what follows.

Now that we have seen how others have made sense of rising inequality, let's use the tools laid out by Veblen, Kalecki and N&B to conceptualize how an alternative explanation for the distribution of income in Canada might be generated.

8.4 Institutional Power and Distribution

Let's begin by revisiting some of the conceptual infrastructure laid out by Veblen. Veblen would have us believe that 'industry' is controlled by 'business', i.e., the material-productive-technological apparatus of society is subject to the disciplining influence of the large corporation and the credit economy that grows around it. Veblen states:

The economic welfare of the community... is best served by a facile and uninterrupted interplay of the various processes which make up the industrial system... but the pecuniary interests of the business men... are not necessarily best served by an unbroken maintenance of the industrial balance... Gain may come to them from a given disturbance of the system (1904: 19).

Business aims at 'differential gain', calibrated in pecuniary terms. This can unfold through a limitation of industrial processes, namely unemployment. Veblen contrasts the inhibiting practices of business with the enhancing practices of the engineer and worker, who enter the picture not from the pecuniary side, but from the material side. The latter two are concerned with industrial-mechanistic processes, not business processes. Their concern is use value, not market value. The implication, as Veblen sees it, is that business activities belong under the theoretical heading of 'distribution' because their ultimate aim is the 'alteration of the distribution of wealth' (1919b: 294-7).

Where does unemployment enter the picture? The 'natural right of investment', Veblen tells us, furnishes the legal right to withhold a part of the industrial apparatus from use. 'Ownership of industrial equipment and natural resources', he says, confers the legal right to 'enforce unemployment', an outcome he refers to as 'sabotage' (1923: 65-66). Business aims to limit industrial processes by restricting output to a level that will result in a price that absorbs the entire purchasing power of the underlying population. Recall

the example of Potash Corporation once more. The Potash executive stated that the volume of output would be restricted (*industrial limitation*) to a level that would yield the target price (*differential business gain*). Herein we find a link between profit and unemployment, or pricing and institutional power. The ability to control industrial processes by enforcing unemployment is one of the core institutional powers of capital.

N&B develop this idea conceptually and historically by positing a 'non-linear' relationship between business and industry (2009: 232, 236-7). The way they conceive it, capitalist income (*business*) and capacity utilization (*industry*) are positively related up to a point, after which the relationship becomes negative. They explain:

If industry came to a complete standstill, capitalist earnings would be nil... But capitalist earnings would also be zero if industry always and everywhere operated at full socio-technological capacity... 'business as usual' means oscillating between these two hypothetical extremes... When sabotage grows too loose, industry expands toward its societal potential, but that too is not good for business, since loss of control means 'glut' and falling capitalist earnings. For owners of capital the ideal condition... lies somewhere in between (2009: 236-7).

The claims made by Veblen and N&B are certainly unorthodox. Commenting on Veblen's conception of the business man as *saboteur* of the industrial system, Heilbroner notes how bizarre the claim sounds in the light of the history of economic thought. Smith and Ricardo both put the capitalist at the centre of their story of economic progress. Even Marx, for all his vitriol over capitalistic 'exploitation', still viewed the capitalist as a progressive subject. Veblen, Heilbroner notes, puts the business man at the centre of the system only to assert that he derives an income by conspiring against industrial serviceability (1953: 234-5).

In Veblen's scheme, the capitalist is only partially driven to facilitate production and enhance efficiency. The capitalist can also generate earnings by undermining production and impairing efficiency. These incendiary claims, Heilbroner notes, not only sound wrong, but foolish. Despite this, Heilbroner comes to Veblen's defence. In Veblen's historical setting, it was not unusual for the 'captains of industry' to have industrial infrastructure 'sabotaged', i.e., powerful businessmen would pay others to damage or destroy the property, plant and equipment of competitors. Heilbroner mounts an *apologia* for Veblen:

[Veblen's] essential thesis was all too well documented by the facts: the function of the great barons of business was indeed very different from the functions of the men who actually ran the productive mechanism. The bold game of financial chicanery certainly served as much to disturb the flow of goods as to promote it (1953: 238).

N&B use the term 'sabotage' not to denote the physical destruction of industrial infrastructure (although that may be involved from time to time); instead, 'sabotage' implies the limitation of production and capacity under-utilization through unemployment.

The argument to follow will use these ideas to unpack income inequality in Canada, but a caveat is appended: although unemployment may validly be thought of as a partial manifestation of capitalist power, the argument here is not predicated on the notion that proprietors always consciously collude or collectively intend to impair industrial processes through unemployment.¹² The absence of evidence of intentionality

¹² A personal anecdote to support the point: in 2013, the author attended a meeting of unionized railway workers in Canada. These workers noted that the CEO of one of the largest private sector railroads (who will remain nameless) and is known to the workers for his business ruthlessness, had an option in his contract that specified if he were to hit his 'operating ratio', which is a ratio between revenues and costs, he would receive a multi-million dollar bonus. As the fiscal year end approached, the CEO laid off a few

at a micro level is significant. Despite this, at the aggregate level there may be redistributive consequences (differential business gain) to higher and lower levels of unemployment (industrial limitation). So that is one way of linking the specifically capitalist power to enforce unemployment with the distribution of income. The next section will drill down further to see how the conditions of exchange shape the distribution of income.

8.5 An Aristotelian Interlude

N&B argue that the two main theories of capital, and by implication, the two main theories of exchange and distribution — neoclassical economics and Marxian political economy — are anchored in deeply problematic suppositions.¹³ Each system assumes ‘intrinsic equivalence’ in production and exchange and a separation of economics from politics. And each system builds its universe of production and exchange using basic units or ‘elementary particles’: the neoclassicists build their universe with the ‘util’ (a unit of pleasure) and the Marxists build theirs with a unit of ‘abstract labour’ (and in so doing, highlighting the centrality of labour and production in social life). In response to the question, ‘what is capital’, N&B articulate the answer offered by the two main systems this way:

... the endless diversity of commodities [can] be reduced to alternative groupings of identical utils or abstract labour time... The answer [to the question, ‘what is capital?'] lies in this transformation. Since exchange merely transfers the substantive quantities of production and consumption, it follows that underneath every ratio of prices there lies a

hundred employees (whose work was vital to the functioning of the railroad) in order to meet his operating ratio. This example establishes a direct line running from between business gain (salary bonus) to industrial sabotage (i.e., unemployment).

¹³ The following discussion is drawn from Nitzan and Bichler (2009: 147-9).

corresponding ratio of utils or abstract labour. In both cases, the pecuniary appearance of capital is merely the mirror image of its material/energy substance. The financial liabilities on the right-hand side of the balance sheet derive their value from... the productive assets on the left-hand side (2009: 148).

The problem with this formulation, they say, is that no one has ever been able to observe or measure utils or abstract labour and there is no convincing way to separate economics from politics. If the (quantitative) world of production and consumption, denominated in pecuniary terms, cannot be reduced to the quantitative world of utils and abstract labour, i.e., if intrinsic equivalence is not grounded in the 'material sphere of consumption and production', then they ask: 'is there anything else... with which to explain the quantitative order of prices, exchange and distribution?' (2009: 148)

Their answer is 'yes'. N&B read through Castoriadis (1984) back to Aristotle's *The Nicomachean Ethics* (2004), arguing that equivalence in exchange cannot be rooted in the properties of commodities. On their reading of it, Aristotle posits that equivalence in exchange is made possible through the *nomos* — the social, legal and historical institutions of society create the possibility of equivalence in exchange. There is no intrinsic property or quality to commodities which makes them exchangeable; social institutions create the basis for exchange. This much looser formulation, they note, means that prices and distribution are set somewhere along a continuum with social struggle on one end and cooperation on the opposite end. We might interpret their assertion this way: horizontal, egalitarian social structures will emphasize cooperation and have a more compressed distribution; hierarchically-organized, authoritarian social structures emphasize power and tend to have deeper distributions. The ratio of prices

(and by implication, incomes) does not reflect the ‘intrinsic worth’ of the goods and services; it reflects some combination of cooperation and power struggles in society.

Let’s consider Aristotle’s formulation a bit more carefully because it will frame the interpretation of income distribution that follows. Plato posits that ‘a city comes to be because none of us is self-sufficient’ (1992: 369b) and as his student, Aristotle, reasoned similarly: ‘it is exchange that holds [society] together’ (2004: 1133a).¹⁴ Plato and Aristotle claim that political associations are formed because they create the conditions for people to exchange the goods and services they need to survive. If politics comes into being to facilitate exchange, how does the former make the latter possible? Here is the line of reasoning, and the riddle, that Aristotle offers: ‘Without exchange there would be no [political] association, without equality there would be no exchange, without commensurability there would be no equality’ (1133b 15). Political association rests on exchange, but exchange cannot take place without political association. For exchange to take place and human needs to be met, things and people must be made commensurate, which enables them to be equalized (though commensurability does not necessitate equalization). If we accept Aristotle’s suppositions, three questions follow: first, what is politics?; second, how does politics make exchange possible?; and third, how are things and persons made commensurate and equal?

¹⁴ In the Bartlett and Collins translation (2011: 1133a), the phrasing is: ‘people stay together through mutual exchange’. A friend and colleague, Stefanos Kourkoulakos, pointed this out for me. Kourkoulakos also noted that a term used in the adjoining sentence, ‘proportional reciprocity’ (*metadosis*), more accurately captures what holds society together for Aristotle. The terms ‘proportional reciprocity’ and ‘exchange’ are not substitutable, he argues, and reliance on the latter has the potential to mislead or distort Aristotle’s views on why a political community comes to be and what holds it together.

On the question of politics, Aristotle asserts that every art and every action aims at some good (1094a) and ‘politics’ is the science that studies the supreme good for human beings (1094b 5). ‘The good’, as he sees it, is ‘an activity of the soul in accordance with virtue’ (1098a 15). On this understanding, politics is inextricably bound up with virtue and the good. Now, Aristotle discusses all sorts of virtues — moral, intellectual and otherwise — but justice is unique among them because it is ‘complete’ or ‘sovereign’ virtue, ‘the whole of virtue’ (1129b 25). And justice, as he sees it, cannot happen apart from political association. This is why people aren’t only concerned with exchange; exchange must be fair, i.e., just, otherwise ‘quarrels and complaints break out’ (1131a 20).

So how does politics (that which aims at the good) make exchange (that which aims at material sustenance) possible? The short answer is the law, but we could broaden this formulation to include the customs, conventions, norms and institutions that grow out of the political community (the *nomos*). Aristotle says:

The laws prescribe for all the departments of life, aiming at the common advantage either of all the citizens or of the best of them, or of the ruling class or on some other such basis. So in one sense we call just anything that tends to produce or conserve the happiness... of a political association (1129b 15).

Note that Aristotle suggests that the law can aim at different things. It can serve the ruling class, the citizenry at large or some other group. The significance of this assertion will be unpacked below.

If need brings people together, then justice (that which the law aims at) holds them together. The question of *distributive* justice, for Aristotle, arises whenever something is divisible in a political community. Distributive injustice will take place if X gets too much or too little of the divisible thing in relation to Y or Z (1130b 30). However,

it is not at all clear what this means vis-à-vis exchange. Aristotle clarifies: a just act will involve at least four terms — two people for whom the act is just, and two shares in which justice is manifest (1131a 15-20). But the precondition for exchange, he tells us, is the equalization of things such that the equality between the shares will be mirrored by the equality between the people. The problem: how can qualitatively different things and unequal persons be made commensurable and then equal? ‘Money’, Aristotle answers. Money grows out of society and has the capacity to make things and persons commensurable and, in practice if not in principle, enables their equalization (1133b 15).¹⁵

Proportional reciprocation is the basis of fair exchange, Aristotle tells us (1132b 30), and here we come to the rub of the matter because it is not self-evident that proportionality between people and things has an objective basis. Aristotle states:

Everyone agrees that justice in distribution must be in accordance with merit in some sense, but they do not all mean the same kind of merit: the democratic view is that the criterion is free birth; the oligarchic that it is wealth or good family; the aristocratic that it is excellence. So justice is a sort of proportion... [and] proportion is an equality of ratios... (1131a 25-30).

Everyone agrees that ‘merit’ should be the governing principle in distributive matters, but there is substantive disagreement about the content of ‘merit’.¹⁶ Aristotle recognized that the way people evaluate proportional reciprocity depends on a prior scheme of values. The question becomes: where do we locate this prior scheme of values?

There are two answers to this question, one collective and one individual. From a societal perspective, Aristotle recognized that ‘the law’ can aim at different things, as we

¹⁵ ‘Money’ or *nomisma* shares the same root as ‘custom’ or ‘law’, namely *nomos*.

¹⁶ Castoriadis (1984: 310) interprets Aristotle as suggesting that the question of fairness in proportion requires what Castoriadis calls a ‘proto-value’ or *axia*, an ‘in accordance with’ statement. Castoriadis praises Aristotle for raising this question, but thinks it remains unresolved in his work.

noted above. And because the law creates the basis for exchange, different political regimes will produce different distributive schemes. We can interpret this to mean that democratic regimes will produce flatter distributions and non-democratic regimes will produce deeper distributions. How does this play out in practice? Consider two hypothetical distributive schemes: in Stockholm, lawyers earn, on average, twice as much as taxicab drivers and in New York City lawyers earn, on average, ten times as much as taxicab drivers (ratios of 2:1 and 10:1, respectively). In terms of positive explanation, it is fruitless to try to root the differing ratios in 'demand and supply' or 'marginal productivity'. No one has ever been able to convincingly do so. What are we left with? The laws/institutions of Stockholm differ from those of New York and these differences shape exchange.

In terms of normative evaluation, our sense of distributive fairness will be traceable to some prior scheme of values, even though we all agree that 'merit' should govern exchange. Aristotle tells us: 'politics... prescribes what subjects are to be taught in states' (1094a 25). The broad significance of this statement is that individuals are educated in the political community and their beliefs and values will be shaped by its laws, customs and conventions. And because 'all lawful things are in some sense just' (1129b 10), in Stockholm and New York both distributive schemes will be just, by definition (so long as they are lawful). So the law/politics shapes education, education shapes values and beliefs, and values shape the content of 'merit'.

If different political regimes produce different bases for exchange (different distributive schemes), and thus provide a *factual explanation* of the differing ratios, why do

some people *normatively evaluate* the ratios as ‘just’ and others as ‘unjust’? In one sense it will be just if it is lawful. But lawfulness is not the entirety of justice. Another crucial aspect of justice — the distributive aspect — is fairness. This raises a related question: if everyone in a society is educated according to the same laws (customs, conventions, etc.), why do some find the ratio of incomes fair and others unfair? Part of Aristotle’s brilliance is his recognition that (1) differing political institutions will produce differing distributive schemes and (2) within a given political community, even though all live under one law, there will still be substantive disagreement on distributive justice because *different political types* will evaluate distributive outcomes differently. Democrats anchor their values in freedom, oligarchs in possession and aristocrats in excellence. ‘Merit’ means different things to each political type.¹⁷ To say that the ratio of incomes between physicians and bus drivers in Stockholm is ‘more fair’ than the ratio in New York City is simply to align oneself with the more egalitarian (democratic) outlook of the Swedes as opposed to the more hierarchical (oligarchic/aristocratic) outlook of the Americans.

If social conflict or struggle is an ‘eternal’ aspect of civilization — and here we need not confine ourselves to conflict over income and wealth, but also power, status, honour and other ‘divisible things’ in the political community — then understanding socio-institutional power might help us determine why the level and pattern of income and asset inequality in Canada fluctuates over time. Stated differently, if broad institutions shape exchange, then understanding the relative position of those institutions in the social hierarchy might help us come to a more satisfactory

¹⁷ This recollection of and reflection on Aristotle’s thought does not imply that he was a relativist (in distributive or other matters).

understanding of the distribution of income. The search for timeless ‘laws’ which always and everywhere govern the distribution of economic resources, under this line of reasoning, is misguided.

8.6 Summary

The distribution of income and wealth is among the most challenging puzzles to be solved in all of political economy. This is so, in part, because the distribution of income is shaped by individual choices and behaviour, on the one hand, and structures, institutions and norms (‘culture’), on the other. The interplay between ‘agency’ and ‘structure’ makes the hope of coming to a ‘complete’ understanding of distribution — the problem Ricardo thought most pressing — very difficult, if only because one can never have a *total* understanding of either the entirety of individual (market) behaviour or the entirety of an institutional environment. We should be content if, by the end of our inquiry, we have a skeletal outline of some of the core processes driving the distribution of income and wealth.

The research conducted by Wilkinson and Pickett (and others) strongly suggests that higher levels of income inequality exacerbate social problems. Given that income inequality has surged in Canada over the past three decades, this does not bode well for the health of the Canadian body politic. The present chapter has also argued that there may be linkages between income inequality and political participation, such that the heightened inequality of recent decades played a role in depressing the level of democratic engagement in Canada.

Chapter 9 will begin the empirical foray into inequality by analyzing some of the distributive aspects of inflation. In Chapter 10 we will explore the distribution of income and wealth in Canada by mapping the changing institutional configuration of large firms, labour unions and governmental organs. If business power is partially manifest in the capacity to enforce unemployment, is there a relationship between the exercise of this power and the distribution of income? Do unions act as a ‘countervailing power’ to capital, and if so, does this countervailance manifest itself in distribution? Has the growth of corporate power in recent decades — measured in terms of aggregate concentration, the markup or differential accumulation — shaped the distribution of income and wealth? And are there any long-term patterns and regularities which shape the level and pattern of inequality in Canada?

Some Inflationary Aspects of Distributive Conflict

It seems that economic science has not yet solved its first problem.

What determines the price of a commodity?

- Joan Robinson (1979)

Twentieth century political economists exerted considerable intellectual energy trying to understand the twin problems of unemployment and inflation. For Canadians born in the postwar period, unemployment and inflation appear to be permanent fixtures of the political economy insofar as there is always some proportion of the work force searching for employment and the price level is always rising, albeit at a different rate in any given period. Perhaps the reason why so many political economists were driven to understand unemployment and inflation is each is linked with human suffering. Those unable to find work suffer from a variety of ills including deprivation, social isolation and shame.¹ And those whose income does not rise as quickly as the overall price level are made worse off in terms of their purchasing power (their material well-being).

Moving from the individual to the social, extreme episodes of unemployment and inflation have led to political transformation, sometimes degenerative, sometimes progressive. The hyperinflation in Germany in the 1920s destabilized German consciousness to such an extent that many willingly embraced the totalitarian extremes

¹ Also included is a long list of more objective ills including violence, mental health crises and substance abuse, for instance. See Wilkinson and Pickett (2010) for a discussion.

of Hitlerism as a substitute for the chaotic extremes of rapid inflation.² Historically high levels of unemployment in Canada, the United States and elsewhere in the 1930s led to New Deal legislation and the formation of a welfare state. These extreme cases illustrate why unemployment and inflation have garnered the attention of governments, political economists and policy makers all over the world: if too many people are unable to find work or if prices rise (or fall) too quickly, outbreaks of violence and even revolution could be the 'popular response'.³

'Stagflation' is a term that crept into academic discourse to denote the experience of concurrent increases in the overall price level and in unemployment (or falling output). Stagflation is typically associated with the period spanning the late 1960s through the early 1980s in Canada and other OECD countries.⁴ However, it is not clear that the stagflation label should be confined to that period. In the period spanning Confederation through the Great Depression, the overall price level in Canada tended to move laterally from one business cycle to the next, rising in expansion only to fall back to its previous level in contraction. Between 1870 and the mid-1930s, for example, the number of years registering an increase in the overall price level (positive inflation) was nearly matched by the number of years in which the price level either did not change or decreased

² This statement does not imply that the rise of National Socialism in Germany did not have causes other than hyperinflation, of course.

³ The linkages between unemployment and inflation have also been a headache for economists. James Tobin, the Nobel Laureate, stated that the connection between unemployment and inflation is the 'principal domestic economic burden of presidents' and the 'major area of controversy and ignorance in macroeconomics' (1972: 1).

⁴ Definitions of stagflation vary depending on the scholar or the school of thought. Blinder and Rudd (2008), Means (1983) and Sherman (1977) all come at stagflation from a different angle, but define it similarly as 'inflation amidst recession' or 'rising prices in the face of high and rising unemployment and/or falling output'. The starting point for the present discussion of stagflation is the recognition by Peterson that 'stagflation is closer to the norm of the economy's performance than is the opposite of stable growth, low unemployment and stable prices' (1980: 279).

(deflation). The overall price level in 1910 was roughly where it was in 1870. Likewise, the price level on the eve of the Second World War was approximately what it was at the onset of the First World War.⁵

A similar pattern is exhibited in the United States. Sherman (1977: 270) tells us that in 23 of the 26 business cycles prior to the Second World War, prices rose in expansion only to fall in contraction. In the period after 1945, prices almost always rose, even in the context of high and rising unemployment.⁶ The period after the Second World War is markedly different for Canada, too. Between 1945 and 2012, there was only one year in which the consumer price index registered a negative value. These facts suggest that nearly all the downturns in postwar Canada were *stagflationary*, meaning increases in unemployment and/or decreases in output appeared amidst rising prices.

Chapter 7 explored the shift from the relatively robust growth in the early decades of the postwar era to the stagnant growth of recent decades, so the stagnation backdrop has already been set. The present chapter will explore the experience of Canadian inflation.⁷ Instead of probing the many causes of inflation, we will ask a slightly different set of questions. Does inflation tend to appear amidst social conflict? Are there systematically redistributive aspects to inflation? Putting the two questions together: can inflation be viewed as a conflictual process which redistributes income between different income groups, such that inflationary outcomes tend to produce distributive ‘winners’ and ‘losers’? And importantly, what role have higher and lower levels of

⁵ Data from the author’s archive.

⁶ In both Canada and the United States, higher unemployment in the postwar era may be associated with lower levels of inflation, but not with outright deflation (in contrast to the pre-WWII experience).

⁷ With due recognition given to the fact that much of the experience of inflation in postwar Canada could be classified as stagflation.

inflation played in restructuring the corporate sector? Do large Canadian-based firms benefit from inflation? Do workers benefit from inflation? If inflation is harmful/beneficial to identifiable income groups, then how should we understand the shift in Canada to anti-inflationary monetary policy?⁸

The path that will be travelled to arrive at this set of questions is winding. We will explore some of the thinking done on inflation prior to the overt recognition of stagflation. This (seemingly) new type of inflation, with prices rising amidst recession, paved the way for new thinking about prices. Out of the ashes of the Keynesian explanation grew a new monetarist orthodoxy associated most closely with Milton Friedman. However, a diverse collection of heterodox scholars began to think of inflation (and stagflation) in power-laden terms. It is this latter group that we are primarily interested in, though we will begin by outlining some of the context within which this thinking emerged. Surveying some of these heterodox thinkers will help us frame the questions that will be addressed in the latter portion of the chapter.

It must be stressed that, like Chapter 7, the present chapter is largely exploratory. Inflation is sufficiently complex to warrant an entire study. And while it manifests itself at a domestic level, inflation is a process that is heavily associated with international developments. This complicates its study. The inflation rate in Canada has closely tracked the inflation rate in the United States and the OECD in recent decades, so it is not entirely clear that we can explore domestic inflation developments without studying their international analogues. Thus, the disclaimers offered in Chapter 7 also apply to this

⁸ The impact of inflation on debt, though interesting and important from the standpoint of distribution and inequality, falls outside the scope of this study.

chapter: given the complexity of inflation, and granted that it is heavily influenced by international developments, we will not aim at a complete or final explanation. Despite these challenges, some of the domestic aspects of inflation in Canada will be probed.

The chapter is organized into seven sections. The first section explores some of the thinking done on inflation by contrasting how some of the major schools of thought responded to the overt appearance of stagflation. Section two hones in on a cluster of heterodox thinkers who incorporated power into their thinking on inflation. A brief review of this scholarship will help frame the questions that will be tackled in subsequent sections. The third section will explore how prices, and therefore inflation, may be conceived in power-laden terms. More specifically, section three will examine the role that institutions and organizations have played in fuelling inflation in Canada. Rather than power operating a distance from market prices, it will be argued that broad power processes have a bearing on price formation.

Section four concretizes the relationship between power and prices by zeroing in on one commodity — the price of labour power in Canada — to see if, or in what way, it relates to power. Section five probes whether we can meaningfully speak of distributive winners and losers from inflation in Canada. Section six explores the points of contact between the internationally organized violence embodied in regional and global wars and different measures of inflation. The seventh section summarizes some of the key claims and raises some corollary questions.

9.1 Stagflation and the ‘Great Divide’

Karl Popper, the Austrian epistemologist, argued that the ‘line of demarcation’ distinguishing scientific from non-scientific activities is falsifiability (1963: 51). An area of inquiry earns the moniker ‘scientific’ if an event, observation or experimental result can be specified in advance which, if perceived, would refute the hypothesis. Rather than irrefutability being a sign of explanatory strength, after Popper it came to be understood as a sign of ‘pseudo’ science. Simple yet elegant, Popper’s argument exerted enormous influence on subsequent philosophers of science.

Keynes’ writings did not analyze the relationship between inflation and unemployment in great detail. It was the empirical investigations of A.W. Phillips (1958) which demonstrated that, in Britain at least, there was a stable negative association between inflation and unemployment, such that policy makers faced a trade-off between them.⁹ In Keynes’ analysis, inflation results from an excess of aggregate demand over aggregate supply in the context of full employment and/or full capacity utilization. Conversely, unemployment and glut result from a deficiency of aggregate demand relative to aggregate supply. According to Popperian epistemology, then, the occurrence of high and rising unemployment amidst high and rising inflation would be an ‘event’ which would refute the Keynesian hypothesis. After all, it is illogical to simultaneously argue for an excess of aggregate demand (generating inflation) and a deficiency of aggregate demand (generating unemployment).

⁹ See Friedman (1977) and Sherman (1983) for a discussion from divergent perspectives.

This may be one reason why the overt appearance of stagflation between the late 1960s and early 1980s convinced many macroeconomists that the Keynesian explanation lacked validity in some crucial respects. Stagflation and the accompanying decline of the Keynesian paradigm opened the door to new (and old) thinking about inflation. However, it is not clear that stagflation is an episode that can be confined to a collection of years between the mid-1960s and the early 1980s. In postwar Canada, for instance, there is only one year which registered a decline in the overall price level after 1945 (that year was 1953). This means that the appearance of high and/or rising unemployment or slow growth after 1945 was *always* accompanied by rising prices. Thus, in a weak sense, all episodes of glut in postwar Canada were stagflationary.¹⁰

To understand inflation one must understand price formation. Joan Robinson once stated: ‘it seems that economic science has not yet solved its first problem. What determines the price of a commodity?’¹¹ Her observation strikes a chord, for if we do not have a solid understanding of market prices then all ‘economic’ phenomena that come into contact with the price system becomes mysterious. After the Keynesian Revolution, many mainstream economists would have believed that inflation is a consequence of excess demand — ‘demand pull’ inflation. Given that episodes of sustained inflation were rare in countries like Canada and the United States prior to the Second World War, this theory might have seemed sufficient. After all, prices tended to rise in expansion only to fall in contraction (‘cyclical inflation’). Prices also rose in wartime as a consequence of

¹⁰ ‘Weak’ because rising unemployment and/or slow growth might appear amidst *disinflation*.

¹¹ This statement was first written in 1942, but was recounted in Robinson (1979: 41). Robinson recounted her statement in 1979 because, in her view, the stagflationary 1970s had demonstrated to economists that they lack an adequate understanding of price formation (even though the determinants of the price of a single commodity are not the same thing as the determinants of the overall price level).

full employment and full capacity utilization, so the thinking went, only to return in peacetime to previous levels ('wartime inflation'). Sustained increases in the overall price level, even in the midst of rising unemployment or falling output ('stagflation'), is a phenomenon that only appeared after 1945 in Canada and the United States (see Sherman 1983: 184-6 for a discussion of the U.S. experience). The recognition of stagflation challenged the received view of price formation and inflation.

However, the research results of Gardiner Means should have tested the confidence mainstream economists had in neoclassical price theory (his results preceded the recognition of stagflation by four decades). In 1934 Means supplied evidence which implied the existence 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 competition and price formation were on display. Classical prices were flexible and changed frequently, which implied that the seller had little or no pricing discretion.¹²

A distinction between rigid and flexible prices helped explain what made the depression between 1929 and 1932 'Great'. In the downturn after 1929, flexible prices not only changed more frequently than administered prices, but the amplitude of the change was greater. Means also noted that there was a negative relationship between price and production declines: large firms in concentrated industries held their prices — and their profit per unit, by implication — relatively steady, opting instead for drastic reductions

¹² See Means (1935) for the research results and Means (1983) for a retrospective discussion of what his findings meant.

in production and employment. In the more competitive sectors, firms lacked market power and had no choice but to reduce prices. The price reductions meant that they did not have to cut production volumes nearly as much because demand increased at the lower price level (so the thinking went). This difference in behaviour implied that the heavy unemployment associated with the Great Depression unfolded primarily in the concentrated sectors. In Means' research, then, we can trace a line of causation running from large firms (concentration) and the attendant market power through to price rigidity and finally deeper, more prolonged recessions (as large firms sacrifice volume to defend earnings margins).¹³

The concept of 'administered prices' was eventually bolstered by what Means called 'administered competition' and 'administered inflation' (1983: 469). As Means viewed it, the growth of large firms and the resulting concentration in the American political economy ushered in a peculiar situation in which prices rose in the context of recession. Means called this 'administered inflation' and he examined four sources — all examples of what he termed 'perverse pricing': (i) full cost pricing; (ii) the risk of entry; (iii) arbitrary wage increases; and (iv) the expectation of inflation (1983: 477). The first three are relevant to the research that follows and will be briefly reviewed.

¹³ A sizable literature developed in the early decades of the postwar era to debate the significance of Means' findings. Ackley (1959) argued that the administration of the price of labour (in the form of money wages) diminishes the significance of the difference between demand and cost inflation. Blair (1964) contended that the reality of administered prices (AP) turns the theory of price formation on its head insofar as prices can no longer be relied upon to equate demand and supply. Sherman (1977) used the concept of AP to help explain stagflation. Weiss (1977) tested the AP hypothesis against other data and found that it survived refutation. Goode (1994) argued that Means never demonstrated a connection between the degree concentration and the extent of AP. Despite all the debate, in more recent times AP appears to have been relegated to the periphery of academic economics. In the nearly 1,000 pages of Samuelson and Nordhaus' (2010) introductory textbook, 'administered markets' appears on just one page and AP not at all.

In the case of full cost pricing, sellers estimate their variable and fixed costs at an expected production volume and then add their profit target per unit to arrive at an overall price. A decline in demand, Means tells us, means that if firms are going to hit their profit target they must increase the profit per unit, which translates into an increase in unit price amidst downturn. The second source of perverse pricing is capacity utilization amongst a few large firms. In a concentrated market with a high rate of return, if firms are operating at high capacity utilization (say, 90 percent) the threat posed by a new entrant is greater insofar as each firm's share after the new entrant penetrates the market will be significantly reduced. If the established firms operate at lower capacity utilization (70 percent, for argument's sake) the danger of a new entrant is much lower and the firms can aim at a higher target profit, thus connecting capacity underutilization (stagnation) with rising prices (inflation). The third source of perverse pricing is what Means labelled 'arbitrary raising of wage rates'. Means states: 'it is well recognized that increases in real productivity justify an increase in real wage rates' (1983: 478). The implication seems to be that wage demands in excess of labour productivity have inflationary consequences.

Means argued that restructuring in the American economy over the twentieth century led to a shift from classical prices to perverse prices. By 'restructuring' he seems to have meant that as firms continued to grow in size and as the number of sectors characterized by high levels of concentration increased, the shift from classical prices and classical inflation to administered prices and administered inflation grew more apparent. When the balance between the two types of markets was skewed towards the competitive end of the spectrum, the overall price level rose in expansion only to fall in

contraction. Once a critical point was reached, however, and the weight of the sectors tilted towards perverse pricing, more prices went up in recession than went down and a new type of inflation — administered inflation — became the norm. Means baptized this the ‘Great Divide’. It was passed, he estimated, shortly after the Second World War.

Scholars working in numerous schools of thought appear to have seized upon this difference. Prior to the Second World War, sustained inflation was rare. Cyclical and wartime inflation seemed to be easily explicable in demand pull terms. However, demand pull inflation makes no sense in the face of recession. The decline of the Keynesian explanation for unemployment and inflation opened the door to other approaches. Many mainstream economists accepted Milton Friedman’s ‘natural rate hypothesis’ as a substitute.

As Friedman (1977) saw it, government activity can produce high inflation, not necessarily as a deliberate policy, but as a result of pursuing other objectives, namely policies around full employment and welfare-style social spending. By expanding the money supply to achieve these types of public policy goals, governments helped create the conditions for inflation, which Friedman argued is generated when the money supply is increased faster than ‘real’ economic activity warrants (a situation he likened to ‘too much money chasing too few goods’). As Friedman viewed it, his natural rate hypothesis encompassed the original Phillips curve, but as a special case, and was able to explain a much more expansive set of phenomena, including stagflation (1977: 470).¹⁴

¹⁴ For a comparison of Friedman’s monetarist and the Post Keynesian ‘structuralist’ explanations of stagflation, see Colander (1982).

Not all economists accepted Friedman's explanation of stagflation. In place of demand pull, some scholars began to think of inflation as a 'cost push' phenomenon (or as a 'supply shock' phenomenon). The question then became *who* is 'pushing' *what* cost? Three sources were pinpointed: labour unions contributed to inflation through excessive wage demands; oligopolistic corporations contributed to inflation through high earnings margins; and foreign governments/cartels contributed to inflation by limiting the flow of raw materials — particularly oil — in an effort to increase prices. The three causes were not always mutually exclusive. Some economists viewed the power of trade unions to inflate wages and the power of oligopolistic firms to inflate earnings margins as playing a multi-causal role in the stagflation of the 1970s and early 1980s.¹⁵

The point here is not to review all the competing explanations or to assess the quality of the evidence. Such a feat is well beyond the confines of this study. Instead, we will hone in on a few key ideas and explore their validity in Canada. Keynesian and monetarist explanations for inflation tended to dominate academic economics in North America and elsewhere. However, other schools of thought generated useful ideas that may be put to work in the Canadian context to help unpack aspects of postwar inflation.

9.2 Social Conflict, Inflation, Redistribution

Outside the Keynesian and monetarist mainstream, scholars working from diverse schools including institutionalism, Marxism and Post Keynesianism began to look at the

¹⁵ See Peterson (1980; 1982) for a wage push explanation. Sherman (1977; 1983) and Kotz (1982; 1985) fall into the 'profit push' category. For a multi-causal explanation encompassing both wage demands and earnings margins, see Eichner (1976) and Dalton and Qualls (1979). On the 'supply shock' explanation see Blinder and Rudd (2008). Lutz (1981) and Blaas (1982) explain stagflation from an institutional perspective that focuses on the role of power.

inflation of the 1960s, 1970s and 1980s — the *stagflation* — as a conflictual process. The explanatory frameworks differed in detail, but what is common to them is the insertion of power into the causal picture.

Working under the influence of Gardiner Means' research results and the 'Great Divide' argument, Blair (1964; 1974), Eichner (1973; 1976) and Sherman (1977; 1983) viewed postwar stagflation as a consequence of the increased market power amongst oligopolistic firms.¹⁶ These writers argued that postwar inflation (*stagflation*) was a 'profit push' or 'full cost' phenomenon, meaning large firms exercise market power and raise prices in the context of recession. Blair explained the mechanism. A 'price leader' in any given line of business sets a market price that encompasses unit costs (at a standard volume) plus a unit 'target profit rate'. Once the leader establishes the price, competing firms follow suit.¹⁷ If, in the context of downturn, these firms face an increase in costs and/or wage rigidity, then they may engage in an inflationary increase of their markup in order to hit their profit target, hence *stagflation* (1964: 80).

Since larger firms have a higher rate of profit, as Sherman (1983: 201) argued, it is the monopoly sector that is generative of inflation, even in the context of downturn.¹⁸

Eichner neatly summarized the spirit of this theoretical viewpoint:

¹⁶ The clustering of these three scholars into the same category does not imply that there aren't significant theoretical/paradigmatic differences between them.

¹⁷ Over the course of the past century, researchers began to ask business executives how they set prices. This group included Hall and Hitch (1939), Lanzilotti (1958) and, more recently, Blinder, Canetti, Lebow and Rudd (1998). Pricing to achieve a target return — with costs and profit goals built into the market price — on the basis of standard volume was one of the most common answers provided, inducing some (Downward and Lee (2001: 466)), to claim that this research 'reconfirmed' Post Keynesian pricing theory.

¹⁸ Sherman stressed that there is no evidence to support the notion that the wage demands advanced by labour unions are inflationary ((1977: 273) and (1983: 191)). This claim will be challenged in what follows.

Inflation results not from any 'excess' of aggregate demand but rather from the efforts of powerful groups in society to maintain their own relative income position... chief victims of the conflict are generally the less organized groups in society (1976: 271).

By 'powerful groups' Eichner primarily meant the managerial corporation, or 'megacorp', though he included labour unions in the casual picture as well. Eichner stressed that, by 'oligopoly', he did not mean the 'fewness of sellers', but rather 'the recognized interdependence to which the fewness of the sellers gives rise'. This interdependence implied a behavioural shift in which the action taken by a single firm could be expected to engender a response from competitors. This behavioural difference was a 'significant source of autonomous inflationary pressure', in Eichner's words (1976: 2).

Kotz (1982; 1985) argued similarly, claiming that the combination of monopoly power and class conflict is generative of 'crisis inflation' or stagflation. Kotz believed his innovation was to shift the explanatory emphasis away from the tension between firms and the classless category of 'consumers' (1985: 227). Instead, inflationary pressure is the consequence of the conflict between two factions of capital: monopolistic capital and competitive capital. Inflation in the midst of long-term stagnation is initiated when monopoly capital tries to increase its profit rate.¹⁹ This triggers a 'three way battle' between the two segments of capital and the working class — a battle which manifests itself as inflation (1982: 11).

Bearing strong similarity to the Post Keynesian 'markup' and Marxian 'monopoly power' approaches is the 'conflict theory' of inflation. This perspective views inflation as the product of the excessive claims made by different income groups over national

¹⁹ Devine (2000: 399) argued that the postwar American stagflation was the product of low profitability. Capitalists, he said, 'punish society' for low profits with high inflation and/or unemployment.

income (Rosenberg and Weisskopf 1981: 42). The wage bargain secured by workers and the pricing policy of business have the potential, so Rowthorn argued (1977: 216-7), to exceed what is available for each group from national income. The excess of income claims over available income produces inflation, which Rowthorn asserted would always transfer 'real income from workers to capitalists', such that any inflationary redistribution was always at the expense of workers (1977: 215-6). In this perspective, class conflict over national income fuels inflationary spirals. Burdekin and Burkett (1996: 24) tell us that the 'winners' from inflation will be the 'claimants enjoying relatively great economic and political power'.

By rejecting the real/nominal dualism, and by claiming that prices do not change at a uniform rate, N&B view inflation as the 'surface consequence' of a 'redistributional struggle' fought between different groups (2009: 369). One implication of this claim is that those who raise their price faster than others simultaneously redistribute income in their favour, thus creating 'winners' and 'losers'.²⁰ For N&B, 'the key to inflation is power' (2009: 376). In their research on the United States, N&B demonstrate that inflation tended to redistribute income from workers to capitalists and from small to large firms. They are careful to qualify their claims, however, arguing that there is no 'preset pattern' between inflation and redistribution. Inflation is a 'tricky process' in that its consequences depend on the 'relative power of the leading firms, capital in general and labour groups'. They argue that if the relative power between these groups changes, so too can the distributional outcomes (2009: 375).

²⁰ Kirshner (1998) agrees that inflation is inherently distributional, creating winners and losers, and so must be understood as a political phenomenon.

More broadly, N&B argue that it is highly significant that sustained inflation only appeared for the first time in the early part of the twentieth century, making its appearance concurrent with the emergence of dominant capital as the crucial institution of contemporary capitalism. And because differential accumulation requires a moderate degree of stagnation (following Veblen, they call it ‘sabotage’), inflation in the twentieth century tended to appear with stagnation and crisis, hence their emphasis on *stagflation*. Inflation is similar to stagnation in that a moderate degree is ‘necessary’ for accumulation, but high levels can undermine it. If rapid or sluggish growth and if excessive inflation or outright deflation are hazardous to differential accumulation, then it seems that, according to N&B’s reasoning, low growth and low levels of inflation — moderate stagflation — would be ideal for dominant capital. We will explore this inference in what follows.

Rather than attributing causality to the earnings margins of large firms, some put the emphasis on worker wage demands. Weintraub’s (1978; 1978-1979) ‘wage cost markup’ theory proclaimed that inflation is a consequence of wages rising faster than productivity. The price-making equation, Weintraub continues, includes both labour costs and the markup. Weintraub argues that the latter is more stable than the former, so for us to explain the dramatic change in the level of inflation in the 1960s and 1970s, it must be viewed as a wage push phenomenon. And because the flow of wages and salaries are what determine societal purchasing power, there is no effective difference between ‘demand pull’ and ‘wage push’ inflation because the level of demand is a product of the average income of the workforce (1978-1979: 62). Weintraub did not explore the role

unions play in enabling worker wages demands, but Peterson (1982: 982) would have us believe that insofar as wages rise above productivity, power is what explains the gap. 'Power' for Peterson (1980: 283) is 'control over income' and it is derived from either organizations like labour unions (or corporations) or through the pressure put on governmental bodies to shape policies to one's advantage.

The writers surveyed here often speak of 'market power' or 'organizational power', but what does this mean? What are the sources of this type of power and, importantly, how are these forms of power limited?

9.3 Power and Prices, I

In terms of business power, some of the writers surveyed link market power with firm size, such that larger firms have greater power and vice versa. However, it is not size alone that is determinative of power. Means (1983: 467) stressed that by 'market power' he did not mean 'monopoly power'. As far as he was concerned, 'market power' arises 'naturally from active competition between a few large independent sellers' and is reflected in their pricing discretion. Blair (1974: 468) argued similarly, claiming that market power resides in firms that have 'substantial discretionary authority over price'. Kotz (1982: 6) spoke of 'monopoly power', claiming that there is a positive relationship between monopoly power, on the one hand, and collusive pricing and entry barriers, on the other. N&B, following Veblen, root accumulation — and therefore prices — in the 'right to exclude' others from accessing the industrial apparatus of society, and 'the ability to exact terms for not exercising that right' (2009: 228).

If firms possess these types of power, then what determines the actual level of the markup, i.e., what are the limits to this form of power? According to Sherman, the restraints faced by firms on the size of the markup are three-fold: first, the ability of consumers in the face of a price increase to switch to a substitute product market; second, the threat posed by potential entrants responding to higher earnings margins; and third, the likelihood that governments will intervene to reduce price gouging (1983: 198-200). The combination of these three factors puts a ceiling on how high the markup can be pushed. We may add that an increase in the markup may lead organized labour to push for higher wages, thus constraining the overall proportion of firm revenue that ends up as profit. We will explore this latter possibility in Chapter 10.

Labour unions, too, possess power. The collective ability of workers to refuse to work without a satisfactory contract imposes a penalty on employers who fail to meet worker demands around compensation, benefits and working conditions. The main institutional ‘weapon’ of labour is the work stoppage or strike — something which is bound up with the organizational capacity of labour unions. Limits on the power of trade unions are too numerous to list, but they include things like plant closure and state intervention in industrial disputes on the side of employers, for example.

Perhaps the most important limitation on the institutional power of trade unions is unemployment. As alluded to earlier in this dissertation, Veblen argued that unemployment is derived from private ownership of industrial equipment. The ability of employers to ‘withhold any part of the necessary industrial apparatus’ puts them in ‘a position to impose terms and exact obedience’ from the industrial community. The

'natural right of investment', as he termed it, grants proprietors the ability to restrict the industrial activities of the community (1923: 65-66). As argued in Chapter 7, a moderate degree of unemployment (stagnation) may be viewed by business as 'optimal' insofar as it tempers worker demands, thus creating a more favourable distribution for business.

In Chapter 6, we explored the linkages between concentration and the markup and found that larger firms have a higher markup than smaller firms. We also found a positive relationship between firm size and the extent of the markup. So for Canada, business power appears to be bound up with size. The power of labour unions can also be measured (and will be measured in what follows). A useful proxy for the institutional power of organized labour is union density, measured either as the extent of union coverage or union membership.

While heterodox thinking on stagflation is interesting in its own right, the purpose of reviewing it is to help us frame the appropriate questions for this study. Once we specify what we mean by 'conflict', can inflation in Canada be understood as a conflictual process? Does inflation have systematically distributive consequences? Are there distributive winners and losers from Canadian inflation? And what impact has inflation had on the structure and performance of dominant capital in Canada?

Given these questions, our task is two-fold: if we are to understand inflation we must understand prices. So what determines the price of a commodity? And if prices are bound up with power, then does this imply that inflation has a power aspect to it? We begin our excursion into prices and inflation by asking a fundamental question: what determines the price of labour? This too is a price, and a very important one at that. Is the

price of labour shaped by ‘market forces’, as is so often claimed? This question will be addressed in the following section.

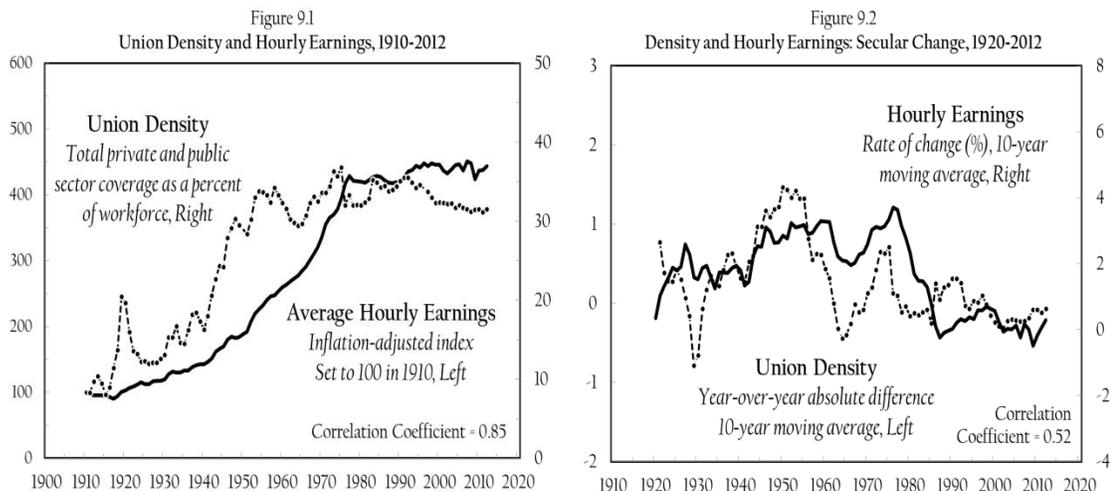
9.4 Power and Prices, II: What Determines the Price of Labour?

Neoclassical economics treats labour power like other commodities insofar as the level of remuneration (and employment) is thought to be shaped by the demand for, and supply of, labour. In this system of reasoning, workers receive as income the value of what they produce. This means that the level of compensation will be the market value of the difference in output attributable to the last unit of input added to the production process. How do unions fit into this picture, according to neoclassical orthodoxy? First, it is presumed that unions interfere with the ‘self-adjusting’ market by raising the ‘real’ wages of workers to ‘arbitrarily’ high levels. Second, neoclassical economics would have us believe that if unionized labour manages to raise its wage rate, it does so at the expense of non-unionized labour. In other words, unions can only redistribute income within a given national wage bill. They are unable to increase the national wage bill as such.²¹ If this set of assumptions and assertions were true, there would be no reason to suppose that the average wage rate in Canada bears any relationship to the institutional strength of organized labour.

The historical facts suggest otherwise, however. Figure 9.1 and 9.2 contrast the institutional strength of organized labour and the hourly wage rate from 1910 through 2012. Figure 9.1 captures inflation-adjusted average hourly earnings, indexed to 100 in

²¹ See Samuelson and Nordhaus (2010: 321), for example.

1910. The other series captures union density — a proxy for the institutional strength of organized labour — and is measured as total private and public sector union coverage as a percent of the workforce. The two series are tightly and positively correlated over the past century (a Pearson correlation of 0.85).



Note: union density was estimated between 1911 and 1920 by taking total union membership as a percent of the Canadian population, with proper rebasing. Union density is defined as the percentage of the non-agricultural paid workforce covered by a union. Average hourly earnings index is adjusted for inflation using the consumer price index. **Source:** average hourly earnings from Historical Statistics of Canada, Series E198 (1910-1948) and IMF through Global Insight (1949-2012); consumer price index and Canadian population from Global Financial Data; union density from Historical Statistics of Canada, Series E176 (1921-1975) and Cansim Tables 279-0026 (1976-1995) and 282-0078 (1997-2012).

Union density increased from 8 percent in 1911 to 20 percent in 1920. A deep recession in the early 1920s reduced union membership from 374,000 to 261,000 — a 30 percent decline. Unionization increased modestly in the interwar years, rising from 12 percent in 1924 to 16 percent in 1940. In the generation between 1910 and 1940, inflation-adjusted hourly earnings increased by roughly 40 percent. Things began to change more rapidly after 1940 when federal legislation ratified and supported collective bargaining and the right of workers to form unions. By 1944, with the Cooperative Commonwealth Federation’s popularity surging, the Mackenzie King Liberals drafted legislation (‘PC 1003’), sometimes referred to as the ‘Magna Carta for Labour’, that mirrored the Wagner

Act of 1936 in the United States. After the war, with workers agitating to cement gains made during the war, Justice Ivan Rand made a landmark decision (commonly referred to as the 'Rand formula') which entrenched 'agency shop' and 'dues check-off' as core aspects of labour relations in Canada. Between 1940 and 1946, a framework was created for establishing the right to union security. The result was a surge in unionization, rising from 16 percent in 1940 to a historic high of 37 percent in 1975.

How were these changes registered on the remuneration side of things? Between the Second World War and the late 1970s, average inflation-adjusted hourly earnings *tripled*. This period roughly corresponds with the growth of the middle class in Canada and accompanying creation of a shared prosperity. However, union density declined after 1975, reaching a five-decade low of 32 percent in 2012. Hourly earnings stagnated after 1977, rising a meager 3 percent in inflation-adjusted terms.

To recap: in the third of a century between 1910 and 1940, hourly earnings grew by 40 percent; in the third of a century between 1940 and the late 1970s, hourly earnings grew by 200 percent; and in the third of a century since the late 1970s, hourly earnings grew by three percent. These facts create a puzzle: why did the growth of hourly earnings in Canada follow this pattern? A large part of the answer appears to be the changing bargaining position of wage earners resulting from the growth and maturity of unions.

Some might argue that the statistical relationship between the level union density and the level average hourly earnings is 'spurious'. One way of 'testing' this objection is to determine if there is a statistical relationship between the absolute difference in union density and the rate of change of inflation-adjusted average hourly earnings. If the

correlation in Figure 9.1 is spurious then we wouldn't expect a positive relationship between changes in each variable.

Figure 9.2 demonstrates that changes in the overall level of unionization are statistically associated with the rate of change of hourly earnings. One series portrays the rate of change of average inflation-adjusted hourly earnings, smoothed as a 10-year moving average. By plotting a 10-year moving average, we eliminate the effects of the business cycle and capture the 'secular' trend. The other series is the absolute difference in the overall level of unionization, also cyclically-adjusted.

A correlation of 0.52 is significant, given the analytical breadth and duration (nine decades) of the two series. Figure 9.2 demonstrates that when union density increased, average hourly earnings tended to grow faster. When union density grew less quickly (or contracted), hourly earnings grew at a slower rate (or shrank). Note the pattern. The secular trend in hourly earnings growth was positive and rising between 1920 and 1975. Unsurprisingly, this is also the period when unionization was expanding. Wage growth slowed abruptly in the late 1970s before plummeting in the 1980s and again in the 2000s. In this latter period, the imprint of unions on the Canadian political economy was fading.

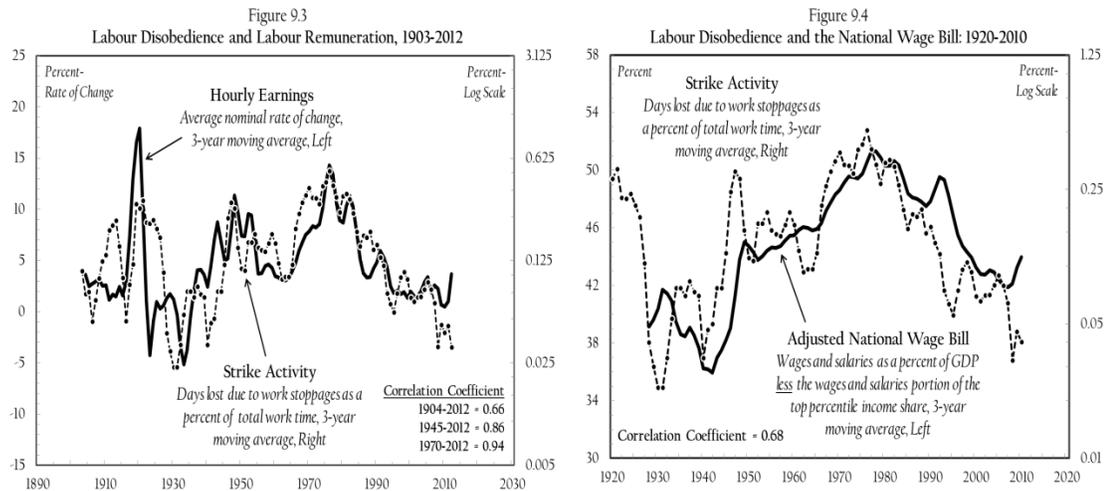
Figure 9.1 and 9.2 demonstrate that when the aggregate size of labour organizations increased, the rate of growth of average compensation tended to increase. These facts speak to the *organizational capacity* of labour institutions, but they are silent on the extent of *workplace action* that the Canadian workforce engaged in. Power unfolds on multiple levels in contemporary capitalism. Arguably, the crucial power relationship is those who control the levers of the state and those who must submit to lawful authority

— the governors and the governed. However, power is built into the relationship between owners and workers as well. It may not be the same form of power, but insofar as some people issue commands and other people are expected to obey, we can meaningfully speak of power in the workplace.

The main ‘weapon’ that the labouring class has is the work stoppage. In labour negotiations, the employer has numerous bargaining advantages, including outsourcing, offshoring, lockouts, pro-business governmental legislation, plant closure and, in some historical epochs, resort to legal or extra-legal violence. The chief ‘weapon’ that employees have is their refusal to work. Work stoppages impose a cost on employers: by halting production, revenues will eventually shrink and profits eventually dry up, thus leveraging the position of employees in bargaining. A strike is an act of workplace disobedience, but its ramifications can be felt outside the workplace insofar as it signals to the broader society a challenge, however temporary, to the authority of employers. Strikes are among the clearest manifestation of a struggle between different income groups — namely proprietors (or their surrogate managers) and workers.

Workers strike for reasons other than wages, of course, but does the extent of work stoppages help explain the average level of labour compensation in Canada? Figure 9.3 and 9.4 contrast the extent of strike activity with average hourly earnings and with the national wage bill. Figure 9.3 captures the inflation-unadjusted rate of change of average hourly earnings, plotted against the extent of strike activity, measured as days lost as a percent of total work time. The *adjusted* national wage bill in Figure 9.4 equals total wages and salaries *less* the wages and salaries paid to the top percentile of the

population divided by GDP (all series in Figure 9.3 and 9.4 are smoothed as three-year moving averages to ease the visual assessment). By removing the wages and salaries portion of the top percentile income share from the national wage bill, we more closely approximate the class-based distribution of income. Also, because most people in the top percentile income group are not in a union, but may be either owners or managers, we will be able to determine if there is a relationship between labour disobedience and the share of national income going to the working and middle classes.



Note: time loss during work stoppages in total work days was used to estimate the extent of strike activity between 1901 and 1918, with proper rebasing. A work stoppage could result from either a strike or a lockout. Adjusted national wage bill is wages and salaries as a percent of GDP less the wages and salaries portion of the top percentile income share. **Source:** work stoppages from Historical Statistics of Canada, Series E194 (1901-1908) and E197 (1919-1975) and Cansim Tables 278-009 and 282-0018 (1976-2012); average hourly earnings from Historical Statistics of Canada, Series E198 (1901-1948) and IMF through Global Insight (1949-2012); wages and salaries portion of the top percentile income share from Saez and Veall (2007), Veall (2010) and Veall (2012) with series updated to 2010 by Michael Veall; wages and salaries and GDP from Historical Statistics of Canada, Series F1-13 and Cansim Table 380-0016.

The extent of strike activity is closely associated with both the rate of growth of hourly earnings and with the share of national income going to labour. Over the past eleven decades, there have been three major strike waves. The first wave began at the beginning of the twentieth century and peaked in 1919, just after the First World War. Over the next decade, the extent of strike activity declined, but a second strike wave

began in 1930 that peaked in 1946. Strike activity trended downward till 1960 when a third wave began, which peaked in 1976. For the next third of a century, strike activity trended downward, and as of 2012, was at a postwar low.

The pattern of wage growth in Canada also goes through three waves. Note that the strike waves and wage growth coincide with major crises: two World Wars, a Great Depression and the energy crisis-linked wars in the Middle East. The rate of growth of wages climbed: from 1 to 20 percent between 1915 and 1920; from 1 to 9 percent between 1939 and 1943; and from 3 to 16 percent between 1962 and 1975. It is not entirely clear why domestic labour developments appear to be linked with outbreaks of internationally organized violence and/or crisis. In the case of the first two waves (corresponding with the two World Wars), the relative position of labour may have been strengthened in the shift from moderate or heavy stagnation to full capacity utilization and full employment. In the context of crisis, workers may have felt emboldened to push for gains. The experience of the 1960s and 1970s is different, of course. Unemployment did not drop to historic lows; it rose to postwar highs.

The extent of strike activity is tightly correlated with the rate of growth of average hourly earnings and the strength of the relationship increases over time. It follows that if worker wage struggles increase the rate of growth of wages, this will be transmitted through to the national wage bill. Figure 9.4 shows that as labour unions expanded in scope and as workplace action intensified the share of national income going to workers increased. The institutional decline of labour unions and the pacifying of the

Canadian workforce seem to have played a role in the stagnant wage growth and shrinking national wage bill after 1980.

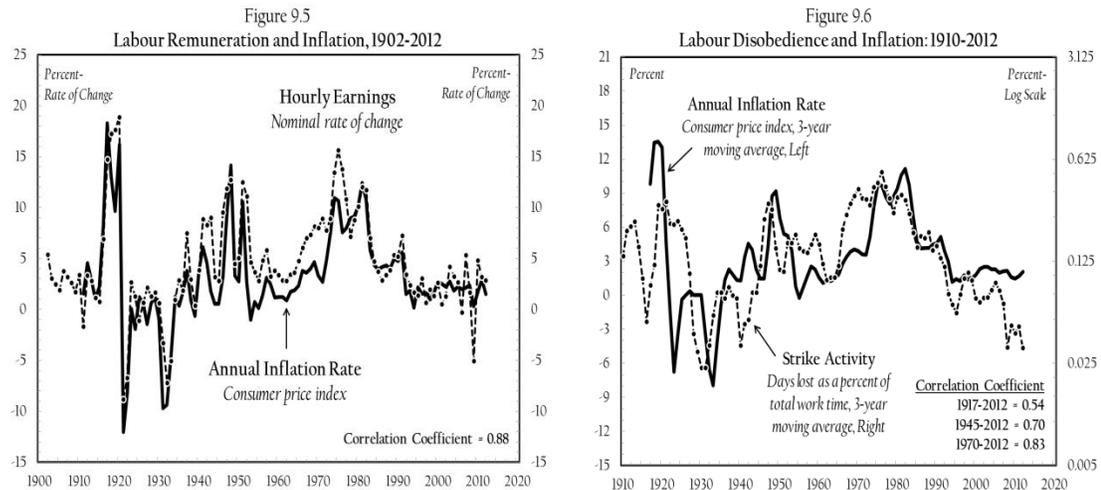
In terms of answering the question: ‘what determines the market price of labour power?’, the evidence strongly suggests that the institutional growth of labour unions in tandem with workplace action shapes the average level of labour compensation in Canada. Note here that we have not invoked ‘demand and supply’, ‘productivity’, ‘technology’, ‘globalization’ and the like. Although there are undoubtedly other processes that shape labour remuneration in Canada, it is startling how much can be explained without referencing the conventional explanatory variables.

If labour organizations and workplace action increase worker compensation, is there a link between worker compensation and inflation?

9.5 Inflation’s Victors and Vanquished

We are now ready to explore questions around some of the causes of inflation, some of the distributive consequences of inflation and what impact inflation has had on the Canadian corporate sector. Recall from section 9.2 that some scholars viewed worker wage demands as a source of inflationary pressure (Weintraub 1978) while others argued that the evidence for such an assertion is non-existent (Sherman 1977). Are changes in Canadian labour compensation associated with inflation? Figure 9.5 and 9.6 contrast inflation with average hourly earnings and with strike activity. In Figure 9.5, the nominal rate of change of average hourly earnings is plotted against the annual inflation rate from

1902 to 2012. Figure 9.6 contrasts the extent strike activity with inflation from 1910 to 2012 (both series smoothed as three-year moving averages to ease the visual assessment).



Note: time loss during work stoppages in total work days was used to estimate the extent of strike activity between 1901 and 1918, with proper rebasing. A work stoppage could result from either a strike or a lockout. **Source:** work stoppages from Historical Statistics of Canada, Series E194 (1901-1908) and E197 (1919-1975) and Cansim Tables 278-009 and 282-0018 (1976-2012); average hourly earnings from Historical Statistics of Canada, Series E198 (1901-1948) and IMF through Global Insight (1949-2012); consumer price index from Global Financial Data.

The statistical association between inflation, on the one hand, and hourly compensation and strike activity, on the other, is visually unmistakable. Average worker compensation maps onto the rate of inflation very tightly (a Pearson correlation of 0.88 over the past century). Note that in the Keynesian era, inflation was relatively high and/or rising. In the neoliberal era, inflation was relatively low and/or falling. Average labour compensation followed a similar pattern. Figures 9.3 and 9.5 together suggest that the extent of strike activity by workers (helps) shape labour compensation and labour compensation (helps) shape inflation. Figure 9.6 bypasses wages and directly contrasts strike activity with inflation. In deep historical perspective, workplace action ('labour disobedience') has an inflationary aspect to it.

The evidence suggests that wage gains achieved by workers, which are a partial consequence of the institutional growth of labour unions and the extent of workplace action, are inflationary. To restate an important caveat: the fact that Canadian inflation mirrors that found in other developed societies suggests that a wholly domestic explanation will be incomplete. However, the domestic manifestation of inflation must have some domestic aspects to it, so we are justified in exploring those aspects. The caveat aside, the argument here is not that worker wage gains are inflationary when they outstrip 'productivity'. As argued in Chapter 2 and 8, the concept of productivity in neoclassical economics is so doubtful and its measurement so elusive that there is little basis for supposing that wages should 'match' labour productivity.²²

A common sense approach to wages and inflation would run as follows. When the bargaining position of workers is improved, either as the result of a social crisis like a World War (a situation in which society moves toward full employment) or when labour unions utilize the strike weapon to increase the value of wage settlements, the result is a higher proportion of firm revenue accruing to workers in the form of wages.²³ The resultant increase in worker purchasing power is then transmitted through to a higher overall price level. Note that inflation is measured using a consumer price index —

²² The concept of 'value added' denotes the difference in purchase and sale price, mediated by a 'productive' act. The concept implies that the difference in market price from one stage of production to the next reflects productivity. However, it has never been adequately documented how to separate price increases attributable to pure productivity from those due to market power. The Cambridge capital controversy made another shortcoming clear: conventional economic thinking has not solved the problem of attribution — what factor/agent is responsible for what bit of 'value-added'? Is it the owner of capital, of land or of labour that produces 'portion X' of the product? This dilemma is usually 'solved' by looking at market income and assuming that it discloses proportional productive contribution — an utterly untenable move because of its circularity.

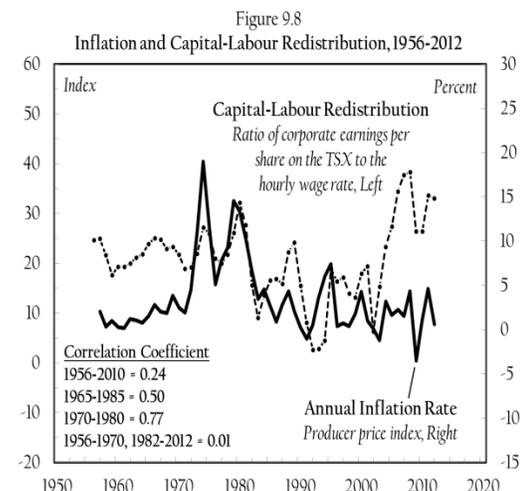
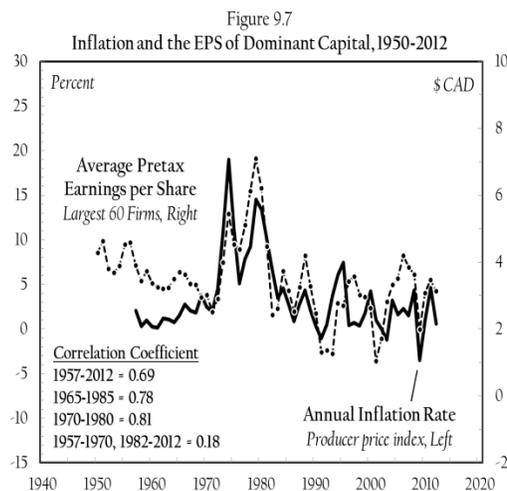
²³ For firms with the requisite market power, the wage demands of workers may be passed along to consumers in the form of higher prices, with the markup held intact.

precisely the measure we would expect wage gains to be most closely associated with (meaning the strength of the relationship between wage gains and producer or base commodity price inflation should be weaker or non-existent, which they are).

The relationship between inflation and worker wage demands is more complicated than the foregoing analysis suggests, however. N&B argue that, insofar as the American experience goes, inflation has tended to redistribute income from labour to capital. In support of their argument they plot a ratio of corporate earnings per share to average hourly earnings against the annual rate of wholesale price inflation (2009: 371, Figure 16.2). Using their metric, it appears that postwar U.S. inflation tended to redistribute income from workers to capitalists. N&B stress that there is no pre-set pattern when it comes to the distributive effects of inflation, given that it is based on power struggles between different groups. This caveat implies that we cannot assume there to be a stable cross-country relationship between the occurrence of inflation and the redistribution of income from between different classes of owners. What is needed, then, is an investigation of the distributive effects of inflation on a case-by-case basis.

To that end, Figure 9.7 and 9.8 outline part of the Canadian experience. Figure 9.7 contrasts inflation with the average earnings per share (EPS hereafter) of the top 60 firms. Figure 9.8 reproduces for Canada N&B's 'capital-labour redistribution' metric, measured as a ratio of corporate EPS for the Toronto Stock Exchange to average hourly earnings, plotted against the rate of inflation (measured in both figures using the

producer price index).²⁴ At first glance, Figure 9.7 indicates that the EPS for the largest firms is closely associated with producer price inflation, given the correlation of 0.69 over six decades. The experience of the 1970s is exceptional, having registered two sharp increases (and subsequent decreases) in the rate of change of the overall price level. Even though worker wage gains appear as if they have inflationary consequences in Canada, the per unit earnings of the largest firms also appear to be inflationary (at higher and lower levels of inflation).



Note: aggregate earnings per share are for the Toronto Stock Exchange and they were computed by dividing the price TSX earnings ratio by the TSX composite price index. The top 60 firms are ranked annually by equity market capitalization. **Source:** TSX Composite Price Index and TSX price earnings ratio from Cansim Table 176-0047; common shares outstanding, closing share price and gross income for the top 60 firms from Compustat through WRDS; average hourly earnings from Historical Statistics of Canada, Series E198 (1901-1948) and the IMF through Global Insight (1949-2012); producer price index from the IMF through Global Insight.

Perhaps this ambiguity is why N&B plot their capital-labour redistribution metric — a differential measure which captures the per unit income of two different

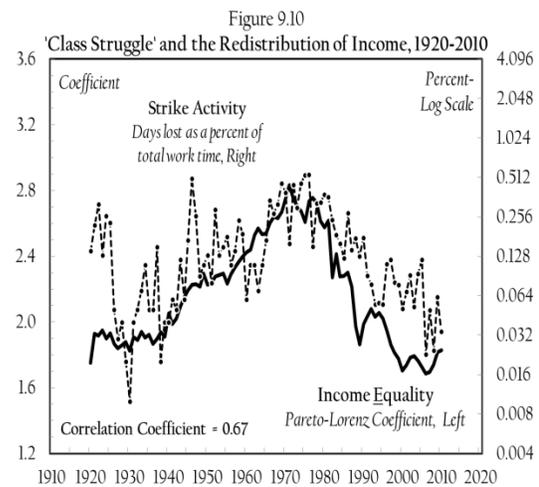
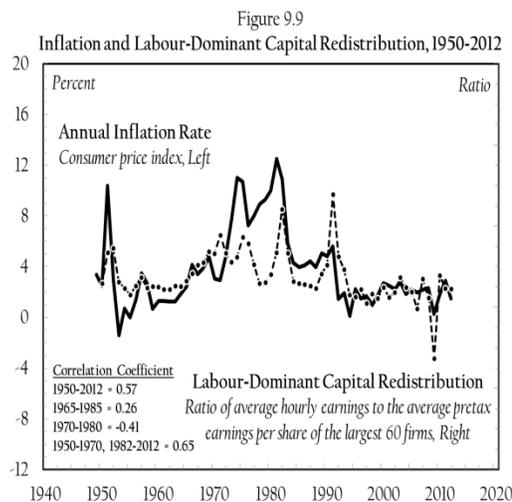
²⁴ According to the U.S. Bureau of Labor Statistics: ‘The Producer Price Index (PPI) is a family of indexes that measures the average change over time in selling prices received by domestic producers of goods and services. PPIs measure price change from the perspective of the seller. This contrasts with other measures, such as the Consumer Price Index (CPI), that measure price change from the purchaser’s perspective. The PPI universe consists of the output of all industries in the goods-producing sector — mining, manufacturing, agriculture, fishing, and forestry — as well as natural gas, electricity, etc.’

classes of owners, namely the owners of corporate equities and the owners of labour power. The positive (albeit weak) correlation in Figure 9.8 suggests that Canadian inflation tends to redistribute income from labour to capital. When we compress the time scale in Figure 9.8 to focus on the period many scholars associate with stagflation — the mid-1960s through the mid-1980s — we find that the strength of the statistical relationship increases. When we shrink the time scale further, focusing on the 1970s — the decade most closely associated with stagflation — the strength of the association between the two series increases. What is going on here?

It would be easy to draw misleading inferences from the facts in Figure 9.7 and 9.8. After all, the data seems to support the notion that, over the long-haul, inflation is beneficial to capital. However, when we strip the relationship in Figure 9.7 and 9.8 of the experience between 1970 and 1981 — the period most closely associated with stagflation — it turns out that there is *no* statistical relationship between inflation and capital-favouring redistribution. The relationship between 1970 and 1981 is sufficiently strong to make the correlation between the 1950s and 2012, a correlation which is virtually nil outside the 1970s, appear positive. Over the long-haul *and outside the experience of the 1970s* there is no statistical relationship between Canadian inflation and *either* the earnings per share of the largest firms *or* the redistribution of income from labour to capital. Something about the 1970s was unique about the relationship between Canadian inflation and the differential power of capital.

So where does this leave us in terms of understanding the distributive aspects of Canadian inflation? Figure 9.9 and 9.10 begin to add some clarity to the matter. In Figure

9.9, the annual inflation rate is plotted against a metric which captures the distributive struggle between labour and dominant capital, the latter computed as a ratio of average hourly earnings to the average EPS of the largest 60 firms. Note that we have inverted the ratio here so that when the metric rises, labour is redistributing income from the top 60 firms and vice versa. It turns out that, over the long-haul, inflation is systematically redistributive *in favour of labour*.



Note: a work stoppage could result from either a strike or a lockout. The top 60 firms are ranked annually by equity market capitalization. **Source:** common shares outstanding, closing share price and gross income for the top 60 firms from Compustat through WRDS; average hourly earnings from Historical Statistics of Canada, Series E198 (1901-1948) and the IMF through Global Insight (1949-2012); consumer price index from the IMF through Global Insight; work stoppages from Historical Statistics of Canada, Series E197 (1919-1975) and Cansim Tables 278-009 and 282-0018 (1976-2012); Pareto-Lorenz coefficient from Saez and Veall (2007), Veall (2010) and Veall (2012), retrieved from: <http://topincomes.gmond.parisschoolofeconomics.eu/>.

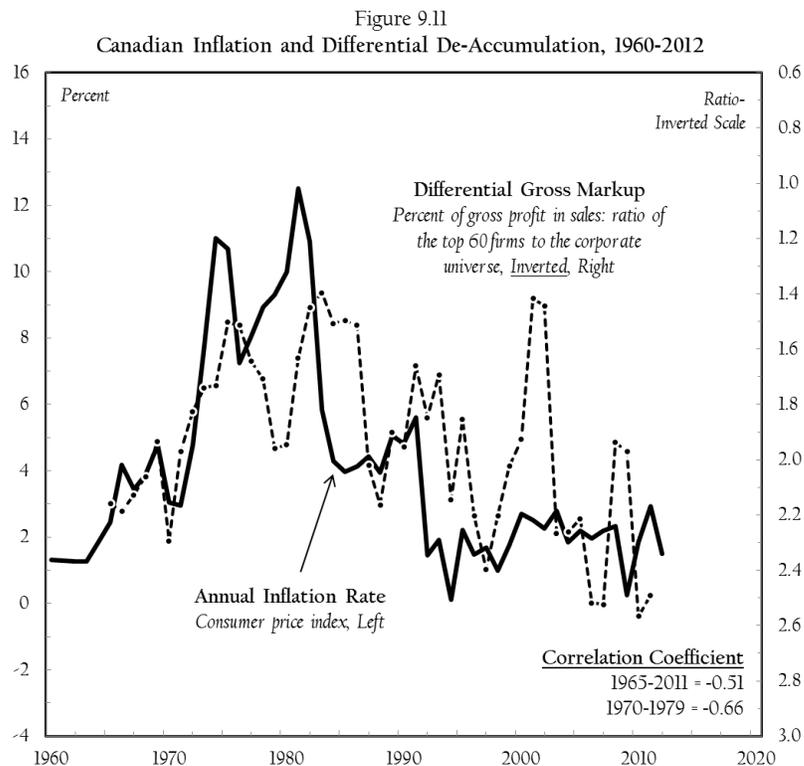
Note: the strength of the correlation in Figure 9.9 is more than twice that of Figure 9.8. The clarity comes when we examine the episode of the 1970s. Even though the correlation coefficient in Figure 9.9 is 0.57 from 1950 through 2012, the correlation is *negative* between 1970 and 1980 (such that, when we subtract that period, the overall correlation grows from 0.57 to 0.65). Outside the stagflationary 1970s, Canadian inflation

tended to redistribute income from dominant capital to labour. During the 1970s, inflation redistributed income from labour to capital and to dominant capital.

Some of the remaining ambiguity around the distributive consequences of Canadian inflation can be reduced by looking at the long-term consequences of inflation on the distribution of *personal* income. If inflation redistributes income from labour to capital, as the capital as power framework suggests, then we would expect the income share of the rich to increase in tandem with inflationary episodes. On the other hand, if labour union-backed, work stoppage-fueled wage gains are the principal driver of inflation — redistributing income from capital to labour — then we would expect inflation to erode the top income share.

Figure 9.10 contrasts the extent of strike activity with the Pareto-Lorenz coefficient. The latter captures the concentration of income among the rich (the higher the coefficient, the lower the concentration). The two series map on very tightly to one another. A correlation of 0.67 over nine decades is strong, indicating that workplace struggle (which has a demonstratively inflationary aspect to it) contributed to the redistribution of Canadian income from the upper to the lower income brackets. The two series rose together from 1920, peaked in the 1970s and declined thereafter, reaching a postwar low in 2010. The term is used pejoratively, but insofar as strike action involves workers revolting against owners, this activity is a manifestation of ‘class struggle’. The outcome of this type of struggle appears to systematically redistribute Canadian income towards labour.

Let's add another layer of complexity to Canadian inflation. N&B plot an additional differential measure which depicts the distributive struggle between dominant capital and capital as such. Their 'differential markup' captures the percent of net profit in sales and it is measured as a ratio of the Fortune 500 to the business sector. When it rises, large firms are redistributing income from small firms and vice versa. In the U.S., this ratio maps on tightly to postwar wholesale price inflation (2009: 373, Figure 16.3). Figure 9.11 portrays the experience for Canada. Consumer price inflation is contrasted with the differential markup, the latter measured as a ratio of the gross markup of the top 60 firms to the corporate universe. Note: the differential markup is plotted on an inverted scale.



Source: common shares outstanding, closing share price, revenue and pre-tax income for the top 60 firms from Compustat through WRDS; total corporate revenue from the Dominion Bureau of Statistics (1965-1971) and Cansim Tables 180-0002 (1972-1987), 180-

0001 (1988-1998) and 180-0003 (1998-2011); total pre-tax corporate profit from Cansim Table 380-0016; consumer price index from the IMF through Global Insight.

The facts suggest that when inflation was high and rising — from the mid-1960s through the early 1980s — small firms were redistributing income away from large firms. The disinflationary period from the early 1980s onward was associated with the redistribution of income from small to large firms. So Canadian inflation not only appears to redistribute income from capital to labour; it also appears to redistribute income from large to small firms, generating differential *de*-accumulation.

Let's summarize what we have learned in this section. In absolute terms, strike-fuelled worker wage gains (Figure 9.5 and 9.6) and the earnings per share of the largest Canadian-based firms (Figure 9.7) are both inflationary. Shifting to differential terms, and over the long-haul, labour groups are the distributive winners from inflation when compared with capital and dominant capital, the latter two being distributive losers. When we plot a differential measure comparing the Canadian corporate universe with dominant capital, we find that inflation tends to redistribute income from large firms to smaller firms (differential *de*-accumulation, Figure 9.11). The stagflationary 1970s appear to be the exception to this trend: in that decade (using differential measures), capital and dominant capital were distributive victors when compared with segments of labour. The level of personal income inequality (as captured in the Pareto-Lorenz coefficient) reinforces these findings: periods of high and rising inflation tended to lessen inequality and periods of low and falling inflation tended to increase inequality.

The findings contained in Figures 9.5 through 9.11 synchronize with what was discovered in earlier chapters about the development of large firms. Chapters 5 through 8

documented the declining position of the largest Canadian-based firms in the Keynesian period (as registered in metrics as diverse as the corporate profit share of national income, differential accumulation, aggregate concentration, the profit markup and the top income share, for instance). In contrast, the social position and relative performance of the largest Canadian-based firms improved in the neoliberal era. If inflation was good for dominant capital, then we would expect the inflationary Keynesian period to improve, and the anti-inflationary neoliberal period to erode, the relative position and performance of the largest corporate units in Canada. The opposite is true: Canadian inflation tends to benefit labour groups and smaller firms at the expense of large firms.²⁵

Given the foregoing analysis, it seems that large firms should prefer lower levels of inflation. In what follows, we will see that this is not an entirely correct inference.

9.6 Power and Prices, III: Organized Violence and Inflation

In Chapter 5 we learned that the Toronto Stock Exchange is over-represented by firms operating in the base material, oil & gas and financial sectors (Table 5.2, p. 152). In 2011, for instance, 24 percent of total equity market value was accounted for by base material firms, 25 percent by oil & gas firms and 28 percent by financial institutions. The analysis thus far has focused on dominant capital in the aggregate. In what follows, we will pull dominant capital apart to examine its energy and base material components. The purpose is to determine what drives energy and base material price inflation and to sort out what bearing such inflation has on the structure and performance of the corporate sector.

²⁵ This set of findings is complicated by the experience of the 1970s, which (using some metrics) registered differential gains for capital and for dominant capital.

Consider the examples illustrated in Figure 9.12 and 9.13. Figure 9.12 contrasts the profit share of ‘dominant energy’ with the inflation-adjusted price of oil.²⁶ ‘Dominant energy’ is defined as the cluster of Canadian-based firms operating in the oil and gas market that are among the largest 60 firms ranked annually by equity capitalization.²⁷ The facts suggest that the profit position of the largest energy firms, treated as a bloc, is closely tied to the relative price of oil. When the relative price of oil increased, as it did in the 1970s and 2000s, the profit position of dominant energy relative to the corporate universe tended to increase and vice versa.

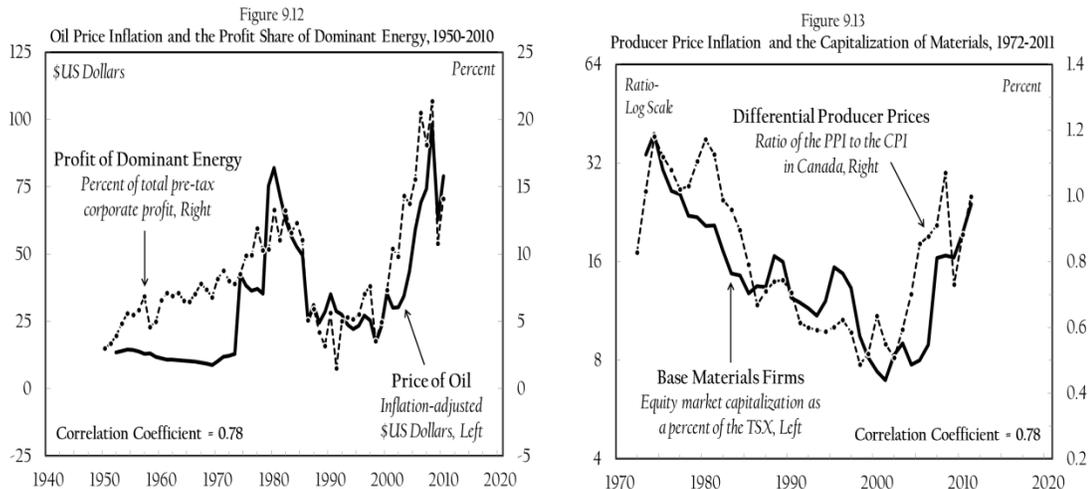
Shifting from energy to base materials firms, Figure 9.13 contrasts differential producer prices, computed as a ratio of the Fisher producer price index to the consumer price index (both for Canada), with the equity share of base materials firms — the latter measured as the percent of total equity capitalization on the TSX accounted for by base materials firms. Here again, a relative increase in producer prices is closely associated with an increase in the relative value of base materials corporations and vice versa.

Figures 9.12 and 9.13, though hardly counter-intuitive, illustrate that the relative income position and organizational value of the largest corporate units in Canada are tightly bound up with the relative price of the commodities they sell. This suggests that large firms prefer *inflated* prices for the commodities they sell. And because the Canadian equity market is over-represented by energy and materials firms, we should expect base

²⁶ This figure is inspired from a similar figure found in Nitzan and Bichler (2004: 304, Figure 11).

²⁷ The TSX defines the ‘oil & gas’ sector in a way which includes the following sub-industries: oil & gas drilling, oil & gas equipment and services, integrated oil & gas, oil & gas exploration and production, oil & gas refining and marketing and oil & gas storage and transportation.

commodity and producer price inflation to be welcomed by many large firms insofar as it serves to redistribute income and equity value in their favour.



Note: both the number and identity of the corporate units comprising Dominant Energy changed from year to year, but they were always among the 60 largest firms ranked annually by equity market capitalization. The Materials sector includes firms that control the discovery, development or processing of raw materials (mining and refining of metals, chemical products and forestry products). **Source:** common shares outstanding, closing share price and pre-tax profit for Dominant Energy from Compustat through WRDS; total pre-tax corporate profit from Historical Statistics of Canada, Series F3 (1926-1960) and Cansim Table 380-0016 (1961-2011); the price of oil in inflation-adjusted U.S. dollars from BP Statistical Review of World Energy (<http://www.bp.com/statisticalreview>); equity value of materials firms and for the entire TSX from Thomson Reuters Datastream Professional; Canadian producer price index ('Fisher PI') from the Bank of Canada through Global Insight and the Canadian consumer price index from Global Financial Data.

A corollary question: what determines the relative price of a commodity like oil, or a broad basket of commodities like base commodity prices or producer prices? Is it 'demand' and 'supply' or 'scarcity', as is so often stated? This is an expansive set of questions that cannot be answered with great precision in the context of this chapter. However, the broad contours of commodity and producer price inflation will be probed. Let's begin with the price of oil, since this commodity plays a pivotal role in fuelling global capitalism.

In *The Global Political Economy of Israel*, Nitzan and Bichler unpack some of the commercial and political history of the global oil market since the 1960s, arguing that a

cluster of large, mainly American- and European-based energy, armament, construction and financial corporations established a wide-ranging ‘alliance’ with OPEC (2002: 228-9). All the parties stood to benefit from an increase in the price of oil, but this could only be realized through close cooperation. This ‘Weapondollar-Petrodollar Coalition’, as N&B term it, helped foster a ‘stylised interaction between energy crises and military conflicts’. The ensuing outbreak of ‘energy conflicts’ in the Middle East led to sharp increases in the price of oil and an associated increase in revenues and profits for the interested parties.

N&B supply evidence which indicates that, over the long-haul, the price of crude oil is not shaped by ‘scarcity’, nor can it be explained through ‘excess demand’ or ‘excess supply’. The relevant proxy for scarcity, they tell us, is a ratio of proven reserves to current production.²⁸ However, in the decades since the 1970s, the price of oil often moved in the opposite direction as the scarcity metric would imply, rising (in inflation-adjusted terms) when increases in proven reserves were outstripping current production and falling when current production was outpacing proven reserves. According to Figure 9.12, the price of oil climbed 530 percent between 1973 and 1980. This is despite the fact that, over the same period, proven reserves grew faster than current production (2002: 229).

N&B also argue that the concept of ‘excess demand’ and ‘excess supply’ are not terribly helpful in explaining variations in the price of oil. Conceptually, they tell us that

²⁸ N&B build their argument around the relationship between the price of oil and scarcity — the latter measured as a ratio of proven reserves to current production. Whether this way of measuring scarcity is the most appropriate given that oil prices are often set on futures markets (where current production might not be the most relevant variable) is not the main issue. This is one way of quantifying scarcity.

'demand and supply' relate to the desires of buyers and sellers, which are neither observable nor measurable. Even when a conventional proxy, like inventory, is utilized (which is quantifiable), from a long-term perspective the price of oil often moves inversely to excesses or shortages in inventory. In the 1970s, as oil inventories were piling up, the price of oil soared. In the 1980s, the reverse happened: oil inventories were being depleted, which should have sent the price of oil higher, and yet it tumbled. Between 1980 and 1998, the price of oil declined nearly 80 percent in inflation-adjusted terms despite the fact that inventory was declining.²⁹

So how is the long-term price of oil to be explained? Neither scarcity nor OPEC-induced oil shortages can be blamed, N&B contend. Instead, they argue that the price of oil depends on the ability of the major players to constrain the volume of output to 'what the market can bear'. In other words, the capacity of the major organizations to shape the 'perceived scarcity' associated with broader political circumstances. Rather than 'scarcity' dictating the price of oil, it is collusion between sellers that is paramount (2002: 229). A variety of conditions, they continue, including the militarization of the Middle East and associated outbreaks of organized violence enabled 'sellers to charge higher prices and anxious buyers to foot up the bill'. Regional wars including the 1973 Arab-Israeli War, the 1979 Iranian Revolution, the onset of hostilities between Iran and Iraq in 1980s, etc., helped create a climate of crisis and shortage, which helped elevate oil prices (2002: 232).

²⁹ The author followed N&B's technique of measuring inventory by subtracting global production from global consumption as a percent of their average. See N&B (2002: 230).

Broad power processes, including internationally coordinated violence, have a bearing on the price of oil. The market for crude oil may be unique in this respect, but there may be similarities between oil price formation and base and semi-processed commodity price formation. Erten and Ocampo (2012) argue that non-oil price ‘super cycles’ track global GDP, which, they argue, means these commodities are ‘demand determined’. They note that with oil, causality runs in the opposite direction: prices tend to move inversely to global GDP. A commodity super cycle, Erten and Ocampo state, is often defined as decades-long, above-trend variation in a broad range of base material prices, sometimes lasting as long as 70 years over the entire life of the cycle.

Credit for the development of major analytical frameworks, they continue, often goes to Nikolai Kondratiev and Joseph Schumpeter. What’s interesting is that Kondratiev analyzed commodity prices over long waves, but deliberately excluded ‘exogenous’ factors like wars and revolutions, choosing instead to focus on technological change.³⁰ There may be some explanatory utility to engaging in such an exercise, but discarding organized violence and political transformation on account of it being ‘external’ to the ‘economy’ has the effect of eliminating a lot of significant phenomena. Much that is interesting in the movement of prices is their relationship to social upheaval and political transformation.

Whereas many assume that the price of oil is different from that of other commodities insofar as it is not ‘demand determined’, base commodities and producer prices are similar to oil in that mechanized warfare tends to send them soaring. Consider

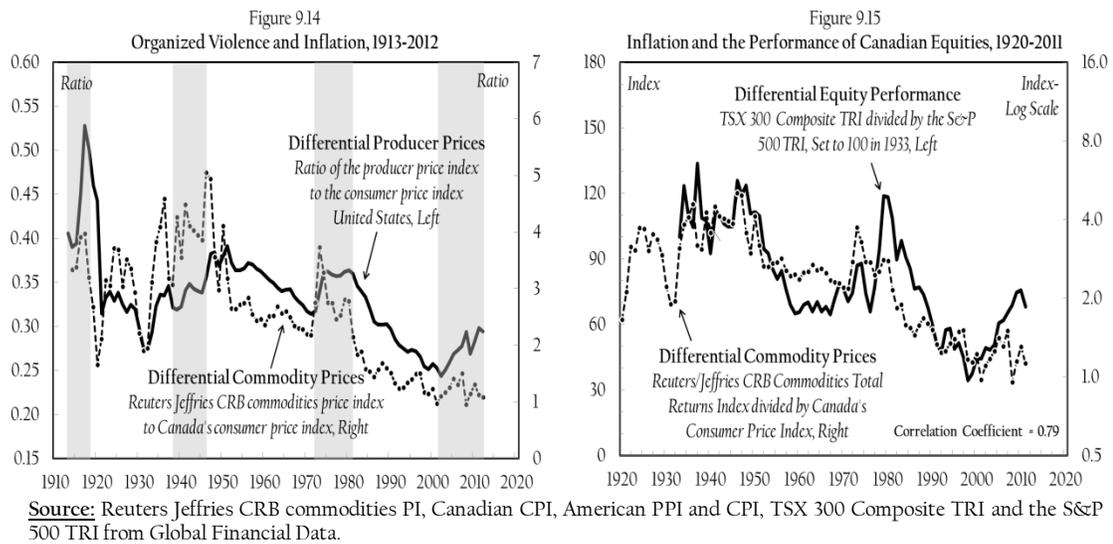
³⁰ Jacks (2013) studies commodity price super cycles from the mid-eighteenth century onward from an equally non-politicized viewpoint.

the two series contrasted in Figure 9.14. The first is differential commodity prices, measured as a ratio of the Reuters Jeffries CRB commodities price index to Canada's consumer price index. The second is differential producer prices, measured as a ratio of the producer price index to the consumer price index (for the United States). The grey shading represents outbreaks of internationally organized violence, including the First and Second World War, major hostilities in the Middle East between 1973 and 1980 and finally, the 9/11 terrorist attacks and ensuing American-led invasions of Afghanistan and Iraq.

According to Figure 9.14, over the past century major booms in base commodity and producer prices were tied to broad social crises and outbreaks of globally coordinated violence. Differential commodity prices shot up during the First World War then fell precipitously thereafter, trended upward again from the early 1930s till 1946, declined for a quarter of a century thereafter only to surge again in the 1970s. This was followed by a two decade-long decline, only to sharply increase yet again between 2001 and 2007. Differential producer prices followed a similar pattern. For both sets of prices, internationally coordinated violence seems to be a precondition for inflation.

It has long been understood that warfare often has inflationary consequences. Sherman (1983: 184), for example, argues that wartime inflation is easily explicable from the standpoint of conventional economic theory (whereas post-1945 inflation is not). In the American experience, prices rose rapidly in all the conflicts between the Revolutionary War and the First World War, but fell afterwards. Governments print or borrow money, put people to work, procure base and semi-processed commodities to

prosecute the war, etc. This has the effect, so the reasoning goes, of temporarily inflating prices. This type of inflation is ‘demand determined’, Sherman argues. However, what is misleading about the frameworks generated to explain base commodity inflation, like that of Kondratiev, is the exclusion of warfare from the explanatory picture.



The facts in Figure 9.14 suggest that, contrary to Erten and Ocampo’s argument, oil is *similar* to base commodity and producer prices insofar as they all appear to be shaped by warfare-fuelled social crises. Rather than using the language of ‘demand and supply’ to explain commodity super-cycles and variations in producer prices, and instead of viewing warfare and revolution as ‘external’ to the economy and price formation, over the long-haul base commodity and producer prices are linked with internationally synchronized violence. In other words, the application of political power is strongly related to price formation across a broad cross-section of commodities.

Given these facts, it would be odd for an economist to try to study the pattern of commodity and producer prices while ignoring the social crises and outbreaks of state

violence that appear to condition them. Likewise, couching commodity and producer price inflation in the language of ‘market forces’, as if these concepts could be separated from power processes like global warfare, also seems misplaced. Given that inflation has redistributive consequences, it is deeply significant that commodity and producer price inflation are both linked with globally-coordinated violence insofar as it implies that the application of state violence and political power transfers income and wealth between different groups (a fact which is largely ignored by conventional economic thinking).

Let’s review a few pertinent facts before spelling out some inferences. First, Canada’s equity market is over-represented by energy and base materials firms. Second, an increase in the price level has been shown to have systematically redistributive consequences between different income groups. Third, and at a disaggregate level, relative increases in base commodity and producer prices has redistributive consequences on the profit and equity position of factions within dominant capital (e.g. energy and base materials firms). Fourth, and over the long-term, base commodity and producer prices appear to be positively correlated with warfare-fuelled social crises. Given all this, what are the consequences of internationally organized violence on the relative performance of the Canadian equity market?

Figure 9.15 contrasts differential commodity prices and the differential performance of the Canadian equity market — the latter measured as a ratio of the TSX 300 Composite total returns index to the S&P 500 total returns index. The two series are tightly intertwined from the 1930s onward. When relative commodity prices increased, as they did during the Second World War, during the wars in the Middle East in the

1970s and during the American-led invasion of Afghanistan and Iraq after 2001, the Canadian equity market outperformed global benchmarks like the S&P 500. Outbreaks of global peace, by contrast, are associated with the underperformance of Canadian equities. Power processes on a global scale appear to shape the relative performance of large Canadian corporations. These facts also imply that commodity and producer price inflation, like consumer price inflation, has systematically redistributive consequences on the relative value of national equity markets.

The foregoing discussion is not meant to imply that dominant Canadian proprietors helped instigate global conflict. It can safely be assumed that these processes unfold independently of the motivation and activities of Canada's business elite. However, the picture presented here casts a rather different light on matters such as price formation, business performance and distribution. Instead of speaking of prices being the result of 'demand and supply', and rather than speaking of stock performance and the distribution of income as being determined by 'productivity', when we probe the deep history of Canada's political economy we find that organized violence propels commodity and producer prices. The consequences of this type of inflation have a direct bearing on the profitability and equity value of large Canadian corporations. Power processes on a global scale, including internationally coordinated violence, shape Canadian business performance.

Some questions follow. If Canada's equity market is closely associated with base commodity prices, and if the latter is shaped by global warfare, what does this mean for income inequality in Canada? More specifically, if consumer price inflation redistributes

income from capital to labour, does commodity and producer price inflation elevate the relative income position of the Canadian Establishment?

9.7 Summary

Veblen argued that 'a differential advantage inuring to any one class or person commonly carries a more than equal disadvantage to some other class or person or to the community at large' (1908b: 361). From the standpoint of institutional and organizational power, and in the context of distributive struggle, price formation and inflation, Veblen's statement carries near axiomatic weight. For one organization or group to improve its relative position, others must be made relatively worse off. The question arises: is there a systematic pattern at play such that we can meaningfully speak about inflation making some groups better off and, by implication, others worse off? In Canada, such a pattern exists. Let us try to summarize it.

Canadian inflation tends to appear amidst social conflict. Over the long-haul and in the aggregate, the annual inflation rate tends to accelerate with global warfare-fuelled social crises. Inflationary episodes in Canada also tend to appear with social conflict of another kind, namely worker revolts against business owners. Long waves of labour disobedience appear to produce two outcomes: higher wages and a higher rate of inflation. The institutional growth of labour organizations in tandem with the extent of workplace action shapes the average rate of Canadian labour compensation. The latter, in turn, plays a key role in shaping the overall price level. The evidence strongly suggests that labour disobedience and worker wage gains are inflationary. When we shift from

absolute to differential terms, we find that Canadian inflation tends to redistribute income from large to small firms, from large firms to labour groups and from capital to labour. The 1970s may be an exception to this trend. In that decade, (stag-)inflation tended to redistribute income from labour to capital and to dominant capital.

Base commodity and producer price inflation tends to increase with outbreaks of internationally organized violence. This type of inflation has systematically redistributive consequences within the corporate sector, redistributing profit and equity value to energy and base materials firms. This type of inflation also tends to redistribute equity value between national equity markets, such that the Canadian corporate universe outperformed global benchmarks during episodes of regional or global warfare (and tended to underperform during outbreaks of peace).

The evidence presented in this chapter strongly suggests that: Canadian inflation is nourished on social conflict; Canadian inflation systematically redistributes income between different income groups; and lastly, Canadian inflation produces distributive winners and losers. These findings have a number of implications for understanding the development of large Canadian-based firms and for our understanding broad shifts in Canadian public policy. The Canadian middle class was largely built between 1940 and 1980. This was a period of relatively high and rising inflation, driven partially by worker wage struggles. This period also witnessed the relative decline of large firms (as registered in the corporate profit share of national income, differential accumulation and the profit markup, for example).

Beginning in the late 1970s, the Canadian State and the Bank of Canada embraced an anti-inflationary monetary policy. If inflation is good for the working and middle classes and for smaller firms, and if inflation is harmful to large firms and the top income group, then one way of understanding the shift towards anti-inflationary monetary policy is to view it as the use of state power (presumably on behalf of large firms and the Canadian Establishment) to redistribute income from labour to capital, from small to large firms and from the lower to the upper echelons of the personal income hierarchy. Far from neoliberalism implying the 'withdrawal' or 'retreat' of state power, in this instance, the broader meaning of neoliberalism is the utilization of state power to restrain the wage demands of the working class and to strengthen the social position of dominant capital. Under this interpretation, what is sometimes referred to as 'sound monetary policy' is, in practice, working and middle class-restraining, business class-promoting, state policies that have the effect of upwardly redistributing income.

Given the inflationary backdrop spelled out in this chapter, what are some of the long-term drivers of income inequality in Canada? Does the development of large firms help explain changes in the level of Canadian income inequality?

Some Long-Term Drivers of Inequality in Canada

Wherever there is great property, there is great inequality. For one very rich man, there must be at least five hundred poor, and the affluence of the few supposes the indigence of the many.

- Adam Smith (1776)

In Chapter 8 we mapped the history of personal income inequality in Canada, discussed its socio-political significance, reviewed how others have understood the increasing income inequality of recent years and explored what an alternative explanatory framework might involve. Chapter 9 began to unpack the processes driving distribution through an examination of inflation. The present chapter will contrast the evolution of some of the major institutions in the Canadian political economy, notably large firms, governmental organs and labour unions with a view to understanding what bearing these changes have on the distribution of income and wealth. The chapter asks: are there patterns and regularities which shape the relative gains made by different income groups? If so, are these patterns reducible to shifts in the institutional and organizational environment in Canada?

The core argument to be defended in this chapter is that increasing corporate power is associated with the redistribution of factor income from labour to capital and from the lower to the upper echelons of the personal income hierarchy. Conversely, the

institutional growth of labour unions is historically associated with the redistribution of factor income from capital to labour and from the upper to the lower strata of the income hierarchy. The growth of the middle class in Canada unfolded side-by-side diminishing (or steady) corporate power and increasing unionization. The de-unionization of recent decades in tandem with the surge in the relative size of the largest firms has meant the erosion of a shared prosperity and growing income inequality.

The argument will unfold over six sections. The first section will unpack the relationship between unemployment and inequality by exploring the dramatic redistribution of personal income during the Second World War. The second section establishes points of contact between factor income and personal income before explaining how corporate power has shaped both types of income over the postwar period. This sets the stage for the third section, which explores the 'countervailing' role played by unions in distributive outcomes. The fourth section maps the organizational structure of the corporate sector with a view to understanding what role (if any) relative firm size has played in shaping income inequality.

In the fifth section we increase the level of resolution by honing in on the top income share in Canada to discern if there are stable patterns which govern distributive gains among Canada's most affluent inhabitants. Given corporate Canada's over-representation in energy and base materials, the focus will be on the role of energy and base material price inflation. The sixth section redeploys some of the quantitative history around amalgamation and stagflation to discern if long-term trends in these two processes have distributive consequences. The seventh section summarizes the findings

and provides some closing remarks on the intersection of corporate power and democratic citizenship.

10.1 Unemployment and the ‘Natural Right of Investment’

A cautionary note is in order before proceeding to an explanation. Given that the distribution of income is such a complicated phenomenon and given that the historical and socio-institutional environment in Canada has changed so dramatically since 1920 (when the data begin), we have no good reason to suppose that a single overarching principle will be discovered that satisfactorily explains inequality over the entire century. At different points in time one or another political-economic factor may prove paramount while at another time the explanatory emphasis might be found elsewhere.

The first half of the twentieth century was characterized by prolonged and severe crises, namely two World Wars separated by a Great Depression. And while the income inequality data stretch back to the end of the First World War, reliable disaggregate equity data are unavailable until 1950, which means that we will have to look elsewhere to empirically support our assertions about income inequality in the period prior to 1950. Let's begin with the most dramatic episode in the recorded history of income inequality in Canada: why was personal income inequality more than halved between 1939 and 1945 and did the radical reduction in inequality have anything to do with the reorganization of power?

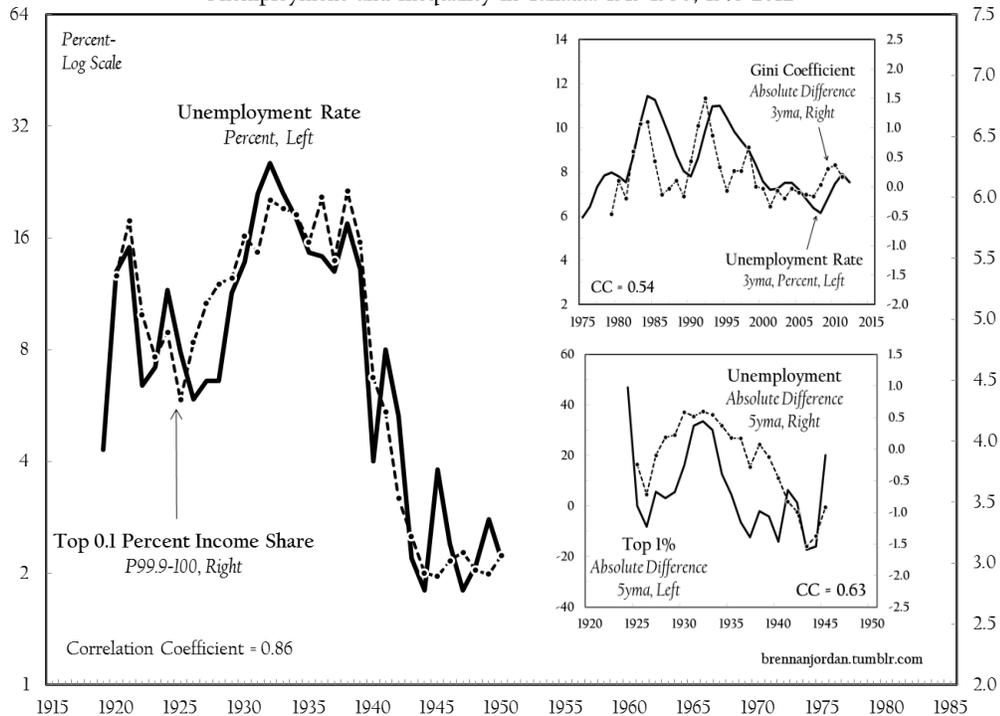
Figure 10.1 documents the relationship between unemployment and personal income inequality. On the left side of the chart, the thick black line captures the

unemployment rate and the thin broken line captures the top 0.1 percent income share from 1919 to 1950. The inset chart on the bottom right measures the absolute difference of each series, smoothed as five year moving averages. The inset chart on the top right plots the unemployment rate (thick black line) against the absolute difference of the Gini coefficient (thin broken line) from 1970 to 2012 (Gini coefficient data only begins in 1976). What do the facts tell us? During the three decades after the First World War, income inequality was tightly and positively correlated with the unemployment rate.¹ The rate of change of each series is also tightly correlated, as evidenced by the inset figure on the bottom right. The period from 1939 to 1945 is especially significant because it represents the greatest redistribution of Canadian income on historical record.

The statistical relationship between the top 0.1 percent income share and the unemployment rate breaks down after 1950 for reasons that are not clear. However, it seems plausible to assume that the growth of the welfare state through crown corporations, government agencies, health care services, post-secondary institutions, etc., might have mitigated the power of corporations to enforce unemployment insofar as a large and growing portion of the workforce was absorbed by a nascent 'public sector'. Given the data between 1919 and 1950, it appears that sharp increases in unemployment redistributed income upward while reductions in the unemployment rate redistribute income downward.

¹ A correlation coefficient of 0.86. The same two series over the same time span are strongly correlated in the United Kingdom (0.77) and weakly correlated in the United States (0.25).

Figure 10.1
Unemployment and Inequality in Canada: 1919-1950, 1975-2012



Source: top income share from Saez and Veall (2007), Veall (2010) and Veall (2012) with series updated to 2010 by Michael Veall, retrieved online from: <http://topincomes.g-mond.parisschoolofeconomics.eu/>; unemployment rate from Global Financial Data (1919-1950) and the OECD through Global Insight (1970-2012); Gini coefficient (market income) from Cansim Table 202-0705.

Why would unemployment and the distribution of income be positively correlated in the interwar years? Recall Veblen's claims about the 'natural right of investment': private ownership of industrial equipment grants proprietors the right to legally enforce unemployment, and this act of institutionalized exclusion has distributive consequences. Consider the reconfigured role of the Canadian State during the Second World War. Mainstream economics might speculate that an increase in 'aggregate demand' caused by the Second World War put people back to work, boosted average wages, depressed business earnings with the overall consequence being a narrowing of the distribution of personal income. 'Supply and demand' provides the ultimate answer, say the neoclassicists. This is inadequate. Something much more fundamental than a shift

in 'market forces' occurred in Canada between 1939 and 1945; the very capitalist nature of the Canadian political economy was altered.

Until 1939 employment (*industry*) was firmly under the control of private proprietors (*business*). The Second World War partially changed that. As Minister of Munitions and Supply, C.D. Howe presided over the shift towards a centrally planned political economy. Business considerations, although not totally eliminated, were greatly diminished vis-à-vis industrial considerations. Capitalists lost some control over (un)employment and pricing. The consequences for them were devastating, as evidenced by a collapse in the top income share. In terms of price formation, wage ceilings were imposed, producer and consumer prices were frozen, exchange rates were controlled and the rate of profit was capped at five percent. In terms of unemployment, restrictions were lifted when Howe put Canada on a war-time footing. Ottawa demanded that production increase in everything from raw materials to manufactured goods to military hardware. If Howe couldn't find a business to provide the goods he wanted, he created a crown corporation (Taylor 2009: 137-9).

The consequences? Unemployment shrank from 12 percent in 1939 to under 2 percent in 1945. Gross domestic product grew by more than 15 percent annually, rising from \$5 billion in 1939 to \$12 billion in 1945. Without exception, the 1940s represents the most rapid growth decade in Canadian history and the closest Canada ever came to full employment. In the process of shifting control of production and prices from business to government, the Canadian political economy moved towards full socio-technological

potential. The capitalist power manifest in unemployment was severely curtailed and one consequence appears to be a radical reduction in the top income share.

The relationship between unemployment and personal income inequality appears to break down after 1950, but appearances can be deceiving.² The inset chart in the top right portion of Figure 10.1 shows a significant relationship between unemployment and the absolute difference of income inequality, the latter measured using the Gini coefficient. Sharp increases in unemployment (*industrial limitation*) correspond with increases in the absolute difference of income inequality (*differential pecuniary gain*). The reasons for this are not entirely clear. However, the fact that unemployment and inequality are positively associated serves to strengthen Veblen's and N&B's assertion that capitalist power is manifest in the subjugation of industry to business and that the exercise of this power has a bearing on the distribution of income.³

If unemployment shapes the distribution of personal income prior to 1945, let's deepen our analysis by exploring what role broad shifts in the institutional and organizational structure of the political economy have on the distribution of income.

² The correlation between the unemployment rate and the top 0.1 percent income share is 0.04 between 1950 and 2010.

³ Kalecki (1943b: 140-1) hints at a relationship between unemployment and capitalist power. Full employment policies, he tells us, will not be embraced by business because "the sack" would cease to play its role as a disciplinary measure' and the 'social position of the boss would be undermined'. Unemployment prevents workers from feeling confident enough to strike for higher wages. If Kalecki's assertion is correct, then the weakened bargaining position of labour resulting from unemployment would not only hold the level of wages down, but would also serve to increase income inequality.

10.2 Factor Income, Personal Income and Commodified Power

The Canadian political economy was transformed during the early decades of the postwar era just as income inequality began a three decade-long decline. Why did personal income inequality decline between 1945 and the late 1970s? Before addressing this question, let us review a few conceptual matters. Instead of thinking of income formation in atomistic and absolute terms, and instead of assuming that market income reflects proportional productive contribution, let us suppose that the political economy is partially a terrain of conflict between different socio-economic groups and that the distribution of income partly manifests socio-institutional power. Relative, not absolute, income gains are what matter using this line of reasoning. The question emerges: is there a systematic relationship between personal income inequality and the distributive struggle between capital and labour?

To answer this question let us survey the national accounts and extract three metrics: corporate profit, wages and salaries and GDP. Step one is to divide the first two measures by the third to arrive at the share of national income going to capital in the form of profit and the share of national income going to labour in the form of wages. The national wage bill is altered to reflect the class-based distribution of income by subtracting the wages and salaries portion of the top percentile income share (thus making it an 'adjusted' national wage bill). Step two is to divide the first measure by the second to arrive at a picture of the distributional struggle between capital and labour over profits and wages. When this ratio rises, capital is redistributing income from

labour and vice versa. This ratio is plotted in Figure 10.2 against the top percentile income share from 1945 to 2010.

The reasons for adjusting the national wage bill in Canada are analytical. The classical political economists of the eighteenth and nineteenth centuries utilized social class as an important analytical tool. Indeed, analysis of the distribution of factor income between wages, profits and rent/interest — workers, capitalists and landlords/rentiers — and the corresponding distribution of personal income makes little sense apart from social class. Beginning in the late nineteenth century an emergent ‘neoclassical economics’ emptied the political economy of its class content. Instead of social classes populating the ‘political economy’, the analysis shifted to the individuals inhabiting the ‘economy’.

The removal of class as an analytical category came at the expense of an appreciation of the role of institutions in organizing exchange and shaping distribution exchange. What was gained in the process, however, was ideologically appealing. By failing to distinguish the mass of people who sell their labour power on the market from the much smaller number of people who own the major businesses, neoclassical economics shifted the discussion away from the apparent conflict between the income groups over wages, profits and interest/rent to the much more positive, though partially distorted, picture of a socially harmonious society in which the work of individuals is rewarded in proportion to productive contribution (or the productivity of the ‘factors’ which the individual owns, since it is unclear how mere ownership of physical equipment or land is an industrially productive activity). This manoeuvre bypassed some

difficult questions about how wealth is generated and what role political-economic institutions play in shaping its distribution.

As Figure 10.2 makes apparent, personal income inequality closely tracked the distributive struggle between capital and labour over profits and wages. As workers made distributive gains throughout the ‘golden age’ (1945-1980), narrowing the distribution of income, capital suffered distributional losses along with the top percentile income group. This process went into reverse in the 1980s, with capital redistributing income away from labour and the top percentile income share increasing.



Note: the adjusted national wage bill is wages and salaries as a percent of GDP less the wages and salaries portion of the top percentile income share. **Source:** top percentile income share (including the wages and salaries portion of the top percentile income share) from Saez and Veall (2007), Veall (2010) and Veall (2012) with series updated to 2010 by Michael Veall (<http://topincomes.gmond.parisschoolofeconomics.eu/>); GDP, wages and salaries and corporate profit from Historical Statistics of Canada, Series F1-13 and Cansim Table 380-0016; total government expenditure from Historical Statistics of Canada, Series F16 (1926-1965); total government outlays (including Canada Pension Plan and Quebec Pension Plan but excluding intergovernmental transfers) from Fiscal Reference Table 33 (1966-2010).

Who is a part of the ‘one percent’, beyond a basic income measure? It is a rather large grouping that is bound to include many people who would not be considered capitalists. This squares with the observations made by Fortin *et. al.* (2012), who examine the composition of the top percentile based on the 2006 Canadian Census and find that most people within it are neither executives nor financiers. A sizeable proportion of the top percentile income group are health professionals, for example. We would also expect to find accountants, lawyers, athletes and entertainers in this income bracket. Despite these caveats, we are safe in presuming that ownership and control of Canada’s corporate sector resides somewhere within the top percentile, though it is probably a very small fraction that effectively controls the corporate sector.

The inset chart in Figure 10.2 documents the relationship between government spending and the distribution of factor income over the postwar era by presenting two series: the thin broken line measures labour-capital redistribution, tabulated as a ratio of the adjusted national wage bill to the corporate profit share of GDP and the thick black line is total government spending as a percent of GDP (smoothed as five-year moving averages).⁴ The growth of government spending, which could be interpreted as a democratization of the political economy, closely mirrors the redistribution of income from capital to labour and vice versa.

Public sector pay scales tend to be more compressed than the private sector — a higher floor and a lower ceiling — so as public sector activities form a larger proportion

⁴ The correlation coefficient over six and a half decades is 0.61. The correlation coefficient for the rate of change of each series, also smoothed as five-year moving averages, is 0.46.

of GDP, one consequence might be a reduction in income inequality. The redistributive aspect of government spending in Canada is mirrored internationally. Examining 64 countries over a quarter century, Lee (2005) finds a strong interaction between democracy and public sector development on the one hand, and intra-country income inequality on the other. Increasing public sector size in the context of democratic political institutions, he hypothesizes, may serve to redistribute income insofar as governmental agencies are more responsive to demands of lower classes and more committed to equitable distributive outcomes.⁵

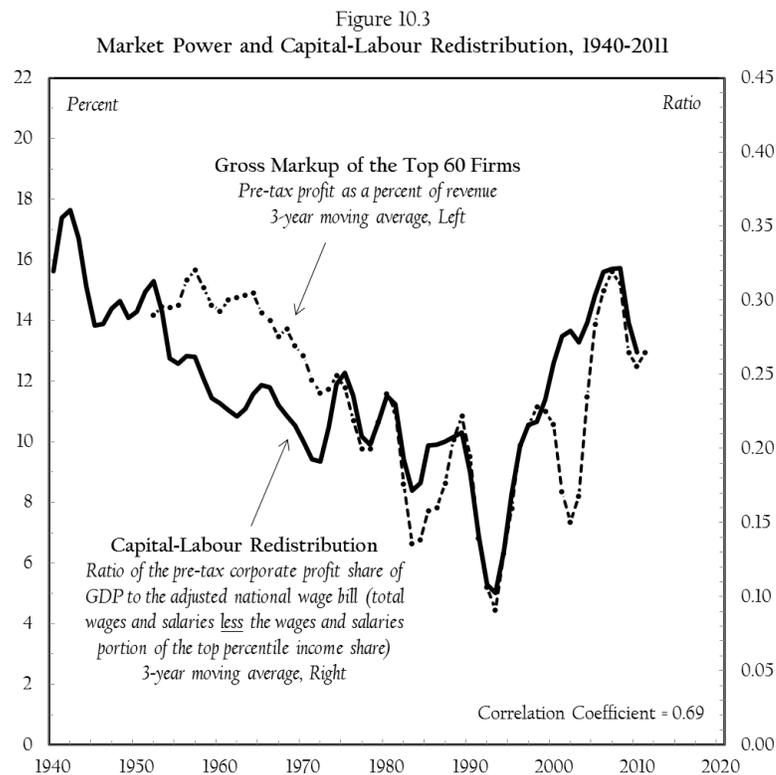
Recall: Figure 6.6 establishes a link between aggregate concentration and market power; Figure 6.7 shows that corporate concentration is fuelled, in part, by corporate amalgamation; and Figure 10.2 uncovers the relationship between the top percentile income share and the distributional struggle between capital and labour. What role does corporate power play in shaping the distribution of factor income?

Kalecki argues 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, as Means (1935) shows, but they tend to have deeper earnings margins. Kalecki posits:

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).

⁵ In the context of non-democratic political institutions, the growth of the public sector is positively associated with increasing *inequality*, Lee notes.

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



Note: adjusted national wage bill is wages and salaries as a percent of GDP less the wages and salaries portion of the top percentile income share. **Source:** wages and salaries portion of the top percentile income share from Saez and Veall (2007), Veall (2010) and Veall (2012) with series updated to 2010 by Michael Veall; Compustat through WRDS for shares outstanding, closing share price, revenue and pre-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 Cansim Table 380-0016.

Figure 10.3 plots the markup of the top 60 firms against capital-labour redistribution (smoothed as three-year moving averages to ease the visual assessment). The two series are tightly intertwined over six decades. In the Keynesian era, the distributive power of the largest firms, registered in their earnings margins, declined.

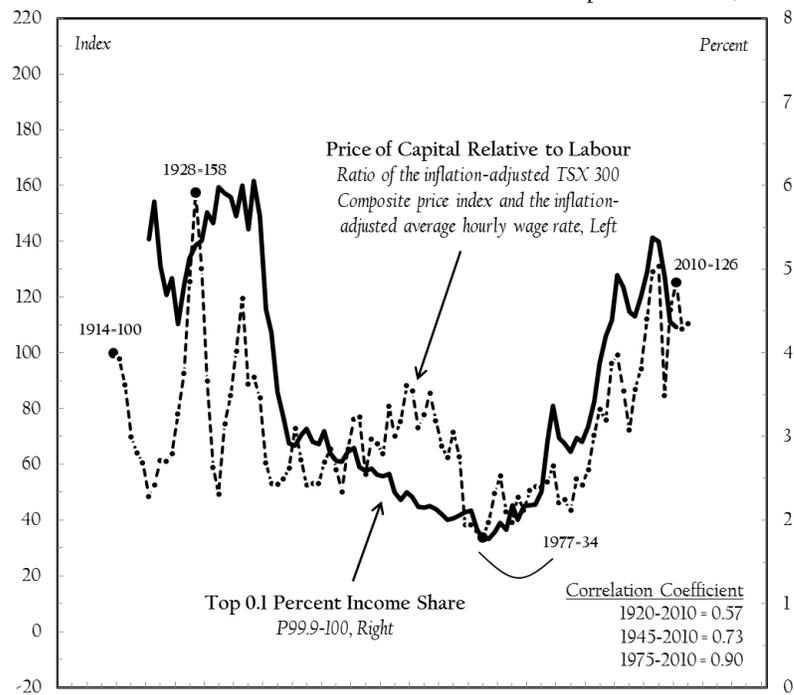
This process went into reverse in the so-called 'free trade' era, with the markup soaring from the 1990s onward. If the markup is measure of corporate power, and if the distributive struggle between capital and labour shapes the distribution of personal income, it is highly significant that the former moves in tandem with the latter, because it suggests that corporate power shapes the distribution of income in Canada.

Let's look at this from a slightly different angle. Does the distributive struggle between capital and labour — between the owners of corporate equities and the owners of labour power — help explain the level and pattern of top income share? In other words, if the top income group owns the corporate sector then does it follow that the distributive struggle between this group and the workforce shapes the proportion of income accruing to the former? One way of answering this question is to contrast the price of corporate equities with the price of labour. Figure 10.4 juxtaposes the top 0.1 percent income share against a ratio of corporate equity prices to the price of wage labour. The latter is measured as a ratio of the inflation-adjusted TSX 300 price index to the inflation-adjusted average hourly wage rate.

Over the long-haul it appears that relative prices of different income groups closely resembles the class-based distribution of income. The price of corporate equities relative to labour reached a historic high just prior to the Great Depression and again just prior to the Second World War. This ratio reached a historic low in the late 1970s before surging upward, touching a historic extreme again prior to the 2008-09 financial crisis. The share of national income going to the top 0.1 percent followed a similar pattern. Historic highs were reached just prior to the Second World War and the Great

Recession of 2008-09. A historic low was reached in 1977 — the same year as the ratio of equities to wages bottomed out.

Figure 10.4
Distributive Conflict between Owners and Workers and the Top Income Share, 1914-2010



Source: top income share from Saez and Veall (2007), Veall (2010) and Veall (2012) with series updated to 2010 by Michael Veall, retrieved online from: <http://topincomes.gmond.parisschoolofeconomics.eu/>; stock price index and consumer price index from Global Financial Data; average hourly earnings from Historical Statistics of Canada, Series E198 (1910-1948) and IMF through Global Insight (1949-2010).

If corporate power shapes the distributional struggle between capital and labour (Figure 10.3), and if this struggle is manifested in the top income share (Figure 10.2), then what are the institutions and processes that mitigate corporate power and lessen income inequality? More specifically, do labour unions act as a ‘countervailing power’ to the institutional strength of capital and dominant capital?

10.3 The Countervailing Power of Organized Labour

In his study on American capitalism, J.K. Galbraith (1952) utilizes the term ‘countervailing power’ to denote an institutional setting in which the power of large corporations is offset by the power of labour unions and governments. To use familiar language, labour unions act as a ‘check’ or ‘balance’ against the power of dominant corporations. During the ‘golden age’ of controlled capitalism (1945-1980), labour made distributive gains relative to capital and lower income groups made distributive relative to the top income group. How can we account for this?

Unions represent workers at the bargaining table with employers and, because they are able to negotiate as a collective unit, their bargaining position is enhanced (hypothetically, if not actually) in relation to what it would be if each individual bargained in isolation.⁶ An enhanced bargaining position (often) enables unions to increase their compensation and benefits to a greater extent than would otherwise occur. Furthermore, by increasing the remuneration of organized workers, unions serve to raise the social expectations around the compensation of work in society more broadly. This has spillover (or ‘trickle up’) effects in non-unionized workplaces as well (hence the increase in *average* hourly earnings documented in Figure 9.1).

Recall from Chapter 9: neoclassical economics argues that that unionized labour can only redistribute income within a given national wage bill, not raise it. Is this true? Figure 10.5 contrasts union density and the adjusted national wage bill in Canada from

⁶ In all likelihood, there wouldn’t be any one-on-one bargaining between many workers and their employer in the absence of a union. Many low-wage employers (the McDonald’s, Home Depot’s, Tim Horton’s, etc.) impose a labour contract on their workers with little or no negotiation.

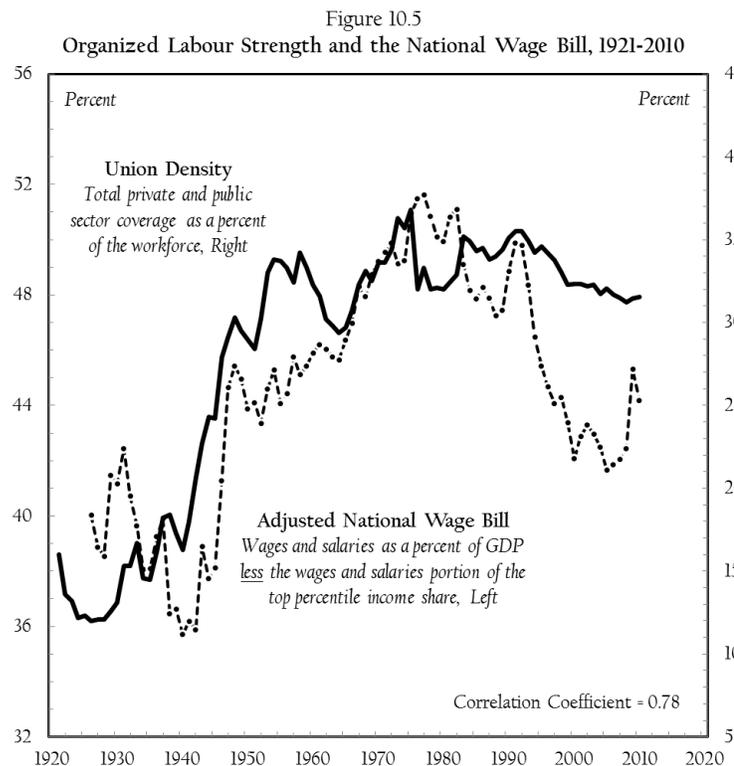
1921 to 2010. The level and pattern of union density was already described in Figure 9.1. The adjusted national wage bill is the total wages and salaries divided by GDP less the wages and salaries portion of the top percentile income share.⁷ The two series are tightly and positively correlated over the past century. The surge in unionization from 1940 to a historic high in 1975 corresponded with an increase in the adjusted national wage bill, which peaked in 1977 (shortly after union density peaked). The deunionization of recent decades corresponds with a reduced national wage bill, which has fallen to a level not seen since the 1940s.

Figure 10.2 tells us that the distributive struggle between workers and capitalists over wages and profits has broad consequences for the top income share and personal income inequality. Figure 9.1 and 10.5 indicate that the institutional strength of organized labour shapes the level of earnings and the aggregate sum of labour income, which implies that unions play a role in redistributing factor income from capital to labour. The growth of labour unions also appears to downwardly redistribute personal income, lessening the level of personal income inequality.

How are the facts portrayed in Figure 9.1 and 10.5 related to power? Both figures crystallize the successes and failures of one of the largest social movements in Canadian history: the labour movement. The process of unionization required large-scale

⁷ The Saez and Veall top income share is comprised of different categories of income: (1) wages and salaries, (2) professional income, (3) business income, (4) dividends, (5) interest income, (6) investment income and (7) capital income. The *adjusted* national wage is total wages and salaries divided by GDP less the wages and salaries portion of the top percentile income share. The latter only has data running from 1946 through 2010, so to estimate the period from 1926-1945 I used the wages and salaries portion of the top percentile income share in the United States as a proxy (with rebasing). The wages and salaries portion of the top percentile income share in Canada and the United States have a correlation coefficient of 0.74 between 1946 and 2010, which is sufficiently strong to accurately impute the wages and salaries portion of the top percentile income share in Canada.

community activism and social mobilization. It was initially a movement of ordinary people rising against the power elite who fought to repress it. Throughout the 'golden age', Canadians were witnesses to increasing union density and a demographic bulge in the ranks of the middle class. In the 'new gilded age', this process went into reverse. Whereas surging unionization over the first three postwar decades appears to have redistributed income downward, deunionization since the late 1970s has effectively meant an upward redistribution of income.



Note: adjusted national wage bill is wages and salaries as a percent of GDP less the wages and salaries portion of the top percentile income share. **Source:** wages and salaries portion of the top percentile income share from Saez and Veall (2007), Veall (2010) and Veall (2012) with series updated to 2010 by Michael Veall; union density from Historical Statistics of Canada, Series E176 (1921-1975), Cansim Tables 279-0026 and 282-0078 (1976-1995) and (1997-2010), respectively; wages and salaries and GDP from Historical Statistics of Canada, Series F1-13 and Cansim Table 380-0016.

If Kalecki was correct in asserting that the degree of monopoly shapes the national wage bill (Figure 10.3), then how do we account for the level and pattern of the

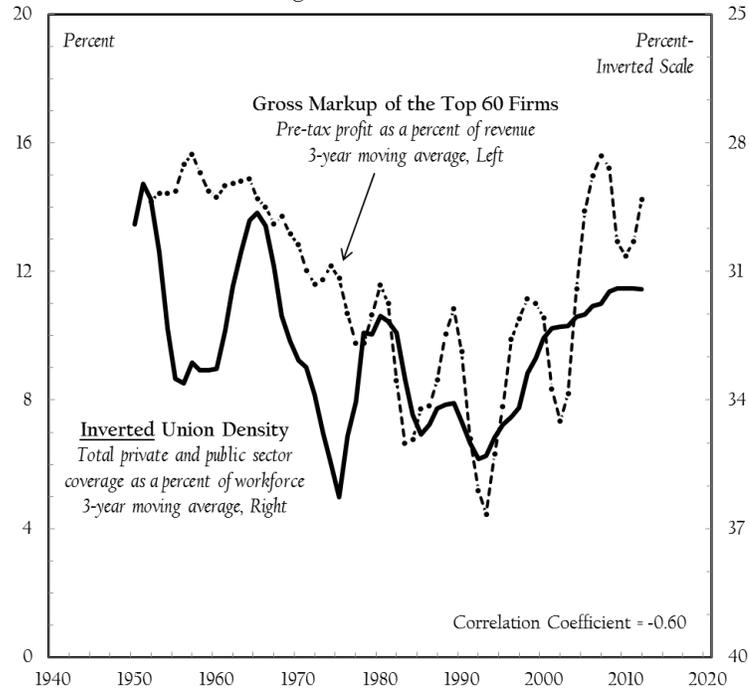
former? Kalecki imagined that the strength of trade unions would be a check on the power of large firms insofar as a greater degree of monopoly (high ratio of profits to wages) ‘strengthens the bargaining position of trade unions in their demands for wage increases since higher wages are then compatible with “reasonable profits” at the existing price levels’ (1943a: 51). Is it true that the strength of trade unions restrains or offsets corporate power?

Figure 10.6 documents the historical relationship between the power of large firms as manifest in the markup and the institutional strength of organized labour as manifest in union density. The thin broken line captures the pre-tax profit markup of the top 60 firms and the thick black line measures total union density (the scale of the latter is inverted to more easily contrast the relationship between the two series). The two series are strongly and *negatively* correlated over six decades.

As workers deepened unionization throughout the ‘golden age’, pushing up wages and enlarging the ranks of the middle class, it appears that a partial consequence was the squeezing of earnings margins. The process culminated in the 1970s and the political-economic disruption that ensued displaced the Keynesian welfare state as the core way to manage the political economy. Distributive outcomes began to move in the opposite direction during and after the 1980s. The instituting of the TAIL in the late 1980s appears to be a decisive turning point, with organized labour seeing a fall in its membership and large firms seeing a corresponding enlargement in the markup.⁸

⁸ The countervailing power of organized labour in Canada is explored in Brennan (2014).

Figure 10.6
 Countervailing Power: Dominant Corporations
 versus Organized Labour, 1950-2012



Source: union density from Historical Statistics of Canada, Series E176 (1921-1975), Cansim Tables 279-0026 (1976-1995) and 282-0078 (1997-2012), respectively; markup from Compustat through WRDS for shares outstanding, closing share price, revenue and pre-tax income; Canadian Financial Markets Research Centre; Moody's Corporate Manuals through Mergent Webreports; Report on Business Top 1000 Companies.

Let's summarize. On the one hand we have the degree of monopoly — a quantitative proxy for the power of large firms — which is shaped (in part) by the relative position of the largest firms. The degree of monopoly has a bearing, as Kalecki thought, on the distribution of national income between workers and capitalists, which in turn, has a bearing on personal income inequality. Kalecki also appears to be correct in his hypothesis that corporate power is restrained by the institutional strength of labour unions. The institutional growth of unions increase inflation-adjusted wages, enlarge the national wage bill and lessen income inequality. The erosion of unions since the late 1970s has effectively meant wage stagnation and heightened income inequality.

Given that the institutional growth of labour unions has shaped the distribution of income in Canada, a few questions follow. Has globalization played a role in fuelling the growth of large firms? And is there a relationship between the institutional-organization structure of the corporate sector and the distribution of personal income?

10.4 Institutional-Organizational Structure and Inequality

Differential capitalization by the top 60 firms is driven, theoretically and historically, by differential earnings (Figure 5.5). Does the globalization of Canadian corporate ownership play a role in enlarging the earnings of the top 60 firms? Let's begin to answer this question by assessing what happens when a Canadian firm invests in a foreign country. Because mainstream economists tend to think of capital in material-productive terms, i.e., as capital goods or machinery and equipment, the popular mythology is that capital 'moves' from one jurisdiction to another and that this has some bearing on productive capacity and industrial efficiency. N&B argue that this is rarely what happens in practice (2009: 350). Liberalized investment has little to do with the movement of machinery or equipment. Cross-border investment, they say, is a rearranging of ownership claims and nothing more. 'Capital mobility' and 'investment liberalization' has the potential to reconfigure the structure of corporate ownership. And when ownership is reconfigured the distribution of income often changes along with it. Why?

A corporation is a legal and organizational vehicle that grants the owners lawful claims on future (and realized) earnings. As firms grow larger by acquiring other firms, the legal claims of the resulting owners grows in tandem with the newly enlarged income

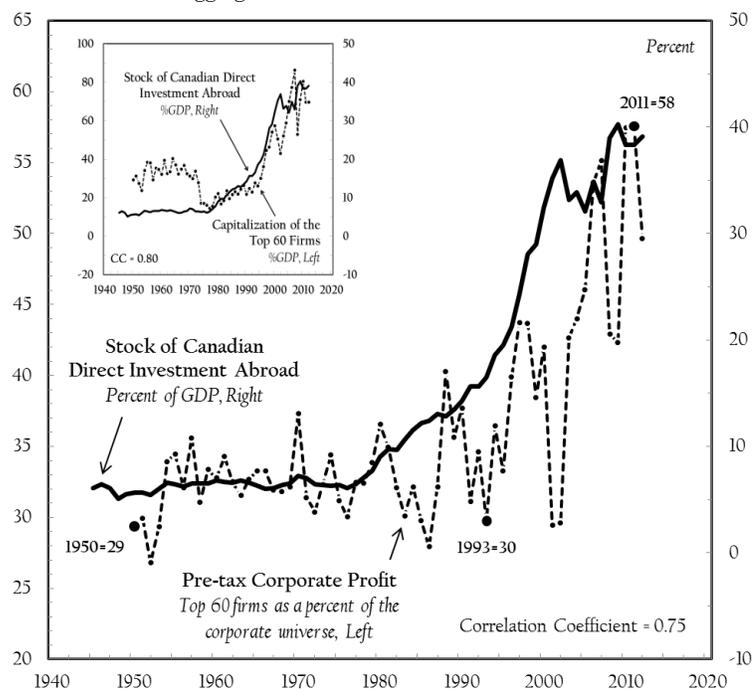
streams. Recall that the instituting of a TAIL regime acted as an inflection point in many of our measures of distribution. The logic of globalization, N&B argue, is such that in order for large firms to continue to differentially accumulate, they need a new universe of takeover targets (once the existing universe is exhausted). And the political engineering of continental integration via the FTA and NAFTA provided such an opening. The TAIL-era ushered in an explosion of cross-border investment, the result being a more rapid restructuring of North American corporate ownership. And when ownership changes hands, the associated legal claims on future earnings change hands as well.

Figure 10.7 contrasts the concentration of pre-tax profit among the top 60 firms with the stock of Canadian direct investment abroad (CDIA), the latter measured as a percent of GDP. The two series are tightly correlated over six decades. Given that Canadian merger waves became increasingly globalized over the postwar period and given that it tends to be the largest firms that participate in international investment, it seems reasonable to suppose that the level of international assets held by Canadian-based firms synchronizes with the profit share of the top (read: most globalized) firms.

If the logic of differential accumulation induces large firms to seek new take-over targets in foreign jurisdictions (once the existing national universe of desirable take-over targets is exhausted), then the profit share of the largest firms will be positively related to the magnitude of their foreign holdings, since income represents a 'return' on the ownership of an asset. And by contrasting the earnings of the top firms with the stock of CDIA, we get a picture of the link between 'globalization' and the distribution of income amongst the top firms.

Note the pattern: the stock of CDIA hovers around 6 or 7 percent between 1950 and 1980 before climbing to a high of 39 percent by 2012. The income share of the top 60 firms also stays steady for decades, hovering around 30 percent between 1950 and 1990 before surging to a historic high of 58 percent in 2011. It appears that the concentration of income amongst the top 60 firms bears some resemblance to the extent of international Canadian corporate ownership. This supports the notion that large firms participate in foreign M&A, in part, to boost their (differential) earnings.

Figure 10.7
Canadian Corporate Ownership Abroad and
Aggregate Profit Concentration, 1945-2012



Source: Compustat through WRDS for shares outstanding, closing share price and gross income; Canadian Financial Markets Research Centre; Moody's Corporate Manuals through Mergent Webreports; Report on Business Top 1000 Companies; stocks of Canadian direct investment abroad from Cansim Table 376-0037; GDP from Historical Statistics of Canada, Series F13 and Cansim Table 380-0016; total pre-tax corporate profit from Historical Statistics of Canada, Series F3 (1926-1960) and Cansim Table 380-0016 (1961-2012).

Also note that Canadian firms of all sizes may trade with American-based firms or sell their products to American customers. However, cross-border investment is a game

typically played by large firms, so it makes sense that the income share of the top 60 firms moves in tandem with international ownership.⁹ The inset chart in Figure 10.7 portrays the stock of CDIA and the equity capitalization of the top 60 firms (both series as a percent of GDP and smoothed as five-year moving averages). The two series are even more tightly correlated over six decades (0.81), which indicates that the political engineering of the TAIL regime and the associated expansion of international asset ownership may have contributed (indirectly) to increased relative firm size.

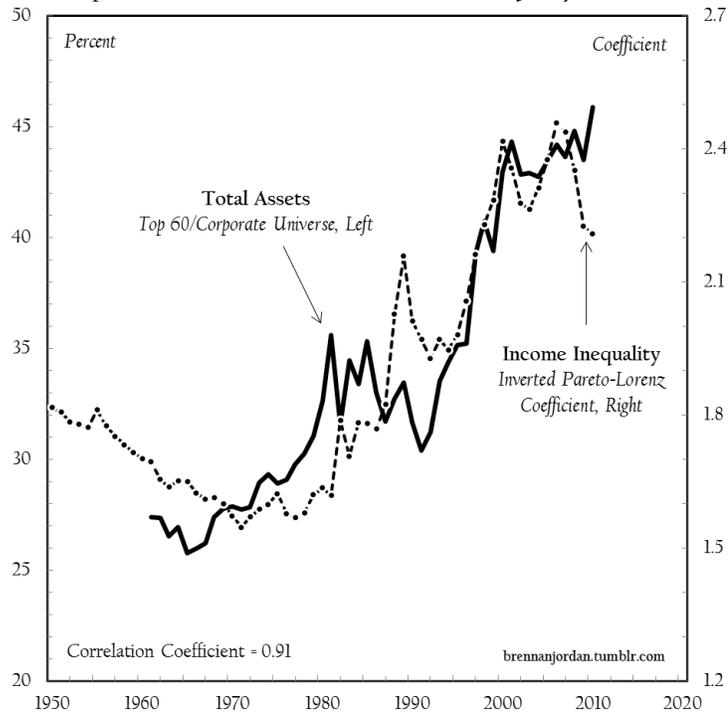
Let us turn to the relationship between the institutional-organizational structure of the corporate sector and income inequality. Recall: Chapter 5 mapped the evolution of corporate asset concentration and asked how to account for its level and pattern (Figure 5.5); and Chapter 6 found a tight correlation between corporate asset concentration and corporate amalgamation (Figure 6.7). If concentration has increased in recent years and if it is driven by amalgamation, is there a relationship between corporate asset concentration and personal income inequality? Figure 10.8 paints a stark picture: the concentration of corporate assets among the top 60 firms is stacked up against personal income inequality (the latter measured using the inverted Pareto-Lorenz coefficient).¹⁰ The two series are tightly correlated over a half century (0.91). Heightened income inequality appears to be driven, in part, by the concentration of corporate power.

⁹ The claim about international corporate ownership and the performance of *large* firms is bolstered when we compare the equity capitalization of all firms on the TSX less the equity capitalization of the top 60 firms against CDIA stocks (both as a percent of GDP). The year-over-year correlation between 1950 and 2011 is -0.55, which strengthens the assertion that large firms benefit from international investment (while small firms do not).

¹⁰ Saez and Veall (2007) provide measures for both the Pareto-Lorenz and inverted Pareto-Lorenz coefficients. The former measures the concentration of income among the rich. The higher the coefficient, the lower the concentration (the opposite holds for the inverted Pareto-Lorenz coefficient).

Figure 10.8

Corporate 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. **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; top income share from Saez and Veall (2007), Veall (2010) and Veall (2012) (<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 says about markets and distribution. Smith would have us believe that his 'system of perfect liberty' would produce distributional outcomes that were either perfectly equal or continuously trending towards equality:

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 argues, 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 believes, for they are left with higher prices.

If it seems intuitive that amalgamation increases concentration, reduces competition and thickens profit margins, it is still unclear how concentration fuels income inequality. It seems reasonable to suppose that the greater profits accruing to the largest firms (and the resulting increase in cash flow) 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 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 examines 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).

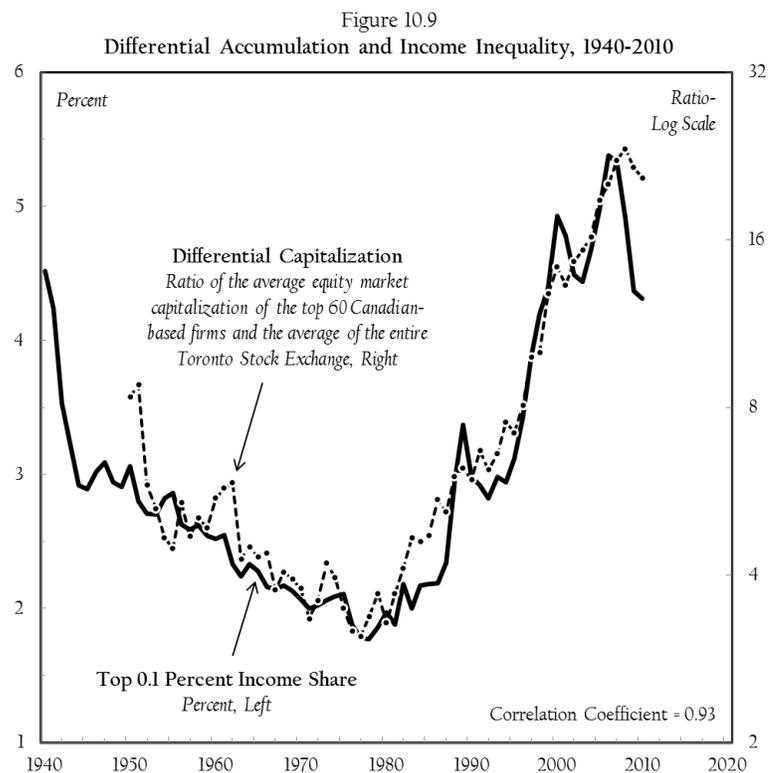
The linkages between corporate concentration and income inequality, then, run as follows: increased concentration translates into less competition; less competition translates into higher profit margins and higher profits; the resulting increase in cash

flow has the potential to translate into higher executive salaries; and it is the very high executive salaries — many among Canada's richest 0.1 percent — that are playing a key role in driving income inequality across Canadian society.

Let's come at the relationship between corporate power and inequality from a slightly different angle. Wilkinson and Pickett emphasize the relativity of poverty. N&B emphasize the relativity of business performance. What happens when we combine these views? Figure 10.9 stacks the differential capitalization of the top 60 firms up against the income share of the top 0.1 percent. The result is a very tight correlation over six decades. Both series declined for the three decades to 1980, rose gradually in the 1980s and then rose rapidly in the two decades to 2010. Ironically, the Keynesian era witnessed shrinking relative firm size while the neoliberal era — the period often advertised as having unleashed the 'forces of competition' — has seen an massive increase in relative firm size. The capitalization of Canada's largest corporate units appears to shape trends in income inequality.

N&B assert that differential accumulation captures the 'power drive' of accumulation (2009: 325) and Chapter 5 demonstrated that the corporate sector is largely controlled by dominant proprietors who have a significant equity stake in the top firms. The fact that the top income share and differential capitalization exhibit a similar pattern lends additional weight to the anti-managerial view. Recall: Berle and Means (1932) argue that the rise of the modern, joint-stock company initiated a corporate revolution by altering the property regime. Increasing concentration of corporate assets combined with an increasing diffusion of stock ownership led to a separation of

ownership from control, or so the theory went. One implication of this political-economic development, in theory, is that the increase in power associated with higher levels of corporate concentration is offset by the diffusion of stock ownership in that dominant proprietors were dislodged from a position of power.



Source: Compustat through WRDS for common shares outstanding and closing share price; Canadian Financial Markets Research Centre; Global Financial Data for total market capitalization and number of listed stocks; top income share from Saez and Veall (2007), Veall (2010) and Veall (2012), retrieved from: <http://topincomes.g-mond.parisschoolofeconomics.eu/>.

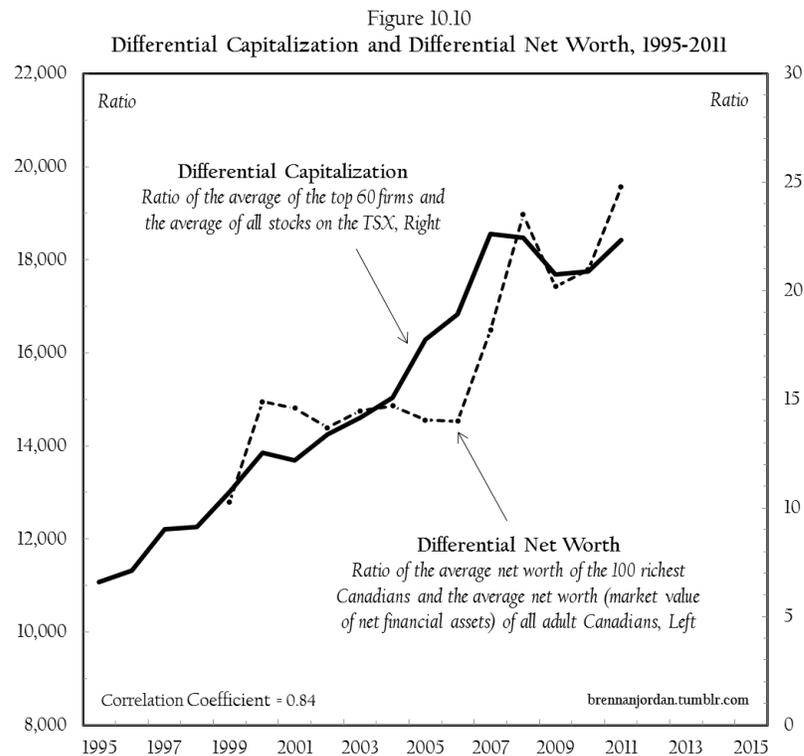
The research presented here challenges this view of the corporate revolution. Concentration and differential accumulation have reached historic extremes in recent years, but the diffusion of stock ownership is less pronounced than the managerial thesis implies. The Canadian experience indicates that dominant proprietors have not been dislodged, which suggests that the relative growth of the largest firms signals an

increasing concentration and centralization of corporate equity. The fusion of ownership and control might be one reason why increasing relative firm size is mirrored by an increasing concentration of personal income.

Figure 10.9 only captures the personal income aspect of inequality. The distribution of wealth is another crucial metric. Obtaining disaggregate time series data on wealth is notoriously difficult. However, since 1999 *Canadian Business Magazine* has produced an annual ranking of the 100 richest people in Canada. The October 2011 issue reports that 61 of the richest 100 Canadian families are classified as billionaires. This is a very high figure given Canada's population. The United States has nine times the population of Canada, but only seven times as many billionaires. The United Kingdom and France have nearly double, Germany nearly triple and Japan nearly quadruple Canada's population, and yet, each of these societies has fewer billionaires (32, 14, 52 and 26, respectively). Only three countries — the United States, China and Russia — have more billionaires than Canada (*Canadian Business* 2011: 46-47). If distribution is rooted in the *nomos*, and if it partly reflects power struggles in society, then the fact that a medium-sized country like Canada produces more billionaires in relative and absolute terms than many comparable (or even large) jurisdictions suggests an enormous concentration of power at the top of the Canadian dominance hierarchy.

What does the distribution of wealth look like in Canada and does it bear any resemblance to the structure of the corporate sector? Figure 10.10 plots the differential capitalization of the top 60 firms against the differential net worth of the richest 100 Canadians from 1995 and 1999, respectively. The latter is computed as a ratio of the

average net worth of the 100 richest Canadians (ranked annually by *Canadian Business Magazine*) and the average net worth of all Canadians, measured as the market value of net financial assets divided by the adult population. The two series are tightly correlated over 13 years. Differential net worth increased more than 50 percent, rising from 13,000 in 1999 to 20,000 in 2011. Not only does differential accumulation appear to play a role in driving income inequality, it also appears to play a role in driving wealth inequality.



Source: net worth of the richest 100 Canadians from *Canadian Business Magazine*'s 'Rich 100' special issue (for the years 1999-2011); total market value of net financial assets from Cansim Table 378-0051; adult population in Canada from Cansim Table 051-0001; differential capitalization from Compustat through WRDS for common shares outstanding and closing share price; Canadian Financial Markets Research Centre; Global Financial Data for total market capitalization and number of listed stocks.

The capital as power framework posits that differential accumulation is the central process of the political economy and that, so long as differential capitalization is non negative, the process represents the amassment of capitalist power (N&B 2009:

325). At first glance this claim is hard to decipher, but given its explanatory power vis-à-vis the distribution of personal income and wealth in Canada, the claim becomes more intelligible and deeply meaningful. Increases in relative firm size are mirrored to a remarkable extent by increases in income and wealth inequality.

Let's summarize. The differential earnings of the top 60 firms drives differential capitalization (Figure 5.7) and differential capitalization deepens the distribution of personal income (Figure 10.9) and wealth (Figure 10.10), thereby increasing personal income inequality, exacerbating social pathologies (as Wilkinson and Pickett maintain) and, potentially at least, threatening the democratic process (Figure 8.2). Given the restructuring of power in the Canadian political economy, we may wish to know what role dominant capital plays in shaping public policy, especially in the areas pertaining to the distribution of income.

10.5 Dominant Capital, Income Inequality and Public Policy

Sections 10.2 through 10.4 documented broad shifts in the institutional environment by mapping the power of large firms and the countervailing power of organized labour. We learned that changes in the institutional structure of the political economy have a direct impact on the distribution of income. Given that large firms have become more powerful and labour organizations less powerful in recent decades how are these changes registered in the political process? More specifically, if corporate power has increased in recent decades how might this manifest itself in Canadian public policies pertaining to income inequality?

Recall some of the arguments (recounted) in Section 6.4. Blair (1972) tells us that with the advent of larger corporate units, market behaviour changes and 'communities of interest' form around powerful families and financial institutions, which enable these groups to better coordinate their activities, including activities in the policy realm. Olson tells us that the logic of collective action provides small groups with the incentive to coordinate their behaviour on account of the high benefit-to-cost ratio (whereas large, dispersed groups lack these incentives for the opposite reason). As Olson puts it, small groups possess disproportionate 'organizational power' or 'cartelistic power per capita' (1982: 41). So as a smaller number of ever larger firms become a more tightly integrated group and as their control over the industrial life of the nation increases, it seems plausible that their influence over the political process will increase in tandem with their 'cartelistic power per capita'.

Leave aside the fact that the people who staff the largest corporate units often end up in high-ranking political positions (and vice versa: many top tier politicians end up populating corporate boards) and ignore the fact that governing officials often share a world view with dominant proprietors and executives. What influence does dominant capital exert on Canadian public policy vis-à-vis income inequality? There are two broad categories within which dominant capital may influence distributive policy matters: (i) the pro-business policies which they actively lobby government for and (ii) the policy options that they explicitly or implicitly veto. We deal with examples of each in turn.

Perhaps the most important example of the first kind of intervention would be the move towards a trade and investment liberalization (TAIL) regime in North America,

which is recounted for illustrative purposes. Aversion to TAIL among the power elite in Canada persisted through much of the twentieth century, but began to change in the 1970s when liberal governments undertook overtly nationalist policies, including rejecting TAIL with the U.S. This prompted dominant capital in Canada to re-evaluate its way of doing politics. Up until then it had lobbied political parties, helped them financially and supported them behind the scenes. In 1976 the Business Council on National Issues was formed (since re-branded the Canadian Council of Chief Executives (CCCE)), made up of the CEO's of the largest corporations operating in Canada. Taking their cue from Business Roundtable in the U.S., the explicit objective of the organization was to have dominant capital participate directly in the policy-making process.

In the late 1970s and early 1980s the CCCE led an 'attitude adjustment' within Canadian business which had, until then, showed little appetite for a TAIL deal with the U.S. But by the early 1980s there was near consensus on the issue of TAIL (McBride 2001: 70). Indeed, even before a TAIL deal became part of the Mulroney Conservatives' policy platform, the CCCE led a delegation to Washington to try to promote the idea to the Business Roundtable and Reagan Administration. In 1983 the CCCE began promoting the idea to the Canadian public. Despite this, Brian Mulroney campaigned against TAIL during his 1983 Tory leadership race, but after winning the 1984 election the tory cabinet was invited by the CCCE to an extensive briefing at a secluded retreat in Quebec. The following year at the Shamrock Summit in Quebec City, Mulroney and Reagan formally announced the launching of free trade negotiations.

As argued elsewhere (Brennan 2013a; 2013b), the TAIL regime (including and importantly the investor-state dispute settlement procedures enshrined in NAFTA's Chapter 11) tilted the balance of bargaining power between capital and labour. One effect has been a radical redistribution of income from labour to capital and from the lower to the upper strata of the personal income hierarchy.

As significant as pro-business policies are in shaping the distribution of income, also significant are the range of policy options that are *not* pursued on account of their unpopularity with dominant capital groups. The explicit or implicit vetoing of many progressive policies by dominant capital would include: higher corporate income tax rates; stronger governmental support of collective bargaining and unionization; public ownership of key natural resources, industrial processes and financial institutions; managed (as opposed to liberalized) trade and investment; reliance on price controls or supply management in key industries; anti-trust measures that prohibit oligopolistic and semi-monopolistic market structures; recognition of Aboriginal treaties and land agreements, especially where resource development is an issue; strict environmental regulation and binding green-house gas reduction targets; and perhaps most significantly, a national jobs program that aims at full employment.

This is a short list of policies that would serve a diverse collection of stakeholders, but which would be unpopular among some segments of dominant capital. The argument here is obviously not that there is a conspiracy on the part of dominant capital and governing officials to block these policies. Many small businesses and other groups oppose these kinds of policies despite the fact that they are outside the power elite.

However, as corporate power increases it seems likely that the distaste dominant capital groups have for these types of policies will find its way into the political program of governing parties. Reduction in investment and employment, the shifting of resources to foreign jurisdictions and the withdrawal of financial donations are some of the levers dominant capital groups can pull to influence the policy direction of political parties.

On the issue of inequality, higher corporate income tax rates, more generous unemployment and welfare benefits, public pensions and other labour market policies could reduce pre- and post-tax-and-transfer inequality. The fact that dominant capital groups, through the CCCE or through other lobby groups, can directly register their disapproval with high ranking government officials, if not with the Prime Minister directly, might be one reason why Canada's two largest brokerage parties have not pursued these types of policies in recent decades.

It is also worth mentioning that the same logic would apply to labour organizations. In the decades when labour unions were deepening their presence in the Canadian political economy it is unsurprising that pro-labour (and other progressive) policies were more readily embraced by brokerage parties. Likewise, as labour unions diminish in size and industrial significance, their ability to influence public policy priorities decreases. This is a round-about way of saying that size matters in politics (as in economics and other domains of life). As dominant capital groups concentrate, and as control of the industrial process centralizes into fewer units, it becomes easier for this entity to coordinate its activities and influence public policy, including and especially policy around income inequality.

If the distribution of factor and personal income closely shadows the organizational structure of the political economy, both in terms of union density and relative firm size, are there broader patterns or regularities which govern the distribution of personal income? Do global power processes shape inequality in Canada?

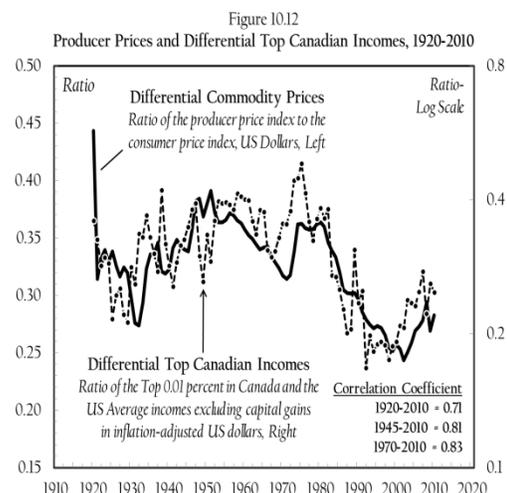
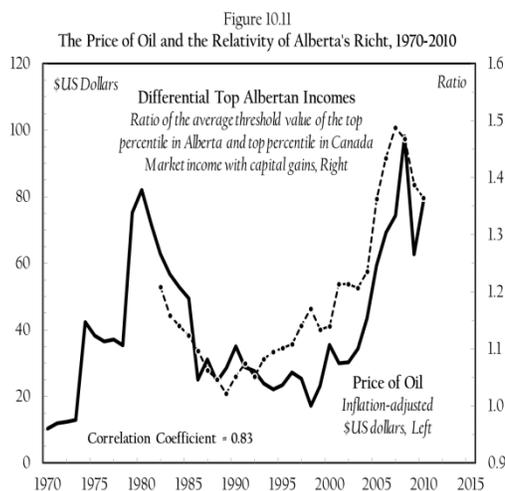
10.6 Surfing the Crimson Wave: The Relativity of Canada's Rich

Income and asset inequality are often explained and/or justified by referencing 'productivity' or 'merit'. Neoclassical orthodoxy presumes that market income reflects proportional productive contribution. The foregoing sections argued that factor and personal incomes are partially shaped by the power institutions of society: labour unions redistribute personal income down the income hierarchy and large firms redistribute personal income up the income hierarchy. These findings have the potential to challenge to the link between 'merit' and inequality. Can we explain the top income share by referencing 'hard work', 'education', 'intelligence', 'personal sacrifice', 'scarcity' and 'productivity', i.e., 'merit', as is so often said? Perhaps, but there appears to be other processes at play that shape the top income share which have little to do with productivity and merit.

Let's begin to unpack these questions by examining the geographic distribution of income in Canada. Figure 10.11 stacks differential top Alberta incomes up against the price of oil. The former is a ratio which captures the relativity of Alberta's rich by dividing the top percentile income threshold in Alberta by the top percentile income threshold in Canada. The latter is the inflation-adjusted price of oil in U.S. dollars. The

relative income gains made by Alberta's most affluent citizens are tightly correlated with the relative price of oil over three decades (a correlation of 0.83).

In trying to account for this relationship, the temptation might be to reference productivity ('intrinsic worth'). As Chapters 2 and 8 argued, for Veblen the link between relative commodity prices (and business income, by implication) and the intrinsic worth of commodities are tenuous at best and non-existent at worst. Instead, business controls industry with a view to arriving at a price that the yields the most advantageous distribution. Veblen states: 'the broad principle which guides [business] in fixing prices is "charging what the traffic will bear"' (1904: 31). And: 'the output of production [will] be held to such a volume that the resulting price of the limited output will take up the entire purchasing power of the underlying population' (1923: 67). Utilizing 'productivity' to explain the differential top Albertan incomes is difficult. This difficulty is compounded by the fact that there is no known way to accurately measure productivity (without resorting to prices, which is untenable because that is the phenomena to be explained).



Source: top income thresholds for Alberta and Canada from Cansim Table 204-0002; price of oil from British Petroleum Statistical Review of World Energy, retrieved online from: <http://www.bp.com/statisticalreview>; consumer price indices for Canada and the U.S. from Global Financial Data; producer price index from Bureau of Labor Statistics through Global Insight; top income share for Canada from Saez and Veall (2007), Veall (2010) and Veall (2012); updated top income share for the U.S. from Piketty and Saez (2007), both retrieved from: <http://topincomes.g-mond.parisschoolofeconomics.eu/>.

In Section 10.2 it was noted that the top percentile income group in Canada is comprised of multiple professions, including lawyers, accountants, physicians, financiers, top tier public servants and business owners, to name a few. In Alberta we would expect the energy business to be overrepresented relative to other provinces. However, it is striking that such a broad income group (the top percentile) would closely track the price of a single commodity. If the welfare of Alberta's most affluent citizens bears an uncanny resemblance to the price of oil, how are the fluctuations of the latter explained?

As Chapter 9 recounted, N&B argue that taking refuge in 'scarcity' or 'supply and demand' to explain the price of oil won't do, even if it's the most popular intellectual reflex (2002: chapter 5). In its place, they uncover the complicated relationship between the price of oil on the one hand, and the 'Weapondollar-Petrodollar Coalition' and Middle East 'energy conflicts', on the other. Whereas most economists think of energy prices from the standpoint of excess demand, excess supply and technological capacity, N&B explore global energy prices from the standpoint of corporate collusion and state violence. Since the 1970s, they find that war in the Middle East has shaped the global price of energy (2002: 228-32).

The facts portrayed in Figure 10.11 might be one reason why Stephen Harper (as a Canadian Alliance MP and Leader of the Opposition), whose power base is in Alberta and whose party is financially backed by Big Energy, was enthusiastic about the invasion of Iraq in 2003. Harper blasted the Chretien Liberals for not participating in the

'coalition of the willing'. Given the relationship between Middle East 'energy conflicts' and the price of oil on the one hand, and the differential profitability of Canadian-based energy firms and differential top Albertan incomes, on the other, it's not difficult to understand his excitement for Middle Eastern bellicosity.

In 2010 nearly half of the equity value of the TSX was accounted for by energy and base materials firms. And as Chapter 5, Table 5.6, documented, many Canadian-based firms have controlling shareholders, contrary to managerial suppositions. If the fortunes of the top energy corporations and the top income earners in Alberta are closely bound up with the price of oil, are the top income group's fortunes as a whole bound up with base commodity and/or producer prices?

Figure 10.12 contrasts differential producer prices with differential top Canadian incomes from 1920 through 2010. The former is a ratio of the producer price index to the consumer price index (U.S. prices).¹¹ The latter is a ratio of the average incomes (expressed in inflation-adjusted U.S. dollars) of the top 0.01 percentile income group in Canada and the United States. These two income groups are as close as we can get, statistically speaking, to the power elite or 'Establishment' in each country. For Canada in 2010, the top 0.01 percent is comprised of the 2,600 individuals whose average income

¹¹ The PPI universe consists of the output of all industries in the goods-producing sectors of the U.S. political economy — mining, manufacturing, agriculture, fishing, and forestry — as well as natural gas, electricity and construction. If we were to use the Reuters/Jeffries CRB Spot Price Index in place of the PPI, the correlation would be nearly as tight (0.45 from 1920-2010, 0.67 from 1945-2010 and 0.88 from 1970-2010). The assumption here is that use of producer prices in the U.S. is a good proxy for long-term changes in global producer prices.

was \$4.2 million USD. For the United States in 2010, the top 0.01 percent is comprised of the 16,000 households whose average income was \$16.8 million USD.¹²

What do the facts tell us? The relative incomes gains made by the power elite in Canada — the dominant proprietors and top executives — are closely bound up with fluctuations in global producer (and base commodity) prices. As Chapter 9 documented, differential commodity and producer prices tend to rise with outbreaks of internationally organized violence and tend to fall in times of global peace. The two series in Figure 10.12 are tightly correlated over the past century and that the strength of the relationship increases over time.

In terms of broad patterns, the Canadian power elite outperformed their American counterparts from 1920 to 1975 and underperformed thereafter. However, when we shrink the time-scale we find that global crises appear to be the episodes when the Canadian power elite does particularly well: the early years of the Great Depression (1929-1934), the years of intense fighting during the Second World War (1941-1945), the conflicts in the Middle East (1967-1982) and the most recent round of wars in West Asia (2001-2007) are all periods of differential income gains. The power elite in Canada has capitalized on the bloodshed — or ‘surfed the crimson wave’ — associated with the mechanized warfare of the past century.

To be clear: the suggestion is *not* that the Canadian Establishment engineered international warfare or helped orchestrate global military conflict. It’s a seemingly safe presumption that these processes unfold independent of the motivational state of

¹² Note the difference in units: in Canada, top incomes are tabulated on an individual basis and in the U.S. top incomes are tabulated on a household basis.

Canada's top income group. However, taking refuge in 'scarcity' or 'supply and demand' to account for the relative income gains made by Canada's superrich becomes a good deal less persuasive under the light of these facts. Whether we examine the geographic distribution of top incomes (as in the Alberta example) or the gains made by the superrich relative to international benchmarks (as in the top 0.01 percent example), what we find is a link between relative gains and the commodity price inflation associated with outbreaks of organized violence.

The facts uncovered in Figure 10.11 and 10.12 cast even more doubt on the marginal productivity theory of distribution. International power processes appear to factor heavily in the level and pattern of Canadian income inequality.

10.7 Amalgamation, Stagflation and Deep Distribution

It has long been understood that capitalist societies are susceptible to cyclical behaviour. The most common form of cycle — the one deeply ingrained in the popular mind — is the business cycle. Varying in length, but often encompassed by a decade, contemporary capitalist societies exhibit a continual movement from expansion to contraction, boom to bust. This cycle is registered in numerous variables, including production, investment, employment and often inventory and prices.¹³ In Chapter 9 we briefly reviewed some of the properties of commodity super cycles, which can be much longer in duration, lasting up to seven decades. Chapter 6 probed some of the deep history of mergers and acquisitions and presented N&B's 'amalgamation index'; a measure which crystallizes

¹³ As reviewed in Chapter 9, postwar Canadian consumer prices almost never fell, but there were episodes when they increased less quickly, i.e., disinflation.

their conception of the relationship between internal and external breadth. Chapter 9 mapped Canadian inflation over the past century and plotted N&B's 'stagflation index', a measure of the standardized deviation of stagflation from its historic average.

In N&B's framework, amalgamation and stagflation are traceable to the constituent elements of earnings and capitalization and their oscillating pattern constitutes a new type of cycle (2009: 385). They assert that, since the early twentieth century, internal breadth (amalgamation) and external depth (stagflation) in the United States have tended to move counter-cyclically to one another. During an amalgamation wave, stagflation tended to revert to its historic average (or below it), but when the amalgamation wave subsided there tended to be a sharp increase in stagflation, which subsided, in turn, when amalgamation resumed. This seemingly new type of cycle grew tighter (albeit negative) and more synchronized over the past century, they note.

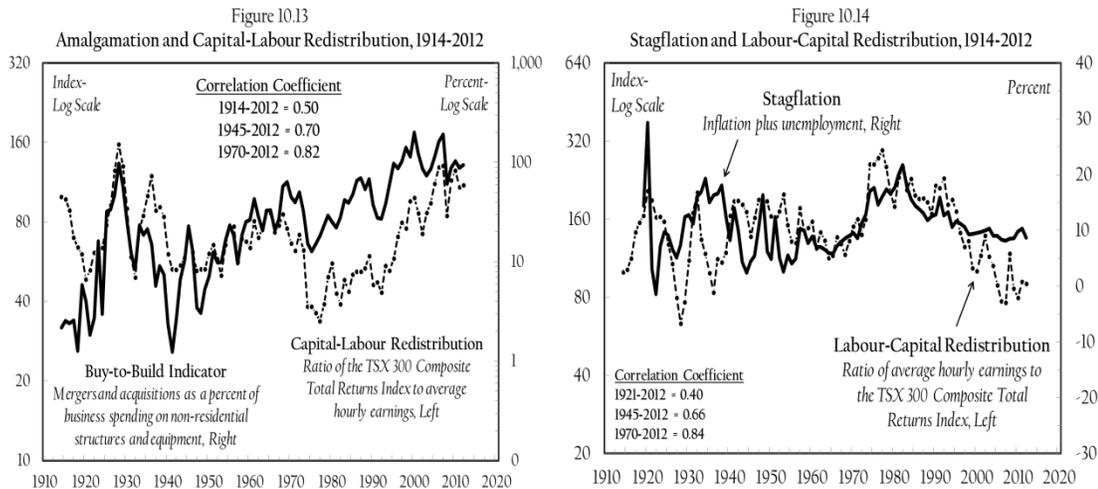
The Canadian experience is similar. Plotting the amalgamation and stagflation indices from 1919 to 2012, the correlation is -0.11, which signals virtually no statistical relation between the two series over the long-term. However, when the time span is compressed to 1973-2012, the correlation grows to -0.77 — negative and strongly significant. This pattern appears to be consistent with the story N&B tell about the growth of dominant capital and the maturity of differential accumulation as the central institution and core process, respectively, of advanced capitalist societies. However, evidence in Chapter 9 suggested that inflation and stagflation appear to be driven primarily by the strike activity of the working class. What's more, inflation and stagflation tend to redistribute income to labour, not to capital.

This interrupts the narrative that inflation and stagflation are driven primarily by increases in the earnings margins of large firms (even though there is some evidence to support that claim). It also interrupts the notion that stagflation is generative of differential accumulation. In Chapter 5 we learned that differential accumulation was negative and falling from the early 1950s through the late 1970s — precisely the period when stagflation was rising above its historic average. So what is happening here?

If it were true that both amalgamation and stagflation were processes that propel the relative growth of large firms, then we would expect the distributive outcome of each process to improve the relative income position of large firms. Figure 10.13 and 10.14 explore some of the distributive aspects of amalgamation and stagflation in Canada over the past century. In Figure 10.13, N&B's amalgamation index is plotted against a ratio of the distributive struggle between capital and labour. The latter metric is tabulated as a ratio of the total returns on the Toronto Stock Exchange's Composite Index to average hourly earnings. The latter index captures the distributive struggle between the owners of corporate equities and the owners of labour power.

The two series are positively correlated over the past century and the strength of the statistical relationship steadily increases over time. Both indices display a long, wave-like pattern. Note the timing of the peaks and troughs: in the first half of the twentieth century, the capital-labour redistribution metric reached a high just prior to the Great Depression and again prior to the Second World War. Labour redistributed income away from capital thereafter, reaching a historic low in 1977. Also note that 1977 is the same year that the top 0.1 percent income share reached a historic low (Figure 8.1). In the one-

third of a century since 1977, capital redistributed income away from labour and the ‘fit’ with the amalgamation index became even tighter.



Note: data on non-residential structures 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 C for data on mergers and acquisitions; business spending on non-residential structures and equipment from Historical Statistics of Canada, Series F23+F24 (1926-1960) and Cansim Table 380-0017 (1961-1980) and 384-0038 (1981-2012); stock price index and consumer price index from Global Financial Data; average hourly earnings from Historical Statistics of Canada, Series E198 (1910-1948) and IMF through Global Insight (1949-2012); unemployment rate from Global Financial Data (1919-1975) and Cansim Table 282-0086 (1976-2012).

In terms of a broad pattern, we see three long amalgamation waves: the first spanned the quarter century between 1914 and 1941; the second spanned the third of a century between 1941 and 1975; and the third long wave ran from 1975 to the present, though it must be noted that this latter wave may have not yet ended. The capital-labour redistribution metric followed a similar pattern. Why would these two metrics be related? In Chapter 6 we discovered that amalgamation is a key driver of corporate asset concentration, that the level of concentration is closely associated with the level of corporate earnings margins, especially the margins of large firms and that the earnings margins of large firms appear to shape the distributive struggle between capital and labour over profit and wages.

Outside the merger wave of the 1920s — in the interwar and Keynesian periods — amalgamation was comparatively low. Capital controls in tandem with a boom in green-field investment may have served to dilute corporate power, especially after the 1940s. As a partial consequence, the capital-labour redistribution metric fell by more than three quarters between in the half century between 1928 and 1977. Successive amalgamation waves in the neoliberal period, however, led to an enormous concentration of corporate power, which may be one reason why this period witnessed a radical redistribution of factor and personal income.

If the logic at play with amalgamation and capital-favouring distribution seems intuitive, the relationship in Figure 10.14 is more difficult to sort out. In this latter chart, a metric capturing the distributive struggle between labour and capital is plotted. Note that the two variables in this ratio have been inverted: average hourly earnings are divided by total returns on the TSX's Composite Index, which means that when this index rises, labour is redistributing income from capital and vice versa. The stagflation series is a simple sum of inflation and unemployment (rather than N&B's stagflation index). The two series are strongly and positively correlated over the past century and the strength of the statistical relationship increases over time.

In terms of a broad pattern, during the six decades between the early 1920s and early 1980s, stagflation trended upward, and during the three decades since the early 1980s stagflation trended downward. Stagflation went from a historic high of 29 in 1920 to a historic low of -1.5 in 1922. From there, stagflation reached an interwar peak in 1934 (registering a value of 19) before trending downward to 1965 (reaching a value of 6),

before soaring to a postwar historic high in 1982 (of 22) and declining thereafter, settling at a value of 9 in 2012. Over the past century there appears to be two long waves: the first full cycle spanned the early 1920s through the early 1950s and the second cycle ran from the mid-1960s through to the present.

The pattern of stagflation is shadowed by the distributive struggle between labour and capital, which was described above. Historic lows in the labour-capital redistribution index were registered in 1928 and 2007. These dates correspond with the tail end of two of the largest merger waves in the past century and just precede two of the greatest financial crashes of the past century. A historic high was reached in 1977, just as the largest bout of stagflationary behaviour was approaching a postwar high.

As the sum of inflation and unemployment, stagflation is a curious process. We have argued, following Veblen, that one of the core institutional powers of business is the ability to control the level of employment. Following Kalecki, we argued that unemployment could be understood as a disciplinary measure insofar as it tempers the wage demands (and related aspirations) of the working class. Inflation is more complicated. Business institutions and labour organizations both appear to have inflationary aspects to their activities, but when we examine the distributive winners and losers, we find that the weight of the evidence supports the view that labour tends to win from inflation.

Figure 10.14 suggests that even though unemployment and inflation are partially driven by opposing sources, labour has been the systematic winner from bouts of stagflation. And because amalgamation and stagflation tend to move counter cyclically to

each other, it follows that business tends to be the distributive winner from merger waves. In terms of discerning the broad meaning of neoliberal globalization, then, the facts seem to suggest that (the partnership between) states and business have reorganized social life in a manner that makes conditions more favourable to business. This includes everything from anti-inflationary monetary policy to anti-union legislation and the signing of trade and investment liberalization agreements like the NAFTA. These changes are registered on the distribution side, which have witnessed stagnant wages, booming profits and an upward redistribution of personal income.

10.8 Summary

Wilkinson and Pickett would have us believe that higher levels of income inequality exacerbate social problems. Given that income inequality has surged in Canada over the past three decades, this does not bode well for the health of the Canadian body politic. Income inequality might also contribute to the depression of political participation, thus contributing to the de-legitimization of the democratic process. In terms of explaining the evolution of personal income inequality, unemployment appears to have had significant redistributive consequences in the three decades after the First World War. In the four decades since 1970, unemployment has also served to upwardly redistribute income, though the relationship is weaker over this period.

The present chapter tried to uncover the linkages between factor income and personal income. The distributive struggle between proprietors and their employees appears to shape the level of personal income inequality. It also appears that increases in

government spending and in union density redistributes income from capital to labour, and in so doing, serve to compress the distribution of personal income (and vice versa). The market power registered in the markup also appears to have a significant bearing on the distribution of national income. Its enlargement serves to redistribute income from labour to capital and from lower income groups to the top income group.

The distribution of personal income and assets also bears a striking resemblance to the institutional and organizational structure of the corporate sector. The concentration of corporate assets in addition to the level and pattern of differential accumulation seems to shape personal income inequality over the long haul. And at the upper end of the income spectrum, we find the relative gains made by Canada's power elite closely fluctuate with differential commodity and producer prices. The latter, we found, are closely associated with international military conflict.

The analysis presented here strongly suggests that the institutional and organizational structure of the political economy — including the relative position of labour unions and large firms — has a strong bearing on the distribution of income and wealth in Canada. And whereas amalgamation waves tend to concentrate corporate assets, leading to a redistribution of income from labour to capital, stagflation waves have the opposite effect insofar as they redistribute income from capital to labour. In both cases, institutional and organizational power shapes the distribution of income.

Conclusion:
The Corporation and Institutional Power

The scientist must... be concerned to understand the world and to extend the precision and scope with which it has been ordered.

- Thomas Kuhn (1962)

In his attempt to address problems arising from Popper's (1963) falsificationism and Kuhn's (1962) skepticism of paradigmatic progress, Imre Lakatos (1978) advances a novel vision of what science is and how it can be distinguished from ignorance and pseudoscience. Contra Popper, science cannot be demarcated, nor does it advance, through a process of conjecture and refutation. Contra Kuhn, we can validly speak of scientific progress. Science centres what Lakatos labels 'research programs', which are comprised of three broad components: (i) a 'hard core' of unfalsifiable claims; (ii) a flexible 'protective belt' of auxiliary, but refutable hypotheses; and (iii) a 'heuristic' or 'problem-solving machinery' to assist with irregularities and respond to anomalies. In assessing a scientific research program, it is not testability or refutation that serves as the ultimate criterion of satisfaction, but the discovery of novel facts. In a 'degenerative' research program, facts must be forcibly fit into the mould of the old theory. In a 'progressive' research program, old problems are solved in new ways and novel or 'undreamt of' facts are discovered, Lakatos argues (1978: 4-6).

Social scientists must be careful when incorporating ideas from the philosophy of science into their domain for (at least) two reasons. First, the stability of the objects under investigation are different in the social and natural sciences. The social entities, institutions and processes which form a part of human culture change more rapidly than do most of the entities studied by natural science. This makes the truth or validity of social scientific theories more transitory. Second, human cultures are variable while the natural world is (relatively) uniform. This means that social scientific validity cannot be made to turn on prediction because theories are, to an extent, bounded by historical conditions and cultural circumstances.

The preceding ten chapters sketched an image of postwar Canadian capitalism. The foreground was occupied by the largest firms and the growth pathways they travelled. Residing in the background were some of the broad political-economic consequences of increasing corporate power. Of the eclectic collection of heterodox approaches relied upon, N&B's capital as power (CAP) was utilized most extensively. Given that this is a relatively new approach to political economy, we may wish to know how and where it proved useful and whether key hypotheses emerging from the framework are (dis)confirmed by the Canadian evidence. Loose adoption of Lakatos' vision of science can help with this task.

The CAP framework stresses the untenability of a strict separation of politics from economics. In treating the accumulation of capital as a power process, N&B (seem to) argue that politics and economics are integrated aspects of social life. Chapter 3 reviewed the deep history of Canadian business and argued that a bifurcation of

corporate power and political or State power is an analytical impediment. The Canadian political economy and business history literatures are nearly unanimous in asserting that Canadian commercial power was deeply intertwined with State and imperial power. The structure and governance activity of the Hudson's Bay Company was one example. Similarly, Chapter 3 argued that our understanding of key turning points in Canadian history, including the Act of Union in 1840-41, Confederation in 1867 and the NAFTA in 1994 is impaired if we insist on divorcing commodified power from legislative power. In place of the politics/economics bifurcation, we ought to return to the conception associational reality offered by the classical political economists, who treated the accumulation of wealth and of power — market institutions and State institutions — as a holistic process.

Chapter 5 reviewed and contested the managerial thesis in light of the (newly uncovered) Canadian evidence. Instead of professional managers controlling the corporate sector, the evidence suggests that proprietors wield ultimate control of the Canadian corporate sector on account of their large equity stake. This is significant because, as Drucker (1946) argued, the separation thesis implied that the modern corporation was run for the benefit of stakeholders as opposed to shareholders. The implication of this line of reasoning was that the enormous productive power associated with the corporate system was indirectly serving the public good.

This line of reasoning is incompatible with the CAP framework in multiple ways (which need not be recounted). Building on Veblen's conception that capitalist power is most clearly manifest in private ownership — a type of power which grants capitalists

the right and ability to exclude others, through unemployment, from accessing the industrial-technological-knowledge structure of society — N&B's power theory of capitalism seems to require that capitalists wield ultimate control of the corporate sector through ownership and that corporate power be utilized in the service of the capitalist class. And because capital is capitalization, an increase in the value of the largest corporate units implies an increase in the power of capitalists.

This study tried to remain agnostic about the identification of capital with power for a variety of analytical and normative reasons. However, the research presented in Chapter 5 supports the anti-managerial hypothesis, and in so doing, is broadly consistent with the CAP framework. The relative growth of the largest corporate units, which is understood as a proxy for corporate power, becomes politically significant once we recognize that the largest firms have controlling owners. Veblen's distinction of 'business' from 'industry' amplifies the significance of this finding: proprietary control (read: power) of the corporation implies that the industrial life of the nation is under the command of a cohesive capitalist class. An increase in the relative value of the largest corporate units, then, is coterminous with increasing capitalist power.

Another set of CAP hypotheses pertain to mergers and acquisitions (M&A). N&B argue that M&A constitute a broad 'regime of differential accumulation', meaning it is a key growth pathway for large firms. They also claim that, over the long-term, M&A (internal breadth) should tend to rise relative to green-field investment (external breadth). A third testable claim is that M&A leads to spatial unification and globalization on account of large firms breaking through successive 'envelopes'. The

reasoning runs as follows: in order for large firms to grow and for differential accumulation to remain positive, large firms must expand outward from their original industries into broader sectors through to the national political economy, and finally, the global political economy. All three hypotheses are testable in the sense that the historical facts will either support or undermine them.

In plotting the aggregate and disaggregate history of Canadian mergers and acquisitions in Chapter 6, we found that N&B's 'amalgamation index' maps on very tightly to the concentration of corporate assets (Figure 6.7) and onto the differential profit per employee of the largest firms (Figure 6.8), which supports the hypothesis that M&A are a key growth pathway for large firms. The second hypothesis, that the growth of M&A will tend to outpace green-field spending, is supported by the sharp increase in the trend line of the amalgamation index, plotted in Figure 6.4. Third and finally, in developing a quantitative proxy for the globalization of Canadian business ownership in Chapter 5 (Figure 5.11), we provide the basis for a third test of a crucial CAP hypothesis. If N&B's conception of M&A is correct, then the amalgamation index should be positively correlated with the proxy for Canadian corporate ownership abroad. Figure 6.9 demonstrated a tight and persistent relationship between corporate amalgamation and the globalization of Canadian business ownership, which confirms N&B's third hypothesis.

Chapter 7 explored the level, pattern and constituents of Canadian GDP growth. It showed that the 'build-to-ward' indicator (Figure 7.4), a ratio of business spending on fixed assets to cash, maps onto the growth rate of private sector employment very tightly.

It also showed that the deepening income share of dominant capital corresponds with the hoarding of corporate cash (Figure 7.5). Given that GDP growth is partially fuelled by investment in fixed assets (Figure 7.2) and that the heightened M&A activity of recent decades has seen under-investment in fixed assets amidst surging concentration, this cluster of facts suggests that the relative growth of large firms has a depressing effect on growth. Stated differently, GDP stagnation is a partial consequence of heightened concentration. The research presented in Chapter 7 is not directly related to N&B's framework, but the 'spirit' of the questioning is in line with their broad vision. How?

Building on Veblen's conception of 'sabotage', N&B argue that capitalist income oscillates between two extremes: capitalist income will be low in the case of glut and depression, which is obvious; but counterintuitively, capitalist income will also be low in the case of rapid growth. The 'ideal' or 'optimal' distribution for business resides in between these extremes, which implies that a moderate degree of stagnation (through either (or both) unemployment and capacity under-utilization) is 'healthy' for business (though not for workers, obviously). Higher levels of unemployment restrain the wage demands of the working class and reduced competitive pressure (manifested in heightened corporate concentration) elevates the earnings margins of dominant capital. The argument developed in Section 10.1 about the relationship between unemployment and the top income share during the Second World War lends additional support to this conception (recall: full employment and rapid GDP growth led to a halving of the top income share between 1939 and 1945). Although this line of reasoning is unorthodox, the Canadian facts support it.

Another powerful area of confirmation (or in Lakatosian terms, the discovery of a 'novel fact') is the research pertaining to income inequality. The Great Recession made apparent the shortcomings of neoclassical orthodoxy. The Occupy Movement made inequality a popular political concern. Thomas Piketty's, *Capital in the Twenty-First Century* and the 'Piketty mania' that has ensued are a consequence of this shift. We know that Canadian income inequality is high and rising and that this comes amidst middle class stagnation. Both pose a problem to the prevailing model of capitalism. But do we know what causes heightened inequality?

Chapter 10 utilized N&B's differential measures to examine Canadian inequality. By plotting the differential capitalization of dominant capital side-by-side the top 0.1 income share (Figure 10.9) and beside the differential net worth of the 100 richest Canadians (Figure 10.10), we were able to assess two broad suppositions: for Veblen, business centres on the redistribution of income; and for N&B, their differential measures capture the 'power drive' of accumulation. The fact that the relative position of the top income and wealth group oscillate with the differential performance of dominant capital strongly suggests that N&B's approach to business development is valid. It also lends weight to the anti-managerial thesis. If the top income group owns and controls the corporate sector and if corporate ownership is not an industrially productive act, but a claim on earnings, then it follows that the differential performance of the largest firms will tend to exacerbate inequality. This poses a major challenge to Canadian public policy, which presumes that what's called 'business success' is 'good for society'. If

Wilkinson and Pickett's (2010) arguments about inequality are correct, then differential business performance will tend to aggravate, not alleviate, social problems.

A significant disconfirmation of the CAP framework came in Chapter 9, which examined Canadian inflation and stagflation. N&B argue that inflation (stagflation) is a power process which redistributes income from labour to capital and from small to large firms. They further argue that stagflation constitutes a broad 'regime of differential accumulation', meaning it is a growth artery for large firms pass. This set of claims is highly unorthodox. Central banks in the OECD have tended to pursue anti-inflationary monetary policy in recent decades. If inflation is beneficial to large firms it would be puzzling why (big) business would support inflation-restraining policy. In Canada, rapid inflation and stagflation have tended to have the opposite effect, redistributing income from capital and dominant capital to labour, from large to small firms and from the upper to the lower income brackets. Canadian inflation has tended to *undermine* the performance of large firms, not elevate it. This eliminates the puzzle surrounding the shift to anti-inflationary monetary policy at the Bank of Canada and it provides an important challenge to the validity of a core tenet of the CAP framework.

The Preface to this dissertation closed by stating that this study would distance itself from the normative and political undertones of the CAP framework. The reader may wish to know why. The present chapter will close with a brief assessment of the practical ethics of *Capital as Power*. While there is powerful analytical and empirical in the CAP framework, the normative and political vision that is associated with N&B's ideas is unpersuasive and ethically objectionable.

The CAP framework grows out of a dual dissatisfaction, one theoretical (philosophical) the other practical (political). N&B not only claim that existing approaches to capital are deeply flawed, they also claim that the dominant approach — neoclassical economics — is inherently ideological. Neoclassical economics is ‘an ideology in the service of the powerful’ because the capitalist class uses it to ‘conceal its own power’ from plain view. The supposed scientific status of neoclassical economics doubles as its social function, for it legitimizes the institutions underpinning capitalism. The underlying reality that is veiled from ordinary people is that ‘the capitalist ruling class... shapes society’ (2009: 2-3). The political function of *Capital as Power* is to tear down the veil, laying bare relations of power and domination so that people may act to bring about ‘a new social reality’. N&B’s professed political goal is to ‘change the capitalist world’ (2009: 3).

The establishment of linkages between ruling class ideology and the changing of social reality (read: revolution) is but one demonstration of the intellectual debts N&B owe Marx and Engels. Marx’s often-quoted thesis on Ludwig Feuerbach: ‘philosophers have only interpreted the world... the point, however, is to change it’ (1888: 145), seems to capture N&B’s vision of the relationship between philosophy and politics. Although N&B try to distance themselves from Marx and Marxism, the political program submerged in their work, which admittedly needs to be read between the lines, bears many of the hallmarks of the Marxist vision.

Like Marx, N&B critique liberal political economy as a ‘bourgeois’ or pseudo-science. Like Marx, they seek to penetrate the veil of ruling class ideology with new

analytical weapons: for Marx the secret to understanding capitalism lay in ‘surplus value’; for N&B, the analytical weapons include dominant capital and differential accumulation. Marx generated the materialist conception of history. In its place, N&B postulate that history unfolds through a succession of ‘modes of power’.¹⁴ Marx’s insights were meant to facilitate revolution by arming the exploited and alienated proletariat with the (intellectual) hammer they need to break their (economic) chains and so (politically) emancipate themselves. But the emancipation of the proletariat would also emancipate humanity from its pre-history by solving the problem of human oppression manifested in class domination. N&B adopt a similar, though not identical, narrative.

Even though N&B would have us investigate ‘the capitalist reality [as a] prerequisite for changing it’ (2009: 15), conspicuously absent from their work is any sustained argument as to (1) *why* it should be changed, (2) *what* it should be changed to and (3) *how* the changed social reality would be an improvement over existing reality. Other questions emerge: how should we go about changing capitalism?; do we have good reason to suppose that the intended changes would not amount to something worse than the current reality?; and why is the improved social condition not possible within the broad confines of capitalism, i.e., why do we need *radical* social change? These questions present themselves at the beginning of their book, but upon arrival at the end the reader learns that the questions remain unanswered. We will address the three core questions listed above in turn.

¹⁴ Delivering a graveside speech, Engels (1883) notes that Marx’s two great intellectual accomplishments were the discovery of surplus value as the ‘special law of motion’ of capitalism and the materialist conception of history.

Let's engage in a thought experiment for a moment. Assume that all of N&B's core contentions are true — capital is a power institution, its accumulation a power process, the capitalist mega-machine shapes social development, inflation is a redistributive mechanism, etc. Why should we abolish capitalism? There is no sustained argument in *Capital as Power* to support N&B's political prescription and so incitement to study capitalism with a view to bringing about 'a new social reality' becomes a non-sequitur. Perhaps this shouldn't surprise us. For all the distance N&B try to place between themselves and Marx, on this file their proximity is all too apparent.

Marx's prescriptions for political revolution were not based on ethical imperatives, moral argumentation or overtures to justice. Marx considered himself a scientist, not a moralist. His discussion of ethics and morality tended to range from flippant dismissal and ridicule on the one hand, to reductionism on the other. For example, in the *Critique of the Gotha Program* Marx refers to the concept of a 'fair distribution' of income as 'ideological nonsense about right' and 'obsolete verbal rubbish' (1875: 531). He is equally dismissive of modern concept of liberty. The young Marx's, *On the Jewish Question* reduces the liberal conception of freedom to the right to private property. In his words: 'the right of man to freedom is not based on the association of man with man but rather on the separation of man from man... the right of self-interest' (1843: 229).

Appeals to fairness, justice and freedom don't hold much sway with Marx because he believed that 'right can never be higher than the economic structure of society and its cultural development conditioned thereby' (1875: 531). Our notions of justice are

part of the 'superstructure', which means they emerge from the 'forces of production' and 'relations of production', the combination of which Marx refers to as the 'economic structure of society' (1859: 211). Right and wrong, good and evil, just and unjust are the products of socio-economic development. The latter is shaped by class struggle, which is ultimately reducible to the 'economic base' (read: technology). Their truth and permanence are equally illusory.

The difficulty with Marx's vision comes when we examine the grounds upon which Marx himself stands to level his criticism and deliver his philosophy. If morality is reducible to the economic base, then how can Marx launch any type of normative criticism of capitalism? And if all broad philosophical visions are part of the ideological superstructure, and thus change when the economic base changes, what happens to Marx's grand philosophical vision in non-capitalist setting? If the truth of a claim and rightness of an action are confined to historical circumstance, how can Marx philosophize about history or morally condemn capitalism? These difficulties pose insurmountable obstacles for anyone who strives for universal explanations or makes transcendental arguments while asserting the relativity of truth and ethics. N&B are careful to avoid the analytical difficulties associated with historicism and relativism, but they stand with Marx in failing to offer normatively-grounded reasons for social change.

Moving from the question of 'why' to 'what', there is no sustained argument about what a 'new social reality' should look like. Let's assume for a moment that N&B did in fact provide a systematic account of why we need a new, non-capitalistic social reality. What value(s) should the new social reality strive to realize? And why are said values

impossible to realize under a capitalist regime? N&B make passing references to ‘autonomy’ and ‘free human creativity’ (2009: 20-21), ‘the democratically articulated good life per person’ (2009: 226), ‘democratic creorders’ (2009: 305) and an ‘alternative, humane future’ (2009: 400), but nowhere are these concepts elaborated, specified or analyzed. What conditions are required for the realization of these values? Even the meaning of some of these terms is deeply ambiguous.

Take the concept of autonomy, which N&B put special emphasis on. Besides addressing what autonomy is and why it is incompatible with capitalism, we must ask: why should autonomy be elevated above other values? Why does autonomy become an overriding normative imperative instead of, say, justice, liberty or equality, not to mention efficiency, stability or piety? To assume that one value is the supreme value without reason or argumentation is hollow. But N&B appear to presuppose more than just that. Instead, their fidelity to the idea of autonomy indicates that they might believe there is an ultimate answer to the riddle of social existence. Let us not suppose that N&B assume that autonomy will solve *all* human problems. Instead, let us assume that they believe autonomy will *create the conditions* for human beings to solve their problems through free creativity and social cooperation. Perhaps they assume autonomy to be the condition of the possibility of the good life. And perhaps they equate autonomy with genuine freedom, free creation and the absence of social exclusion. Even if this were an accurate rendering of the term ‘autonomy’ and a correct picture of their view, why should autonomy be pursued over other values?

N&B's claims about 'autonomy' and a 'humane future' bear some resemblance to Marx's thinking about communism and Plato's about the *kallipolis*: they presuppose that there is one correct answer to all political tensions, one supreme value to which all other values must be subordinate and one final expression of human sociality. Although there is something deeply attractive about this presupposition, Isaiah Berlin persuasively argued that it is unworkable. In his beautiful essay on Machiavelli, Berlin (1972) claims that there are equally valid but mutually exclusive value systems. To presuppose the existence of a single universal structure of values, graspable by reason, which provide the ultimate answer to the riddle of collective human existence is simply not feasible. Berlin's (1988) 'objective pluralism' or 'value pluralism' is a necessary antidote to the false temptations associated with relativism and the hubris of rationalist monism. Autonomy is one value among many, it will almost certainly clash with other values and thus we ought to be careful about reconfiguring society for the sake of a single value.

And finally, on the question of 'how' to bring about a new social reality, N&B do not offer anything programmatic and this appears to be deliberate. Radical social change will emerge from the 'magma' or 'free human creativity' (2009: 20), so it appears a revolutionary change cannot be planned or designed. That said, the implied politics of *Capital as Power* are anti-capitalist, and because N&B fuse capital and the state into a 'state of capital' amalgam, their politics appear as revolutionary anarchism.

On the subject of revolution there is plenty to say, but Orwell's insight into the consequences of revolution are perhaps the clearest in the twentieth century, not least because they proved prophetic. What emerges after a revolution, whether it be left-wing

international socialist or right-wing national socialist, is not *liberté, égalité, fraternité*, a dictatorship of the proletariat, much less ‘the brotherhood of man’, but the dictatorship of a vanguard of intellectuals. And the regime that emerges, despite pretences to democracy and egalitarianism prior to seizing power, almost invariably becomes a blend of authoritarianism and anti-liberalism. Prior to the revolutions China, Korea, Cuba and elsewhere, Orwell states:

The Party seeks power entirely for its own sake. We are not interested in the good of others... The German Nazis and the Russian Communists came very close to us in their methods, but they never had the courage to recognise their own motives... Power is not a means, it is an end. One does not establish a dictatorship in order to safeguard a revolution; one makes the revolution in order to establish a dictatorship (1949: 275-6).

The historical record of revolutions in the twentieth century (and prior) supports Orwell’s claim. A revolutionary reconstruction of society, even in the name of democracy, is surest path to dictatorship.¹⁵

There is something highly suspicious about the motivation behind a revolutionary reconstruction of society, which Orwell rightly pinpointed. The notion that there is something wrong with ‘the world’ and that this something is the thoughts, beliefs and behaviour of *other* people should give us pause. If the program is to ‘change social reality’ by changing *other* people, in practice this simply means using violence to make other people more like *us* (or, because hypocrisy and politics are often not far apart, the use of force to fit other people into a mould of our choosing). The impulse to ‘improve’ social conditions by improving *other people*, not through force of argument, but through force of

¹⁵ This is not true in all instances. The American Revolution, for example, was not predicated on re-modelling society or a re-fashioning of human nature, but on restoring ancient liberties that were being trampled by a tyrannical monarch. This is why Edmund Burke (1790) could bitterly condemn the French Revolution while remaining ambiguous about the American. The essentially liberal revolutions in Eastern Europe in the late 1980s provide a comparable example.

revolutionary arms, simultaneously absolves the revolutionary individual of personal responsibility and indicts the other.

After years as a dedicated Marxist, a believer in the Soviet project and a soldier in the Red Army, Aleksandr Solzhenitsyn found himself a prisoner of the Soviet labour camp system. The experience transformed his perception of human life and he captured this awakening in his three-volume masterpiece, *The Gulag Archipelago*. On the relationship between evil and revolution, Solzhenitsyn states:

Looking back, I saw that for my whole conscious life I had not understood either myself or my strivings. What had seemed for so long beneficial now turned out in actuality to be fatal, and I had been striving to go in the opposite direction to that which was truly necessary to me. But just as the waves of the sea knock the inexperienced swimmer off his feet and keep tossing him back on to the shore, so also was I painfully tossed back on dry land by the blows of misfortune. And it was only because of this that I was able to travel the path which I had always really wanted to travel.

It was granted me to carry away from my prison years on my bent back, which nearly broke beneath its load, this essential experience: *how* a human being becomes evil and *how* good. In the intoxication of youthful successes I had felt myself to be infallible, and I was therefore cruel. In the surfeit of power I was a murderer and an oppressor. In my most evil moments I was convinced that I was doing good, and I was well supplied with systematic arguments. And it was only when I lay there rotting on prison straw that I sensed within myself the first stirrings of good. Gradually it was disclosed to me that the line separating good and evil passes not through states, nor between classes, nor between political parties either - but right through every human heart - and through all human hearts. This line shifts. Inside us it oscillates with the years. And even within the hearts overwhelmed with evil, one small bridgehead of good is retained. And even in the best of all hearts, there remains... an un-uprooted small corner of evil.

Since then I have come to understand the truth of all the religions on the world. They struggle with the *evil inside a human being* (inside every human being). It is impossible to expel evil from the world in its entirety, but it is possible to constrict it within each person. And since that time I have come to understand the falsehood of all the revolutions of history: they destroy only *those carriers* of evil contemporary with them (and also fail, out of haste, to discriminate the carriers of good as well). And they take to themselves as their heritage the actual evil itself, magnified still more.

'Know thyself!' There is nothing that so aids and assists the awakening of omniscience within us as insistent thoughts about one's own transgressions, errors, mistakes. After the difficult cycles of such ponderings over many years, whenever I mentioned the heartlessness of our highest-ranking bureaucrats, the cruelty of our executioners, I

remember myself in my captain's shoulder boards and the forward march of my battery through East Prussia, enshrouded in fire, and I say: 'So were we any better?'

And that is why I turn back to the years of my imprisonment and say, sometimes to the astonishment of those about me: '*Bless you, prison!*' (Solzhenitsyn 1975: 615-16)

One view of revolutionary politics, then, is as a substitute for the difficult work of self-transformation and self-mastery. The truth in revolutionary politics is recognition of human suffering, its relationship to evil and the need to confront the latter in order to deal with the former. The falsity in revolutionary politics is the projection of all evil onto social institutions and/or other people, and therein failing to recognize the evil lurking within the self.

For those uninterested in anti-capitalist or revolutionary politics, are there valid reasons for being concerned with the concentration of corporate power? According to Lewis Mumford, the 'spinal principle' of democracy is to 'place what is common to all men above that which any organization, institution, or group may claim for itself' (1964:1). Josiah Ober explores the original meaning of term 'democracy' and finds that instead of signifying 'majority rule' or even 'rule by the people', the term historically denoted the 'collective capacity of the public to make good things happen in the public realm' (2008: 8). The popular conception of democracy in Canada appears to be something rather different. Most Canadians think of democracy in terms of the selection and removal of a government, through elections, by the mass of the voters. 'Democracy', Canadians think, has been realized north of the forty-ninth parallel.

But if Mumford and Ober are correct, then democracy should not be thought of as a condition that could ever be fully realized. Instead, it should be thought of as an ideal

— a collective project — that society strives towards but is bound to fall short of, if only because all historical societies have limits on the capacity of the public, either collectively or individually, to do ‘good things’ in the public realm. The conception of democracy advanced by Mumford and Ober imply that concentrations of corporate power, income and wealth pose a threat to democracy. After all, agglomerations of commodified power will be more capable of placing their views and interests above those of the public. And the amassment of corporate power reduces the capacity of ordinary citizens to participate in the public realm if only because it effectively shrinks the public realm and, within the remaining space, takes up a larger portion of it. This trespasses on our conception of the civic participation and public good and is something that should concern every citizen of modern Canada.

APPENDICES

Appendix A
Profile of the 100 Largest Canadian-Domiciled Firms
(Ranked by equity market capitalization in 2012)

Rank	Firm	Equity Market Value	Sector	TSX Listing	Effective Founding
1	Royal Bank of Canada	79,413,660,849	Finance	1918	1864
2	Toronto-Dominion Bank	75,551,004,599	Finance	1955	1855
3	Bank of Nova Scotia	64,747,982,349	Finance	1919	1832
4	Suncor Energy Inc.	43,705,563,575	Oil & Gas	1966	1853
5	Barrick Gold Corporation	40,612,534,310	Mining	1983	1983
6	Bank of Montreal	38,109,242,502	Finance	1922	1817
7	Canadian National Railway	37,042,688,423	Div. Industries	1995	1919
8	Imperial Oil Limited	35,229,407,572	Oil & Gas	1921	1880
9	Potash Corporation	35,139,364,144	Mining	1989	1953
10	BCE Inc.	35,041,761,598	Comm. & Media	1905	1880
11	Enbridge Inc.	34,567,954,649	Util. & Pipelines	1953	1949
12	Canadian Natural Resources	32,617,952,263	Oil & Gas	1976	1973
13	CIBC	31,276,929,965	Finance	1961	1867
14	TransCanada Corporation	31,083,587,294	Util. & Pipelines	2003	1951
15	Goldcorp Inc.	30,536,647,580	Mining	1983	1954
16	Cenovus Energy Inc.	24,566,783,289	Oil & Gas	2009	1883
17	Brookfield Asset Mgmt.	23,694,368,628	Div. Industries	1979	1899
18	Thomson Reuters	23,672,029,588	Comm. & Media	1980	1851
19	Husky Energy Inc.	23,005,931,406	Oil & Gas	2000	1938
20	Manulife Financial Corp.	22,793,833,764	Finance	1999	1887
21	Great-West Lifeco Inc.	22,021,296,460	Finance	1986	1891
22	Power Financial Corporation	20,205,174,104	Finance	1984	1925
23	TELUS Corporation	19,352,705,799	Comm. & Media	1999	1906
24	Rogers Communications Inc.	18,649,927,763	Comm. & Media	1971	1960
25	Teck Resources Limited	18,138,454,698	Mining	1952	1906
26	Encana Corporation	15,179,064,631	Oil & Gas	2001	1883
27	Valeant Pharmaceuticals Int.	15,043,176,825	Life Sciences	1987	1960
28	Sun Life Financial Inc.	15,032,068,320	Finance	2000	1865
29	Canadian Pacific Railway Ltd.	13,004,111,705	Div. Industries	2001	1881
30	Agrium Inc.	12,780,742,524	Mining	1993	1931
31	Crescent Point Energy Corp.	12,730,895,820	Oil & Gas	2002	2001
32	National Bank of Canada	12,710,279,434	Finance	1979	1859

Appendix A
Profile of the 100 Largest Canadian-Domiciled Firms (continued)

33	Power Corporation	11,730,866,191	Finance	1936	1925
34	Talisman Energy Inc.	11,438,660,333	Oil & Gas	1971	1953
35	Yamana Gold Inc.	11,308,993,780	Mining	1995	1994
36	Brookfield Office Properties	10,742,034,969	Real Estate	1985	1899
37	IGM Financial Inc.	10,334,785,748	Finance	1986	1894
38	Magna International Inc.	9,747,211,095	Div. Industries	1962	1957
39	Canadian Oil Sands Limited	9,734,506,860	Oil & Gas	1995	1978
40	Kinross Gold Corporation	9,440,331,923	Mining	1983	1983
41	Silver Wheaton Corp.	9,382,460,597	Mining	2004	2004
42	Fairfax Financial Holdings	9,300,825,423	Finance	1972	1951
43	Nexen Inc.	9,240,449,661	Oil & Gas	1971	1969
44	Canadian Utilities Limited	9,196,269,926	Util. & Pipelines	1946	1927
45	Loblaw Companies Limited	9,144,409,468	Div. Industries	1956	1919
46	Intact Financial Corporation	8,913,394,842	Finance	2004	1809
47	Shoppers Drug Mart	8,658,378,793	Div. Industries	2001	1962
48	Pembina Pipeline Corp.	8,639,160,401	Util. & Pipelines	1997	1954
49	First Quantum Minerals Ltd.	8,616,453,001	Mining	2000	1996
50	Shaw Communications Inc.	8,582,593,366	Comm. & Media	1983	1966
51	Tim Hortons Inc.	8,580,816,467	Div. Industries	2006	1964
52	Saputo Inc.	8,527,606,392	Div. Industries	1997	1992
53	George Weston Limited	8,328,308,766	Div. Industries	1929	1882
54	Eldorado Gold Corporation	8,166,459,763	Mining	1993	1991
55	lululemon athletica inc.	8,003,001,013	Div. Industries	2007	1998
56	Riocan Reit	7,887,881,506	Real Estate	1994	1994
57	Cameco Corporation	7,849,776,673	Mining	1991	1927
58	Alimentation Couche-Tard	7,304,651,823	Div. Industries	1999	1980
59	Ivanhoe Mines Ltd.	7,228,521,193	Mining	1996	1994
60	Fortis Inc.	7,178,600,947	Util. & Pipelines	1969	1969
61	Bombardier Inc.	7,065,450,870	Div. Industries	1946	1942
62	MEG Energy Corp	6,683,499,603	Oil & Gas	2010	1999
63	Agnico-Eagle Mines Ltd.	6,618,376,664	Mining	1957	1953
64	Penn West Petroleum Ltd.	6,539,684,730	Oil & Gas	1980	1979
65	Franco-Nevada Corporation	6,252,418,625	Mining	2007	1983
66	CI Financial Corp.	6,211,040,680	Finance	1994	1965
67	ARC Resources Ltd.	6,010,901,277	Oil & Gas	1996	1996

Appendix A
Profile of the 100 Largest Canadian-Domiciled Firms (continued)

68	Bell Aliant Inc.	5,998,149,753	Comm. & Media	2006	1885
69	Viterra Inc.	5,947,652,256	Div. Industries	1996	1920s
70	SNC-Lavalin Group Inc.	5,760,500,683	Div. Industries	1986	1911
71	Research in Motion Limited	5,608,510,331	Technology	1997	1984
72	Canadian Tire Corp.	5,506,424,837	Div. Industries	1945	1922
73	Baytex Energy Corp.	5,393,105,754	Oil & Gas	1994	1993
74	CGI Group Inc.	5,387,084,110	Technology	1992	1976
75	Metro Inc.	5,028,383,490	Div. Industries	1993	1947
76	Central Fund of Canada	4,956,349,249	Structured Prdts	1965	1961
77	Inter Pipeline Fund	4,952,376,780	Util. & Pipelines	1997	1997
78	H&R REIT	4,903,295,744	Real Estate	1996	1996
79	ONEX Corporation	4,382,734,089	Finance	1987	1983
80	TransAlta Corporation	4,365,179,908	Util. & Pipelines	1992	1911
81	New Gold Inc.	4,278,826,403	Mining	2002	1980
82	Athabasca Oil Corporation	4,270,741,985	Oil & Gas	2010	2006
83	Vermilion Energy Inc.	4,262,511,668	Oil & Gas	1996	1994
84	Emera Incorporated	4,234,284,219	Util. & Pipelines	1999	1919
85	Dollarama Inc.	4,221,053,327	Div., Industries	2009	1992
86	IAMGold Corporation	4,163,020,510	Mining	1996	1991
87	Finning International Inc.	4,162,270,941	Div. Industries	1969	1933
88	Atco Ltd.	4,122,936,042	Util. & Pipelines	1968	1947
89	Tourmaline Oil Corp.	3,805,432,884	Oil & Gas	2010	2008
90	First Capital Realty Inc.	3,683,642,552	Real Estate	1994	1993
91	Brookfield Renewable Energy	3,628,758,790	Clean Tech.	1999	1999
92	Domtar Corporation	3,477,597,511	Forest Products	2007	1903
93	TMX Group Inc.	3,439,531,602	Finance	2002	1861
94	Calloway REIT	3,306,025,194	Real Estate	2002	1945
95	Dundee REIT	3,295,953,485	Real Estate	1997	1984
96	Keyera Corp.	3,258,481,683	Util. & Pipelines	2003	1998
97	AltaGas Ltd.	3,199,200,309	Div. Industries	2000	1993
98	Cominar REIT	3,047,295,976	Real Estate	1998	1997
99	Progress Energy Resources	3,027,065,332	Oil & Gas	2004	2001
100	Inmet Mining Corporation	3,010,473,463	Mining	1987	1987

Note: Ranking based on data from 31 May 2012. A few firms that are not headquartered in Canada (General Motors, for example) were removed from the list in order to maintain consistency. **Source:** TMX Group's Equity Financing Statistics; effective founding date from Forbes Global 2000, *Yahoo Finance* and company annual reports.

Appendix B
Some Great Canadian Fortunes and some Large Canadian-Domiciled Firms

Rich 100	Net Worth		
Rank	Name	\$Billions of CAD	(TSX Rank) Corporation
1	David Thomson and family	20.10	(18) Thomson Reuters Corp. (45) Loblaw Companies Ltd.
2	Galen Weston	8.20	(53) George Weston Ltd.
4	Edwards Rogers and family	6.41	(24) Rogers Communications Inc. (21) Great-West Lifeco Inc. (22) Power Financial Corporation (33) Power Corporation of Canada
7	Paul Desmarais Sr.	4.40	(37) IGM Financial
8	Lino Saputo and family	4.23	(52) Saputo Inc.
10	Chip Wilson	3.51	(55) lululemon athletica inc. (125) Paramount Resources Ltd. (135) Trilogy Energy Corp.
17	Clay Riddell	2.87	(449) Perpetual Energy Inc.
18	Wallace McCain	2.84	(160) Maple Leaf Foods Inc.
20	Frank Stronach	2.72	(38) Magna International Inc.
22	Sobey family	2.35	(159) Empire Co Ltd. (12) Canadian Natural Resources Ltd.
23	Murray Edwards	2.35	(150) Ensign Energy Services Inc.
25	Mitchell Goldhar	2.10	(101) Calloway REIT
33	Joseph-Armand Bombardier and family	1.89	(63) Bombardier Inc.
35	Jean Coutu	1.83	(173) Jean Coutu Group
39	Gerald Schwartz and Heather Reisman	1.69	(83) Onex Corp. (537) Indigo Books & Music Inc. (45) Canadian Utilities Ltd.
40	Ronald Southern	1.67	(93) Atco Ltd. (51) Shaw Communications Inc.
45	JR Shaw	1.50	(154) Corus Entertainment Inc.
47	Stephen Jarislowsky	1.48	* Jarislowsky Fraser Ltd. (40) Canadian Oil Sands Trust
48	Seymour Schulich	1.42	(511) Newmont Mining Corp of Canada
54	Larry Rossy	1.25	(90) Dollarama Inc.
55	Eric Sprott	1.22	(268) Sprott Inc.
56	Ronald (Ron) Joyce	1.19	(52) Tim Hortons Inc. (61) Ivanhoe Mines Ltd.
62	Robert Friedlan	1.08	(454) Ivanhoe Energy Inc.
63	Hal Jackman	1.07	(152) E-I Financial Corp. Ltd.
66	Alain Bouchard	1.04	(60) Alimentation Couche-Tard Inc.
74	Sam & Van Kolias	0.975	(114) Boardwalk REIT
75	Eugene Melnyk	0.973	(28) Valeant Pharmaceuticals International Inc. (Biovail Corp.) (213) Morguard Corporation (228) Morguard REIT (624) ClubLink Enterprises Ltd.
82	K. (Rai) Sahi	0.881	(828) Morguard North American Residential REIT
83	Serge Godin	0.871	(78) CGI Group Inc.

Appendix B

Some Great Canadian Fortunes and some Large Canadian-Domiciled Firms (cont.)

84	Michael Lazaridis	0.870	(74) RIM
			(15) Goldcorp Inc.
			(272) Rubicon Minerals Corp.
			(397) McEwen Mining Inc.
88	Rob McEwen	0.790	(1,055) Lexam VG Gold Inc.
91	Leon family	0.721	(283) Leon's Furniture Ltd.
96	Jodrey family	0.689	(472) High Liner Foods Incorporated
97	Pierre Karl and Erik Peladeau	0.673	(131) Quebecor Inc.
99	Jack Cockwell	0.667	(17) Brookfield Asset Management Inc.
			20 of the top 60
35 of 100			38 of the top 200

* A dominant (privately held) investment management firm with stakes in many of the top firms.

Note: Net worth rankings are as of 22 November 2012. Corporation rankings are as of 31 May 2012. Source: *Canadian Business Magazine's* 2012 list of the 100 Richest Canadians (10 December 2012); TMX Group's Equity Financing Statistics.

Appendix C

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 (Figure 6.3) comes from Marchildon (1996), Table A.1, p. 55 for the years 1885-1899. In this data set, the number of mergers is the sum of acquisitions and consolidations. The years 1900-1948 come 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 in Canada.

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 6.4), which divides the dollar value of M&A by business spending on non-residential structures, machinery and equipment.

The types of mergers (inset within Figure 6.3) come from Lecraw and Thompson (1977), Table 1, p. 64. The number of foreign acquisitions (as a percent of total, inset in Figure 6.4) comes from Globerman (1977) for the years 1945-1974, Brander (1988) for the years 1975-1987, Khemani (1991) for the years 1988-1989 and UNCTAD Cross-Border M&A Database, Web Tables 11 and 12 for the years 1990-2011.

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