

# DIFFERENTIAL ACCUMULATION, REDISTRIBUTION AND THE REBOUNDED FORTUNES OF THE CANADIAN ESTABLISHMENT

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*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, *The Wealth of Nations* (1776)

## ABSTRACT

Three pieces of research have been published in recent years, the joint significance of which has yet to be grasped. The first is Wilkinson and Pickett's *The Spirit Level* (2009), which demonstrates that less relative inequality, even in a society with lower absolute wealth, produces better social outcomes. The second is the collective effort of economists from all over the world to map domestic top income shares over the last century. This collaborative research, compiled in The World Top Incomes Database, shows that rising income inequality over the last generation is being driven by the top percentile. If the evidence suggests that less relative income inequality is better for everyone then we require a satisfactory explanation for why income inequality has surged over the last generation. The third piece of research, Nitzan and Bichler's *Capital as Power* (2009), may be of some assistance in this regard. They argue that capital is best thought of as a broad power institution, and by implication, that distribution is ultimately a power process. Using tools from *Capital as Power* and radical institutionalism this paper will contrast income inequality and differential business performance in Canada across two periods: the post-war 'golden age' (1945 to the 1980) and the 'new gilded age' (1980-2010). It will argue that there is a strong link between the dramatic shift in the top income share and the rising differential power of capital.

## INTRODUCTION

Political discourse in Canada is pulling in multiple directions, but two threads stand out. The first suggests that many of the ills Canadian society faces are the result of over-indebted governments, a bloated public sector, extravagant entitlement programs and gluttonous unions. To avert fiscal and demographic disaster we need to reform these institutions, and ultimately, rein them in. Hence, ‘austerity’ is the order of the day. This will make us leaner, meaner and more competitively ‘fit’ for the global marketplace. The second (and far less prominent) thread claims that the social experiment we have been running for the last generation, which we can loosely label ‘neoliberal globalization’, has failed to deliver on some of its promises. One manifestation of this failure is a sharp divergence in incomes. Canadians are witness to surging gains being made by those in the very highest income echelons and stagnation or outright decline for the majority. Hence, reform of a different kind should be pursued: public investment, a more aggressive use of the tax and transfer system, strategic industrial policy and union renewal, to name a few proposals.

This paper will try to explain the growing gap by establishing direct and indirect empirical and conceptual linkages between income inequality and differential business performance. This story will be delivered in seven sections: the first section will offer a primer on the capital as power approach pioneered by Jonathan Nitzan and Shimshon Bichler (N&B hereafter); the second will briefly discuss why income inequality is important; the third will sketch some trends in income inequality over the last two generations; the fourth will articulate how we might think of the political economy as terrain of socio-distributional struggle; the fifth will explore the relationship between differential business performance and the top income share; the sixth will look at some distributional consequences of the increasing (differential) power of large firms; and the final section will speculate on the role that globalization has played

in amplifying income inequality. By the end of this story we will see that an explanation for the growing gap can be found if we are willing to ask new questions and entertain new ideas.

## CAPITAL AS A POWER INSTITUTION

The capital as power framework approaches capital as the central institution of the political economy and its accumulation as the generative process (this brief synopsis is inspired by N&B 2009). Mainstream and Marxist political economy think of capital as an economic category anchored in material reality. From there capital is parcellated into different types or kinds, the most fundamental division being between the 'real' capital (or capital goods) embodied in tools, machines and factories and the 'financial' capital associated with the equity and debt traded on the stock and bond markets. N&B dispense with the *à la carte* approach, claiming instead that capital is vendible, commodified power.

The claim that capital is a monolithic power institution is analytic rather than synthetic, for power is built into the definition of capital. The reason is as follows. The institution of capital centers on private ownership. The word 'private' is derived from the Latin *privare* which means 'to deprive' and *privatus* which means 'restricted'. Contrary to pop wisdom private ownership is not an institution which enables those who own, but one which disables those who don't own. And in the final analysis institutionalized exclusion is a matter of organized power. For us to understand accumulation, then, we cannot conceptually divorce the economy from the polity or capital from the state. The architecture of prices and the magnitude of capital are neither reflections of scarcity nor marginal productivity, but are the symbolic quantification of the differential power of absentee owners (investors) to restructure society against opposition. This power manifests itself in the universal quantitative logic of capitalization. The assets owned by investors stretch far beyond tools, machines and factories to include everything from inventions

to ideas to human beings and nature itself. But this implies direct and indirect control over those very inventions, ideas, human beings and natural objects being held as assets, something that cannot be meaningfully separated from the broader power institutions and processes of a given society.

Some will interpret the identity of capital with power as far-fetched, even conspiratorial. The uneasiness might stem from one rather troubling implication of N&B's theory. Those who accumulate capital not only accumulate power; power becomes the dominant motivational energy behind their action, an implication that doesn't easily synchronize with our sanitized liberal-democratic sentiments because of its Hobbesian overtones ('I put for a general inclination of all mankind, a perpetual and restless desire of power after power, that ceaseth only in death' (1651: 161)). However, the relationship between private ownership and power isn't far removed from some of the key ideas in modern political theory. Both the patron saint of liberalism (John Locke) and the father of modern economics (Adam Smith) hint at this relationship. Locke would have us believe that 'government has no other end but the preservation of property' (1690: 51), and in his *Lectures on Jurisprudence* Smith details the relationship between the two, telling us: "Till there be property there can be no government, the very end of which is to secure wealth, and to defend the rich from the poor' (1766: 40). Locke and Smith appear to be in agreement that in a pre-political situation ('the state of nature') one would find (1) large inequalities of wealth that (2) are secured through a state which defends the riches of the owning class from those who don't own. But in this they get the causal sequence backwards because private ownership depends on the existence of a power institution like the state to *enforce* exclusion.

The genealogy of the capital as power framework is diverse, but a primary source of inspiration is the ideas of Thorstein Veblen. Writing at the turn of the twentieth century, it was apparent to Veblen that America was being transformed by big business. But even as the giant

corporation was having a greater impact on the political-economic life of the community the political economists had, up until then, failed to give an adequate account of the relation between this institution and the broader culture. In addressing this problem, Veblen drew a distinction between 'business' and 'industry', terms which most people think of as synonyms but to Veblen were becoming closer to antonyms. Business 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' (1904: 18), something that is secured through the extension of ownership and control and which presupposes conflict and antagonism (amongst owners and between owners and non-owners). Industry, by contrast, 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. Its goal is the efficient and innovative servicing of the community's needs, something that requires cooperation and planning.

If these two domains are inherently distinct, how are they related? In a word: vertically. As Veblen saw it, the 'industrial system is organized on business principles and for pecuniary ends [with the] business man [at] the center...' (1904: 27). Since the writings of Locke we've been led to believe that private enterprise is a natural institution (it exists in the pre-political state of nature) because it is a direct extension of private ownership over one's body and labour, but to Veblen:

...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).

Drawing on Veblenian categories (and others) N&B have altered the parameters of our discussion of the accumulation of capital, which in turn, might help us frame questions around the distribution of income.

### **WHY DOES INCOME INEQUALITY MATTER?**

In 2009 two British epidemiologists, Richard Wilkinson and Kate Pickett, published *The Spirit Level*. The thrust of their book is that societies with less relative inequality—less relative poverty—do better on a whole 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, most importantly life expectancy and happiness. But the relationship between GDP per person, on the one hand, and happiness and life expectancy on the other, has limits. Gains from growth eventually level off meaning the more economic growth we experience the less the wealth contributes to our life expectancy and happiness. Once a society crosses a threshold, say \$25,000 USD per person (give or take), the gains from growth completely level off. From there they move into a bit of conventional wisdom: the social problems faced by people in the rich, industrialized world tend to be concentrated in the lower part of the social hierarchy. So people die sooner, are less happy and generally fare worse if they are in the bottom income brackets.

Now to their main discovery: when they compare across societies in the rich, industrialized world they find that these social problems bear little or no relation to levels of average income in a society. Across a wide range of social indicators such as levels of trust, mental illness (including drug and alcohol addiction), life expectancy and infant mortality, obesity, children's educational performance, teenage births, homicides, imprisonment rates and social mobility they find that all the problems associated with 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 undermines the view that social problems are caused by poor material conditions. If that were true then richer societies would do better than poorer ones. What matters, they conclude, is not the absolute levels of affluence individuals have, but where they stand in relation to others in their own society. Their conclusion, and their aim, is to demonstrate that 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 the social environment and social life, and this applies even to people at the very top of the social hierarchy.

If the distribution of income doubles as a barometer of social pathology how has this metric changed in Canada over the last generation?

## TRENDS IN INCOME INEQUALITY IN CANADA

Let's carve the post-war era up into two periods, each roughly corresponding with a more-or-less distinct political economy. The era between 1945 and the mid 1970's may be identified as the Keynesian welfare state. This political economy ran into practical and theoretical difficulties and was gradually superseded by another political economy—that of neoliberal globalization—which began to take shape in the late 1970's and has continually developed into the present.

The political economy of the Keynesian welfare state had a number of commitments: activist government, including state directed industry (primarily in the form of crown corporations); full employment (at least theoretically); the promotion of economic growth and price stability; controlled capital flows; collective bargaining; and comparatively high taxes to finance social programs and large-scale public investment in health care, education and infrastructure. The political economy of neoliberal globalization, by contrast, saw a reversal of many of these policies and programs. Instead of full employment the Canadian state committed itself to fighting inflation. In the place of international capital controls and collective bargaining

the state embraced liberalized trade and investment, deregulated labour markets and the accompanying de-unionization. Deficit-financed public investment was replaced by welfare state retrenchment, balanced budgets (again, theoretically), lower public debt and tax cuts, especially for business and the wealthy. And while the former era is sometimes referred to as the 'golden age of controlled capitalism' some are beginning to refer to neoliberal globalization as a 'new gilded age' (Yalnizyan 2010). How has the distribution of income changed across these two periods?

Until very recently (Yalnizyan 2007, for instance) it was thought that income inequality in Canada was being driven by the income share of the top quintile (20%) with gains likely concentrated in the top decile (10%). More precise data were unavailable until the gruelling work of Michael Veall and Emmanuel Saez (Saez and Veall 2003; Saez and Veall 2005; Veall 2010) supplied us with a picture of the top income share in Canada over the twentieth and early twenty-first centuries. Figure 1 presents a disaggregated picture of the income share of the top decile (since 1941) and the top percentile (since 1920).<sup>1</sup> When we remove the income share of the top percentile from that of the top decile (leaving us with the 90-99<sup>th</sup> percentiles) and the income share of the top 0.1 percent from the top percentile (leaving us with the 99-99.9<sup>th</sup> percentile) we arrive at a highly revealing picture.

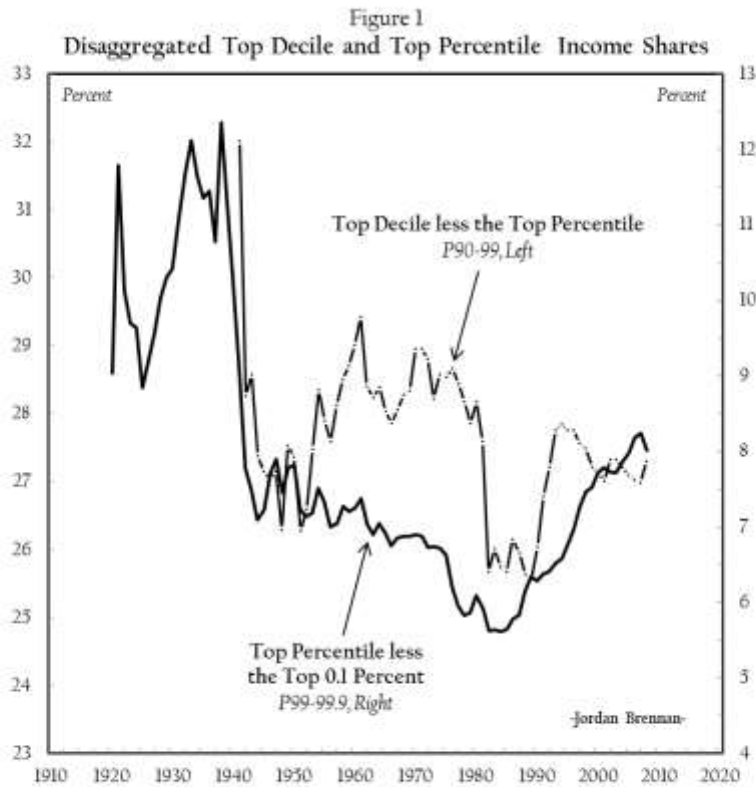
First, both measures fall dramatically during the Second World War. This probably has a lot to do with the war-time move towards a centrally planned political economy replete with price controls. Second, while the disaggregated top percentile income share continues to decline throughout the golden age the disaggregated top decile rebounds before reaching a peak in the early 1960's and then proceeds to fall. By the mid-1980's the disaggregated top percentile reaches a trough and begins to steadily climb upward, ushering in the new gilded age. Meanwhile the

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<sup>1</sup> Data sources and notes are in the appendix at the end.



disaggregated top decile continues to fall almost unabatedly from the early 1960's onward, but especially after 1994 and the onset of the North American Free Trade Agreement (NAFTA).



It turns out that it is not the top quintile or even decile that is driving income inequality, then, but the income share of the top percentile (1%). That newly christened sociological entity, the 'one percent', is the real generator of heightened inequality (see Yalnizyan 2010 for a fuller discussion). But even this conclusion is slightly misleading, for figure 1 shows that the income gains made by the disaggregated top percentile are relatively modest. Who falls into these income categories? In order to qualify for membership in the top ten percent of income earners (in 2008) one would need pre-tax earnings of \$65,100. The income threshold for membership in the fabled one percent is \$168,200. Because the first group suffered distributional losses and the second only modest distributional gains let's zero in on a higher income echelon, that of the top

0.1 percent, or the roughly 25,000 Canadians whose income is above \$590,300. What is the relationship between the top income share and income inequality?

The gini coefficient is a broad measure of income inequality. Figure 2 presents the relationship between the income share of the top 0.1 percent and the gini coefficient. The two measures are tightly and positively correlated over time indicating that, in fact, it is the surging gains made by the very highest income echelons that is driving inequality across Canadian society. In the late 1970's the gini coefficient was 0.44 which means that 44% of national income would need to be redistributed in order to perfectly equalize incomes. More recently the gini coefficient was 0.51—a big jump!



Note that the top 0.1 percent income share takes a U-shape over the twentieth century, falling rapidly during the Second World War, declining more gradually throughout the golden

age and finally rebounding in the early 1980's to usher in the new gilded age. It is surging gains being made by the very highest income bracket that is driving inequality across Canadian society *and so also social pathology*. To briefly recap, we want to explain income inequality as manifest in the gini coefficient because this singular measure doubles as a barometer of social pathology. The top income share appears to be driving changes in the gini coefficient (figure 2) so how are we to explain the level and pattern of the top income share?

## **SOCIAL STRUGGLE AND REDISTRIBUTION**

Neoclassical ('orthodox') economics has worked hard over the last century to de-politicize the economy. All of the institutions of modern capitalism—from private ownership, to business enterprise and the price system—are treated not only as 'natural' manifestations of underlying human nature but also as institutional generators of social harmony. One consequence of this ideological manoeuvre is the habit of looking at income formation in isolation. Individuals work to produce wealth, so the reasoning goes, and their incomes stand as a function of their contribution to the total social product. End of story. But if we wish to explain income inequality and if this phenomenon manifests itself in distributive terms (by definition) it follows that we should be querying not absolute outcomes but *distributional* outcomes. And distributional outcomes may validly be thought of as manifesting, in part, the process of social struggle. We might just note that the neoclassical orthodoxy's habit of the thinking of income formation in isolated and absolute terms represents a break from the outlook of the classical political economists that preceded them. From Adam Smith to David Ricardo right through Karl Marx the classical political economists conceived of the political economy as a terrain of conflict between different social classes who were engaged in a perpetual struggle over wages, profits and interest.

How does this social struggle manifest itself? Business enterprise is the dominant institution of the political economy and the language it speaks is that of accounting. A cursory examination of accounting conventions will reveal, in gestation, the process of social struggle. Take the income statement as an example. If we boil the income statement down to its constituent parts it is made up of a formula expressing three income flows: Revenues-Expenses=Profits. Table 1 presents the ways in which we may think of the income statement as embodying the process of struggle between groups occupying different sociological categories. Owners of businesses strive for profits. In order to arrive at a profit expenses must be smaller than revenues. The largest single expense of many businesses is the cost of labour in the form of wages. Workers, on the other hand, try to bid their wages up. This fact pits these two groups against each other. But that's not all. Owners can enlarge profits by compressing wages, but also by diverting market share from competitors and/or raising the sales price. This pits owners against other owners and owners *en masse* against their customer base, the latter of whom obviously want lower prices. One implication is that distributional reality is made up of a series of struggles between these different sociological groups.

Table 1  
Accounting Conventions, Sociological Categories and Distributional Struggle

Accounting Entry	Sociological Category	Redistribution
Revenue	Owners vs. Owners	Market share
Revenue	Owners vs. Rest of Society	Sales price inflation
Expenses	Owners vs. Workers	Wage in/deflation
Expenses	Workers vs. Workers	Wage location in the industrial geography
Profit	Owners vs. Owners	Distributive share
Profit	Owners vs. Workers	Distributive share
Profit	Owners vs. Rest of Society	Distributive share

From this the question emerges: is there a systematic relationship between the top income share and distributional struggle as manifest in table 1? To answer this question let's go

to the national accounts and extract three basic measures: corporate profit, wages and salaries and gross domestic product (GDP). The first step 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 profits and the share of national income going to labour in the form of wages. The second step is to divide the first measure by the second to arrive at a picture of distributional struggle between capital and labour. When this ratio rises capital is redistributing income away from labour and when it falls labour is redistributing income away from capital. This ratio is plotted in figure 3 against the top income share. Each indicator is smoothed as a 5-year moving average for ease of comparison.



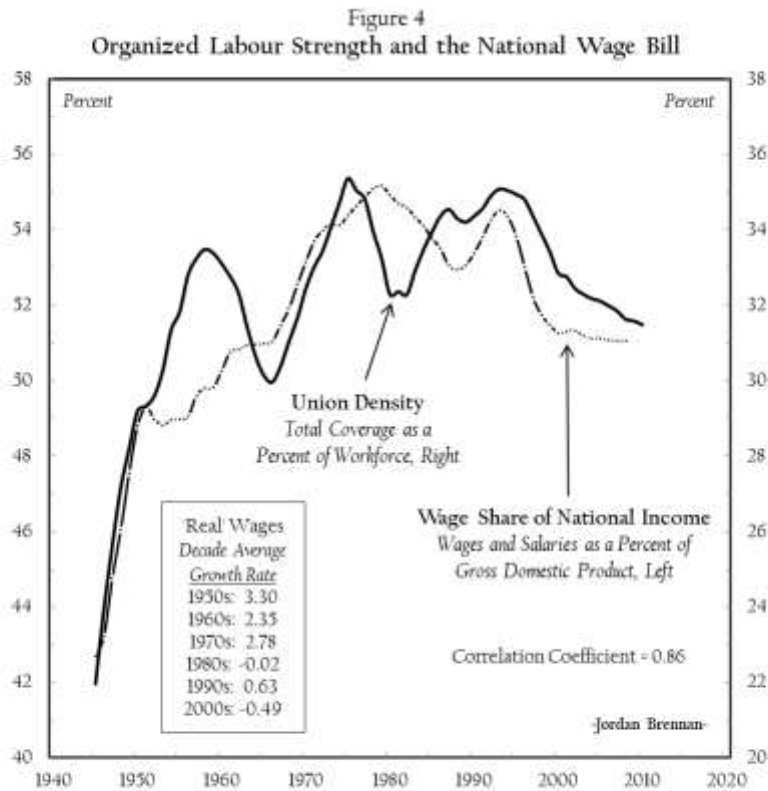
What figure 3 shows us is that the distributional struggle between capital and labour closely resembles the pattern of the top income share. The capital-labour redistribution ratio falls throughout the golden age along with the top income share and rebounds in the early 1990's

just as NAFTA comes into effect. As we will soon see, the instituting of a trade and investment liberalization (TAIL hereafter) regime, first between Canada and the US (CUFTA) and then extended to include Mexico, will act as an inflection point in many of our measures. As workers made distributional gains throughout the golden age capitalists suffered distributional losses along with the top percentile. Who falls into the top percentile income bracket? It's a rather large grouping that is bound to include many people that can't reasonably be thought of as 'capitalists', but we are safe in presuming that ownership and control of the corporate sector resides somewhere within the top percentile, though it is probably a very small fraction of the top percentile that *effectively* wields control of the corporate sector. For now let's just presume that the income of many people in the top percentile is directly or indirectly tied to the equity market (the market for corporate ownership and control) as either managers or owners.

If labour made distributional gains throughout the golden age at the expense of capital how can we account for this? Figure 4 plots the relationship between the national wage bill and union density (smoothed as 5-year moving averages). The national wage bill is the share of national income going to wages and salaries and union density is the percentage of the workforce covered by a union, private or public. This figure shows us three things of consequence. First, the relationship is tightly and positively correlated over the entire post-war era; increased union density *corresponds* with a higher national wage bill. Second, the two measures show an inverse U-shape; they rise together from the 1940's, crest in the late 1970's and then fall together from the 1980's onward. And third, average annual inflation-adjusted hourly wages grow when the national wage bill rises and stagnate or fall when the national wage bill falls (decade averages are embedded in the figure).

Wages grew at an annual inflation-adjusted rate of 3.3 percent throughout the 1950's and would continue to grow at a robust rate throughout the 1960's and 1970's before stalling entirely

from 1980 to 2009. Inflation-adjusted wages actually contracted throughout the 1980's and 2000's and rose at a miniscule rate throughout the 1990's. On the face of it figure 4 presents a simple relationship between two quantitative phenomena, but what lies beneath this simple measure is a qualitative process that encapsulates and crystallizes the process of socio-distributional struggle.



This simple figure manifests the successes and failures of one of the largest social movements in Canadian history: the labour movement. The process of unionization required large-scale community activism and social mobilization. It was initially a movement of ordinary people against the established elite who fought to repress it. There are legal and juridical dimensions to the establishment and growth of unions, of course, and they involve the highest levels of state policy and power. Throughout the golden age we see increasing union density and

a corresponding demographic bulge in the middle class. In the new gilded age this process goes into reverse. De-unionization, then, *effectively means redistribution*. It is important to note that this is a self-reinforcing cycle. As more jobs are lost in unionized workplaces and as new workplaces are created that are not unionized organized labour will be put in an even worse bargaining position. Even the jobs that aren't relocated will face wage stagnation. Union decline also implies that non-unionized sectors will be less able to bid wages up so wage compression for unions implies wage compression for all. How do these processes relate to business performance?

### DIFFERENTIAL BUSINESS PERFORMANCE AND THE TOP INCOME SHARE

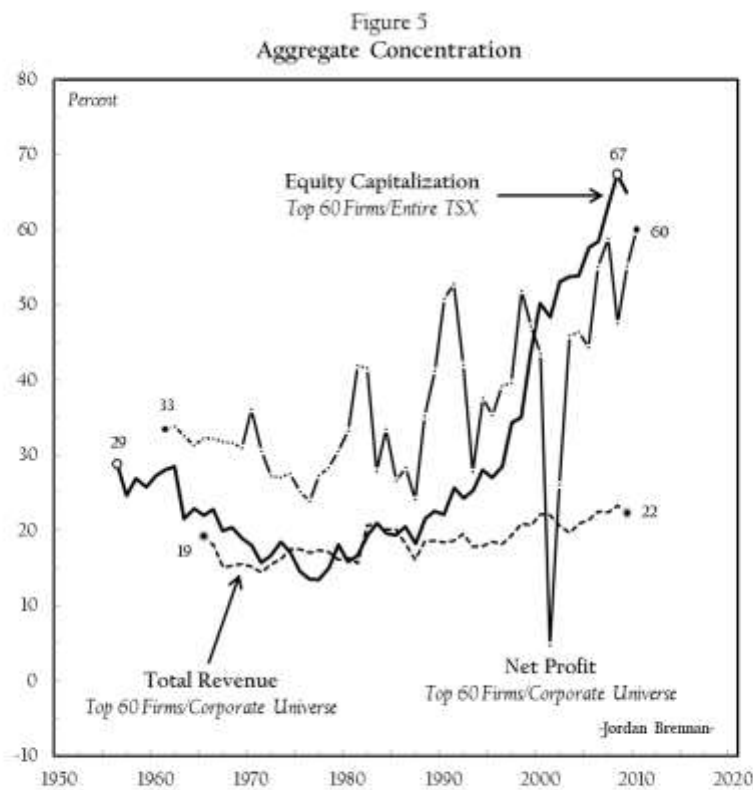
So far we've seen that institutional actors, in this case labour unions, have an impact on the distribution of income. This shouldn't surprise us. Large institutions ultimately shape distribution, so let's turn our attention to the other side of the ledger and explore the dominant institution of the political economy: business enterprise. The temptation might be to examine the business or corporate sector as a whole. This would be a mistake. The 'mom and pop shop' on Main Street is a business. Many small outfits of this sort are incorporated. They, too, are subject to the accounting conventions of profit and loss. However, most corporations in Canada have a very small number of employees, modest revenues, little or no profit and no political-economic power in the broadest sense of the term. Contemporary Canadian capitalism, by contrast, is driven by very large firms whose profits are in the billions, revenues in the tens of billions, employees in the tens of thousands and who wield enormous power. We need to differentiate these firms from the rest of the political economy. Most very large Canadian-based firms are listed and traded on equity markets. The market for large-scale corporate ownership and control, then, should be the place where our inquiry into business performance begins.<sup>2</sup>

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<sup>2</sup> In 2009 99.4% of all businesses registered in Canada were classified as small. Approximately 0.4% were classified as medium and 0.1% as large (from Cansim Table 1790005).



The largest market for corporate control in Canada is the Toronto Stock Exchange (TSX). It is home to thousands of firms, but we are going to confine our investigation to the very largest of them. The top 60 firms ranked annually by equity capitalization serves as the main benchmark for the performance of large firms in Canada and will serve as our proxy for 'big business'. Aggregate concentration may be interpreted as a broad measure of the power of big business. Figure 5 presents this measure for equity capitalization, net profit and total revenue.



This concept is measured as a ratio which uses the largest 60 firms for the numerator. The denominator has a slight difference. For equity capitalization it uses the total of all firms listed on the TSX. For net profit and total revenue the denominator is composed of all Canadian corporations, listed and unlisted ('the corporate universe'). There are a number of striking features to note about figure 5. First, concentration in equity capitalization declined for two

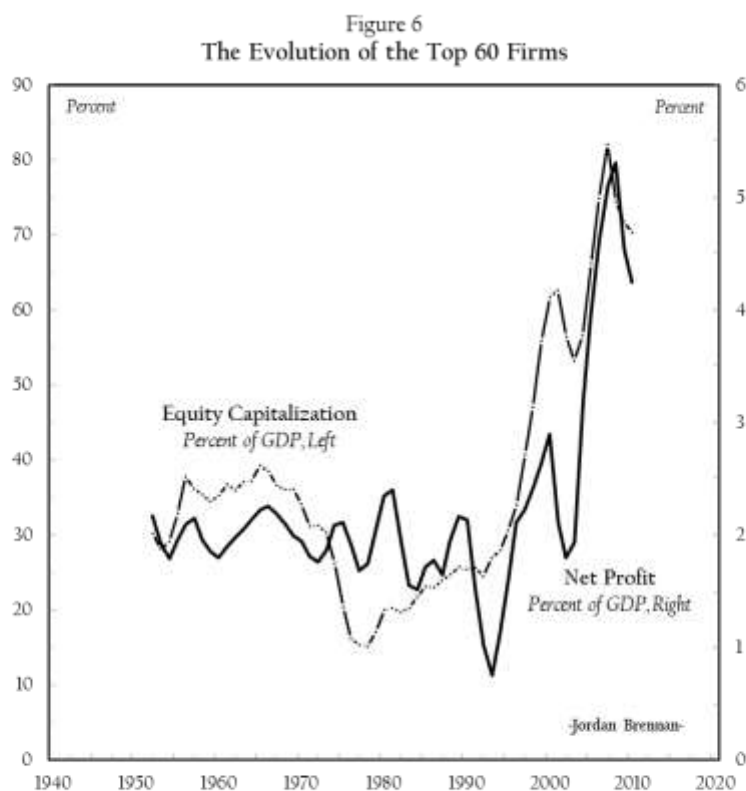
decades, falling from 29 percent in the mid 1950's to 13 percent in the late 1970's. The 1980's saw a gradual deepening of concentration before its eventual surge in the early 1990's. The concentration of profit also falls throughout the 1960's and 1970's before rising, but its movement is much more erratic and highly cyclical. The story with revenue is different. Its movement is nearly flat, indicating that larger relative firm size translates into higher distributional profit, but not because of distributional increases in revenue. This is highly significant, but we will postpone our discussion of it for now.

Also note that we are holding the numerator constant at 60 while the denominator grows manifold over the last two generations. There are many more listed and unlisted firms today than there were in 1960 so this should have the effect of *shrinking* the concentration ratios. And yet concentration has deepened because the largest firms have grown fast enough to completely offset the numeric increase in firms. What does figure 5 tell us? The top 60 Canadian-based firms account for fully 67 percent of all equity market capitalization and 60 percent of all corporate profit (at their peak). This is a staggering degree of concentration. So when we speak about 'Canadian business' or the 'corporate sector' we are effectively referring to these 60 firms. They stand at the centre of the Canadian political economy, driving the accumulation process. How have these firms performed over time?

Figure 6 maps the performative evolution of these firms since 1950 (indicators smoothed as 3-year moving averages). What are we looking for in terms of 'performance'? Canadians can be forgiven for not understanding the workings of financial markets. The language is technical, the conventions unfamiliar and the symbols perplexing leaving the overall meaning unclear. The (equity) market value of a firm is calculated by multiplying the price of a single share (a single unit of ownership) by the total number of outstanding shares. Investors typically evaluate the performance of a firm (and its management) on the basis of whether the share price is rising,

stagnating or falling. Investors are driven primarily by large, growing and stable returns. And returns come primarily in two forms: dividend income and capital gains. Over the long haul the most important factor behind returns is the intake of profit.

As figure 6 indicates there is a very close correlation between the equity capitalization of the top 60 firms and profit. Notice the pattern: profit moves cyclically but the overall trend is downward between 1950 and 1990. Then, just as Canada enters into a TAIL regime we see an upward surge in this measure. Equity capitalization, too, moves horizontally for two decades before collapsing in the 1970's. The 1980's see a gradual upward movement which finally gives rise to surging gains throughout the 1990's and 2000's.



It is important to note that the entire Canadian political economy is driven by the performance of the equity market and the equity market is effectively made up of these 60 firms.

Many important decisions in the Canadian political economy are conditioned by their performance: decisions made 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' and 'stimulus'. If investors are optimistic about the future that optimism will be reflected in rising share prices. If pessimistic or even panicked we will see declining or collapsing share prices (as witnessed in 2008-2009). So the well-being of Canadians is tied in a real way to the outlook and sentiments of dominant (institutional) investors/owners.

Orthodox economics claims that capitalists, like all 'economic agents', are maximizers. The reasoning is relatively simple: no upward limit has ever been identified toward which capitalists strive, hence they are profit maximizers. Unfortunately this theoretical gesture won't help us deal with the real world for two simple reasons: first, no one knows what the maximum profit of a given firm is; second, capitalists don't maximize because they don't exist in a vacuum. The performance of a CEO, hedge fund manager or global investor is not measured against an absolute standard, but against a *relative* benchmark. Investors are conditioned to *outperform* rivals and accumulate *faster* than the average, that is, they strive to accumulate *differentially*. The distinction might sound soft, almost semantic, but it is crucial. Capitalists compare their performance to some average: in the United States the main equity market benchmark is the S&P 500, in Britain it is the FTSE 100 and in Canada the S&P/TSX Composite Index.

Shifting our thinking from absolute accumulation to differential accumulation yields a different set of questions and a new set of measures.<sup>3</sup> Let's begin with differential capitalization. It is ratio computed in three steps: the first step is to calculate the average capitalization of a firm within the top 60; the second is to calculate the average capitalization of all firms listed on the

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<sup>3</sup> This discussion is inspired by Nitzan and Bichler (2009: 319-321).

TSX; and the third is to divide the first computation by the second. This ratio provides us with the differential power of capital and it is plotted in figure 7 against the top income share.



The two measures are tightly and positively correlated over time (despite the scale differences on the axes).<sup>4</sup> That is to say, the income share of the top 0.1 percent of Canadians is intimately bound up with the differential size of the largest Canadian firms. Perhaps this shouldn't surprise us. If the multinational corporation is the predominant form that business enterprise takes and if it has a (visible) hand in shaping distributional outcomes then we should expect that the people whose incomes are directly or indirectly tied to the market for corporate ownership and control fluctuate along with it. What is also striking about this figure is the change in the rate of growth with the inception of a TAIL regime. In 1960 an average firm within

<sup>4</sup> A logarithmic scale has the effect of magnifying the size on the chart of smaller values while condensing the size of larger values. This is useful when presenting data with large and abrupt variations in values.

the top 60 was five times as large (by equity capitalization) as an average firm listed on the TSX. Thirty years later, on the eve of the Canada-US Free Trade Agreement (in 1989), that ratio had risen from five to six.

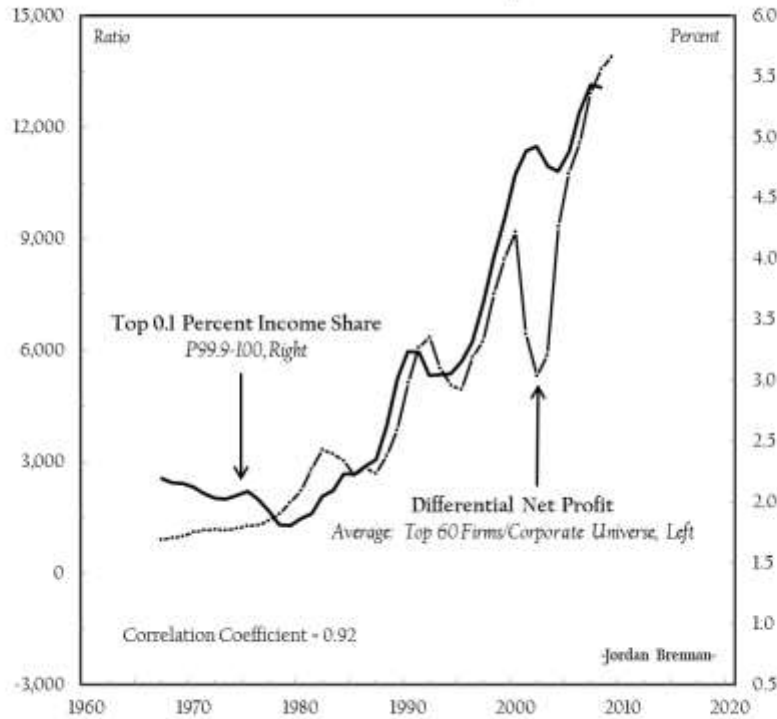
So the pre-TAIL era saw very little movement in differential firm size. Most of the growth in the corporate sector was either evenly distributed between large and small firms or favoured the small (differential decumulation). Since the inception of a TAIL regime that ratio has risen from 6 to 23. The top 60 firms, then, have effectively delinked from the rest of the corporate universe, which suggests that something dramatic happened precisely when the TAIL regime was instituted. The differential performance of the top 60 firms accurately forecasts the income share of the top 0.1 percent over time *and so of income inequality across Canadian society* because of the relationship demonstrated in figure 2. But is this relationship a fluke? Is it an anomalous coincidence? Figures 8 and 9 show that it's not a fluke; the relationship is systematic.<sup>5</sup>

If the political economy is driven by large firms trying to differentially capitalize and if equity capitalization is driven by profits then how does the top income share stack up against differential net profit? Differential net profit is a ratio, but with a slight difference. The numerator is made up of the average net profit of a firm within the top 60 while the denominator is made up of the average of all Canadian-based firms, listed and unlisted. This measure is plotted in figure 8 against the top 0.1 percent income share and yields similar results to those in figure 7 (both smoothed as 3-year moving averages). The correlation is 0.92 out of a possible 1.0, which is to say it's nearly perfectly correlated.

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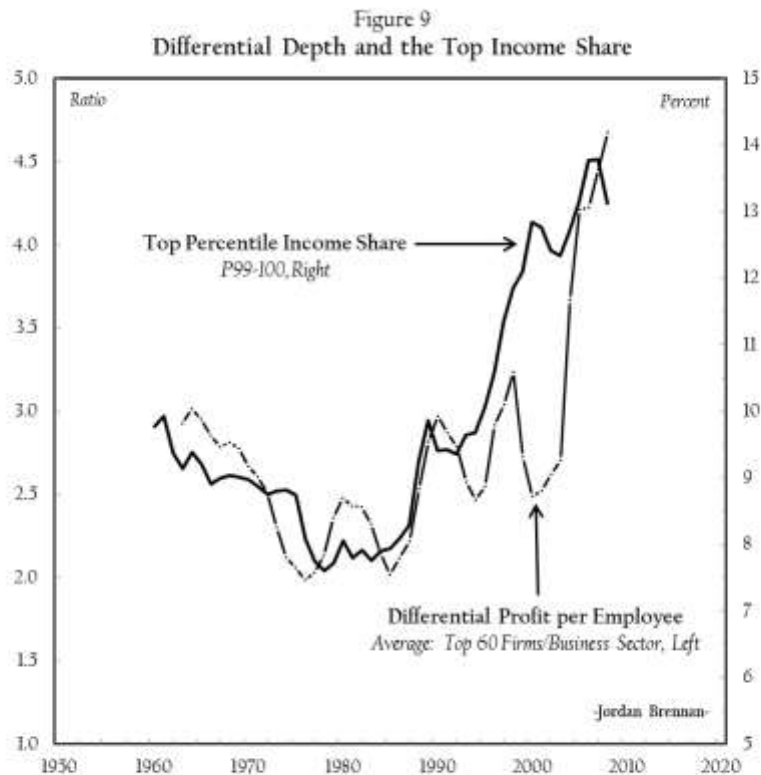
<sup>5</sup> Data on differential capitalization and differential net profit are unavailable prior to 1960 and 1965.

Figure 8  
Differential Accumulation and the Top Income Share II



Investors are driven to accumulate differentially and this involves not just realized earnings but expected future earnings as well. And because future earnings are inherently uncertain investors are also concerned with the hype surrounding future earnings and the risk associated with those earnings. The framework developed by N&B claims that differential accumulation by the largest firms can happen using any combination of the following: raising differential earnings, raising differential hype or lowering differential risk. The first, raising differential earnings, is the most potent and has primacy over the long haul. They label this process 'differential depth'. Differential earnings per employee, they claim, captures the 'elemental power per unit of organization' (2009: 328). This measure is smoothed as a 5-year moving average, led two years and plotted against the top percentile income share in figure 9.

As the chart indicates, differential depth is tightly and positively correlated with the top income share over time. It takes the average profit per employee of the top 60 firms and divides it by the average profit per employee of the entire business sector. By controlling for number of employees we get a view into the organizational power large firms have apart from their size. If figures 7 through 9 indicate that the differential size and performance of the top 60 firms is closely related to the top income share, what happens as firms grow relatively larger?



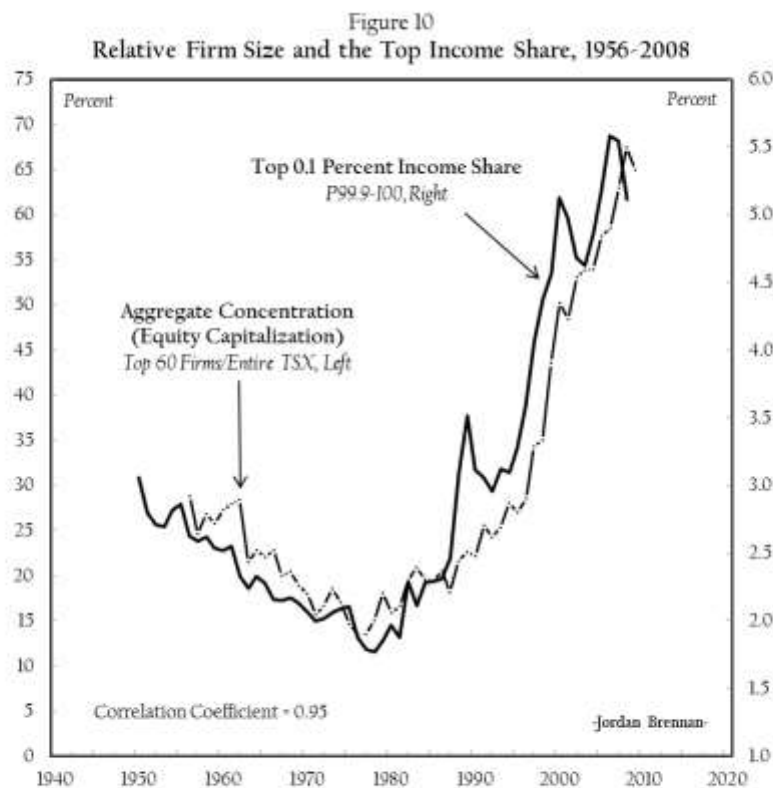
## THE VISIBLE HAND OF THE MEGA CORPORATION

Alfred Chandler Jr., the late Harvard business historian, claimed (1977) that the emergence of the modern corporation in the late nineteenth century marked the shift from competitive to managerial capitalism. In the late eighteenth century Adam Smith could realistically claim that individuals pursuing their own self-interest combined with disciplinary effect of intense

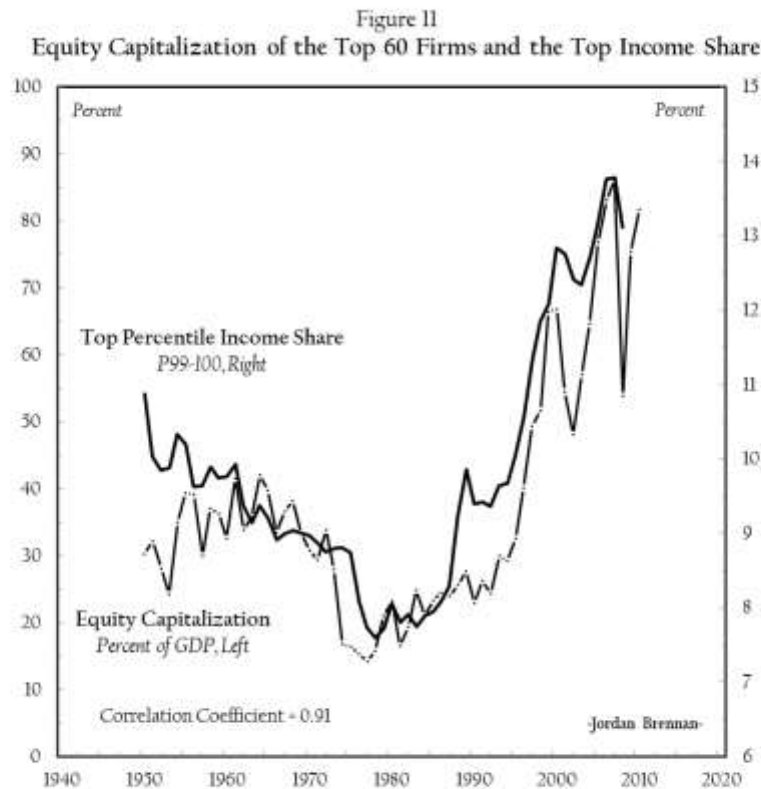


competition between many small firms would regulate the economic life process. Chandler's claim was that the modern corporation, because of its overwhelming size and structure, effectively replaced the market mechanism. The coordination and allocation of resources would no longer be led by the 'invisible hand' of the market, but would be actively steered and administered by the 'visible hand' of the mega corporation.

Before dealing with the direct effects of large firms let's just see how relative firm size stacks up against the top income share. Figure 10 shows a remarkably tight correlation between concentration in the equity market and the top income share. In fact, the two measures are almost perfectly correlated, indicating that the relative size of the largest Canadian-based firms plays a role in the income formation of the top earners.



For good measure let's reinforce this relationship with another simple measure. Figure 11 contrasts the equity capitalization of the top 60 firms as a percent of GDP and the top income share. Once again we see a startlingly tight relationship. But why would larger relative firm size and heightened concentration have this effect?

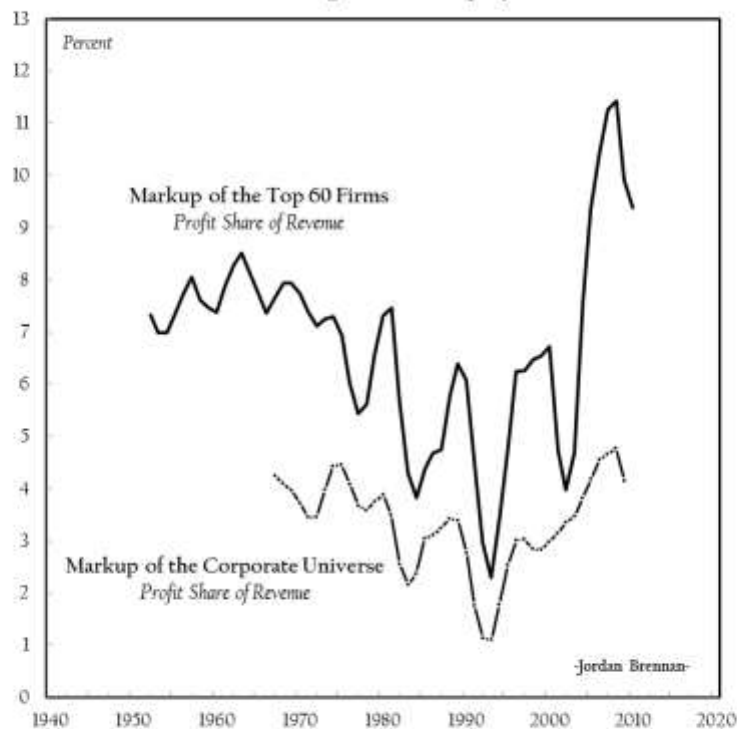


Michal Kalecki, the great Polish political economist, tried to theorize economic power. As he saw it, heightened concentration would lead to the formation of giant corporations whose relative size meant they did not operate in perfectly competitive markets and were not price-takers.<sup>6</sup> Rather, they could have an effect on overall market prices through practices like tacit agreement or other cartel-like behaviour (where a leading firm fixes prices which other firms follow suit). These large firms effectively exist, then, in a separate political economy from that of

<sup>6</sup> A collection of his essays are published in Kalecki (1971). For the shift from 'market' to 'administered' prices see Means (1972).

the majority of small and medium sized firms who are price takers and are relatively powerless. Large firms are price-shapers and price-makers and so have a (visible) hand in shaping not only the industrial process, but distributional outcomes as well. Kalecki conceived of the 'degree of monopoly' as a quantitative proxy for economic power, the effect of which is disclosed in the profit markup. A major counteracting force to the degree of monopoly, Kalecki thought, was the strength of unions, whose relative bargaining position is improved when the ratio of profit margins to wages increases.

Figure 12  
The 'Degree of Monopoly'



Changes in the degree of monopoly have decisive importance for the distribution of income between workers and capitalists and so across society generally. How has the degree of monopoly changed across the post-war era? Figure 12 presents the degree of monopoly for the top 60 firms and for the corporate universe (both indicators are smoothed as 3-year moving

averages). Both series are highly cyclical but the overall pattern is U- or V-shaped, falling throughout the golden age and rebounding after the institution of a TAIL regime. Historically speaking we are now ‘off the chart’ when it comes both to relative firm size and the markup.

What’s more, the markup of the top 60 firms is considerably higher than that of the corporate universe, and this is just as we would expect; larger relative firm size means less competitive pressure and greater pricing power. We should further note that this reinforces the trend we’ve seen elsewhere. The top income share is U-shaped along with the markup while the national wage bill and union density take an inverted U-shape.



But is there a direct connection between the pricing power of larger firms and their relative size? Figure 13 directly contrasts relative firm size, as measured in aggregate concentration, with the markup of the top 60 firms (the latter smoothed as 5-year moving

averages). Given the breadth of the indicators there is a surprisingly tight correlation. Both measures fall throughout the golden age and surge upwards in the last two decades, indicating that, in fact, larger relative firm size does translate into greater pricing power. If larger firm size translates into greater pricing power the operative question becomes: what bearing does this have on distribution? We'll address this question in two parts.

To begin, Hugh Mackenzie's (2012) recent report—Canada's CEO Elite 100—examines executive compensation in Canada. Of the top 100 executive salaries examined how many of them derive an income from a firm within the top 60? It turns out that 59 of them do, with a further 16 deriving their incomes from firms that are in the top 100 (in positions 61 through 100).<sup>7</sup> And this makes perfect sense. Larger firms have greater pricing power, higher profits, more cash flow and so more money to spend on executive salaries. And it is those very high executive incomes that are playing a key role in driving income inequality across Canadian society. So that's one way in which relative firm size and pricing power figures in distribution. The second way is presented in figure 14. It turns out that the profit markup of the top 60 firms provides us with a very accurate forecast of the distributional struggle between capital and labour over profits and wages. Over a 60 year period there is a tight correlation between the two measures (smoothed as 3-year moving averages) despite their relative breadth.

Recall figure 4, which demonstrates that the strength of organized labour as manifest in union density has a direct bearing on pushing up the national wage bill, boosting inflation-adjusted wages and so redistributing income from capitalists to workers. We now have a picture of what is at stake in that distributional struggle. As workers deepened unionization throughout the golden age, pushing up their wages and enlarging the ranks of the middle class, the arithmetic consequence was the squeezing of profit margins. The process culminated in the

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<sup>7</sup> The top 100 firms are ranked annually by equity capitalization.

1970's and the socio-political-economic-ideological eruption that ensued spelled the death knell of the Keynesian welfare state and its eclipse by neoliberal globalization. Distributional outcomes began to move in the opposite direction throughout the 1980's and would accelerate in the 1990's with the instituting of a TAIL regime.



Figure 15 shows a clear relationship between the institutional strength of large firms as manifest in the profit markup and the institutional strength of organized labour in the form of union density (both smoothed as 5-year moving averages). The two measures are mirror images of each other, that is, they are tightly and *negatively* correlated. As the ranks of organized labour swell and collective bargaining pushes wages up profit margins get squeezed. The instituting of the TAIL regime marks a decisive turning point, with organized labour seeing a dramatic fall in its membership and large firms seeing a corresponding enlargement in their markup.

Figure 15  
 Institutional Strength: Big Business vs Organized Labour



We have almost fully rounded the circle. Income inequality across Canadian society is being driven by the top income share (figure 2). This distributive outcome is closely mirrored by the struggle between labour and capital over wages and profits (figure 3). We know that labour unions have an impact on the national wage bill (figure 4) and so broadly affect distribution. On the other hand, we have the largest 60 Canadian firms which dominate and drive the Canadian political economy (figure 5). Their relative size is governed by their performance, itself mainly conditioned by their profit share (figure 6). These large firms are driven to accumulate differentially and this has a bearing on the top income share (figures 7 through 9). Distributional struggle is accurately forecasted by the ‘degree of monopoly’, itself a quantitative proxy for the power of big business. Larger relative firm size—itsself a consequence of differential

accumulation—leads to even greater pricing power, both of which shape the distribution of income (figures 10-15).

Some questions follow from this. First, how and why have larger firms managed to increase their profit share? And second, does state policy play a role? If the profit share of the top 60 firms is the driving force behind the entire process then we need to begin to understand how and why this happens.

### THE GLOBALIZATION OF CANADIAN BUSINESS (OWNERSHIP)

In order to answer these questions we have to briefly review one of the key drivers of corporate development across the twentieth century. The modern corporation as we know it came into being in the late nineteenth century as a consequence of a series of court decisions, mainly in the United States. These legal rulings reorganized business enterprise and paved the way for the transformative effect this institution would have on the lives of North Americans. The twentieth century is characterized by the emergence of *big* business followed, in turn, by big government and big labour. Firms grew in relative size primarily by merging with or acquiring other firms. The evolution of corporate amalgamation was anything but haphazard, unfolding instead in four broad 'waves'.<sup>8</sup>

In the so-called monopoly wave (1887-1904) firms expanded by combining with other firms within their own industries; corporate restructuring proceeded through an oligopoly wave (1916-1929) in which large, vertically-integrated firms came into being; this was succeeded by a conglomerate wave (1960's-1970's) in which large firms moved horizontally across sectors, pushing up against national borders; and a fourth merger wave began in the 1980's which might aptly be called continental or global. The transition between the third and fourth merger waves is significant for our story. Having become national in scope by the 1970's continued expansion

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<sup>8</sup> This brief synopsis is derived from Scherer and Ross (1990).



by large firms required a new universe of take-over targets, hence the political engineering of neoliberal globalization, i.e., the *internationalization of ownership and control*.

What happens when Canadian capitalists or Canadian firms ‘invest’ in a foreign country?<sup>9</sup> Because economists tend to think of capital in material-productive terms, that is, as ‘capital goods’ or machinery and equipment, the popular mythology is that capital ‘flows’ across state borders and that this has some bearing on productive capacity and industrial efficiency. But this is rarely what happens in practice. Liberalized investment has little to do with the movement of machines or equipment. Cross-border ‘investment’ is almost always a rearranging of ownership claims and nothing more. ‘Capital mobility’ and ‘investment liberalization’ effectively lead to a reconfiguration of the structure of ownership. And when ownership is restructured the distribution of income changes along with it. Why is this so?

A corporation is a legal-organizational vehicle which grants the owners lawful claims on future (and realized) earnings. And so as firms grow larger by acquiring other firms the legal claims of the resulting owners grow in tandem with the newly enlarged income streams. This is the real motive for globalization. The cross-border flow of goods and services plays a role too, of course, but the overwhelming effect of liberalized trade and investment is to increase cross-border acquisitions. What evidence is there to support this contention? This is a bit tricky because merger and acquisition data do not go back very far historically, but we can get a glimpse of this process by consulting a few facts supplied by the United Nations.<sup>10</sup>

First, an overwhelming percentage of mergers and acquisitions are actually just acquisitions (about 97%). And most cross-border acquisitions are for majority as opposed to minority stakes (about 67% create majority ownership while 33% create minority ownership).

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<sup>9</sup> This discussion draws on Nitzan and Bichler (2009), pp. 350-359.

<sup>10</sup> United Nations Conference on Trade and Development (2000).

Second, the total number (as opposed to dollar value) of cross-border mergers and acquisitions grew at an astounding annual rate of 42% between 1980 and 1999. And finally, of total global foreign direct investment over 80% of it (in 1999) is made up of mergers acquisitions, a stunning figure. In the developing world what's called 'green field investment' or the building of new plant and equipment (the expansion of productive capacity) is still dominant, but in the developed world the majority of cross-border investment takes the form of acquisitions.

This means that the overwhelming majority of foreign direct investment in North America does little or nothing to enhance productive capacity or improve industrial serviceability; it is almost always is a reshuffling of ownership claims and nothing else. Recall that the instituting of a TAIL regime acted as an inflection point in most of our measures. How does this fit with the set of facts we just reviewed? The 'logic' of globalization is such that in order for large firms to continue to accumulate they need a new universe of take-over targets. And the political engineering of continental integration via CUFTA and NAFTA did just that.

The TAIL-era ushered in an explosion of cross-border investment. And so continental integration effectively leads to a more-or-less constant restructuring of North American corporate ownership. And when ownership changes hands the associated legal claims on future earnings change hands as well, which has a direct bearing on the distribution of income. These claims may sound foreign, but they really shouldn't. After all, the word 'investment' is derived from the Medieval Latin *investitura*, which originally signified the acquisition of rank, title and prescriptive right by an office holder. After taking a loyalty oath a vassal would be *invested* by his overlord with a fief. This ceremony would grant the vassal new powers, importantly among them distributive power.

If these 60 firms effectively make up the entire corporate sector and if their differential performance shapes the top income share what impact did the TAIL regime have on them? Figure 16 presents the relationship between the profit share of the top 60 firms and foreign direct investment as a percent of GDP and smoothed as 5-year moving averages. The two measures are tightly and positively correlated over the long term. Note the pattern: both measures move horizontally for four decades before surging upwards with the inception of the TAIL regime. So the TAIL regime has had enormous redistributionary consequences as this and earlier figures testify.



On the other side of the ledger what impact did the TAIL regime have on unions and wages? Larger relative firm size, itself partly a consequence of cross-border acquisitions, coupled with enhanced capital mobility leads to greater pricing power for employers and better enables

business to resist unionization and wage demands. The combined effect is de-unionization and stagnant wages, as the evidence amply demonstrates.<sup>11</sup>

## CONCLUSION

This investigation has tried to demonstrate that the distribution of income is shaped by the major institutions of the Canadian political economy, primarily large firms, labour unions and the state. How to interpret the facts we've encountered is an open-ended question. The neoclassical orthodoxy interprets the dramatic changes in the distribution of income as reflections of changes in technology and the emergence of globalization. These forces, it is said, have altered the demand for certain types of labour. As a result 'flexible skills' are in high demand in the 'knowledge economy' and get rewarded at a higher rate than other skills. People with low education or with low skill levels are having their wages bid down by the developing world, hence the increase in income inequality (see Jaumotte et. al. 2008). The ideological significance of this line of reasoning is so obvious that it barely requires mention. By rooting distribution in the blind, impersonal forces of technology and trade the more substantive questions about how our very human-created institutions shape distributional outcomes are neatly side stepped, especially questions about power.

Another way of thinking about distribution is as a process of struggle between various groups. In this light, distributional outcomes are manifestations of the (institutional) power of the underlying actors. The facts support this interpretation. The political economy of the Keynesian welfare state saw robust economic growth, a rapid expansion of unions, wage gains and a corresponding bulge in the ranks of the middle class. Income was redistributed from capital to labour and the incomes of working and middle class Canadians grew at a faster clip

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<sup>11</sup> And as the recent Caterpillar closing of the Electro-Motive plant in London shows us, foreign direct investment can often have little to do with 'production' or 'industrial efficiency' and everything to do with the alteration of income streams resulting from ownership changing hands.

than that of the Establishment, hence the diminished top income share. The last three decades of neoliberal globalization has seen this process go into reverse. Pro-business, anti-labour policies on the part of governments combined with capital mobility via a TAIL regime have weakened the institutional voice of Canadians who participate in the labour market while simultaneously strengthening the position of big business. One consequence of neoliberal globalization, then, is a decisive shift in the locus of power towards big business, i.e., the dominant owners of the corporate sector and their surrogate managers. This has been accompanied by surging income gains made by the highest income echelons and an accompanying increase in income inequality.

## APPENDIX: SOURCES AND NOTES FOR THE DATA

### **Figure 1: Disaggregated Top Decile and Top Percentile Income Shares**

*Note:* Both income categories are made up of gross market income (reported for tax purposes) excluding capital gains.

*Source:* Veall (2010) for top income share.

### **Figure 2: Income Inequality and the Top 0.1 Percent Income Share**

*Note:* Top 0.1 percent income share is made up of gross market income (reported for tax purposes) excluding capital gains.

*Source:* Veall (2010) for top 0.1 percent income share; Cansim table 2020705 for the gini coefficient.

### **Figure 3: Capital-Labour Redistribution and the Top Income Share**

*Note:* Corporate profit is pre-tax. Both series smoothed as 5-year moving averages.

*Source:* GDP, wages and salaries and corporate profit from Cansim (Table 3800016) and Historical Statistics of Canada (F1-13); Veall (2010) for top income share.

### **Figure 4: Organized Labour Strength and the National Wage Bill**

*Note:* Coverage is for non-agricultural paid workers. Both series smoothed as 5-year moving averages.

*Source:* Union density from Historical Statistics of Canada (E175-177) and Cansim Tables (2790026 and 2820078); wage share and GDP from Historical Statistics of Canada (F1-13) and Cansim (Table 3800016).

### **Figure 5: Aggregate Concentration**

*Note:* Ratio of the top 60 Canadian-based firms ranked annually by market capitalization and: (i) all listed firms; (ii) all firms (listed and unlisted). Profits are after tax.

*Source:* Compustat through WRDS for 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 Top 1000 Companies; TSX Review, e-Review and Factbook for total equity capitalization; IMF through Global Insight for total corporate profit; Cansim for total corporate revenue (Catalogue 61-207 and Tables 1800001-1800003).

#### **Figure 6: The Evolution of the Top 60 Firms**

*Note:* The top 60 are the largest Canadian-based firms ranked annually by market capitalization. Both series smoothed as 3-year moving averages.

*Source:* Compustat through WRDS for shares outstanding, closing share price and net income; Canadian Financial Markets Research Centre; Moody's Corporate Manuals through Mergent Webreports; Report on Business Top 1000 Companies; GDP from Historical Statistics of Canada (F1-13) and Cansim (Table 3800016).

#### **Figure 7: Differential Accumulation and the Top Income Share I**

*Note:* Ratio of the average of the top 60 Canadian-based firms ranked annually by market capitalization and the average of all firms listed on the Toronto Stock Exchange.

*Source:* Compustat through WRDS for common shares outstanding and closing share price; Canadian Financial Markets Research Centre; TSX Review, e-Review and Factbook for total market capitalization and number of listed stocks; Veall (2010) for the top income share.

#### **Figure 8: Differential Accumulation and the Top Income Share II**

*Note:* Ratio of the average of the top 60 Canadian-based firms ranked annually by market capitalization and the average of all firms (listed and unlisted). Both series smoothed as 3-year moving averages. Profits are after tax. Total number of corporations in the corporate universe interpolated between 1988 and 1997 based on trend growth rate.

*Source:* Compustat through WRDS for shares outstanding, closing share price and net income; Canadian Financial Markets Research Centre; Moody's Corporate Manuals through Mergent Webreports; Report on Business Top 1000 Companies; IMF through Global Insight for total corporate profit; Cansim for total number of corporations; Veall (2010) for the top income share.

#### **Figure 9: Differential Depth and the Top Income Share**

*Note:* Profits are after tax. Differential profit series smoothed as 5-year moving averages and led two years.

*Source:* Compustat through WRDS for shares outstanding, closing share price, net income and employees; Canadian Financial Markets Research Centre; Moody's Corporate Manuals through Mergent Webreports; Report on Business Top 1000 Companies; corporate profit from Cansim through Global Insight; private sector employment from Cansim (Table 2820012) and Historical Statistics of Canada (D528-539); Veall (2010) for the top income share.

#### **Figure 10: Relative Firm Size and the Top Income Share, 1956-2008**

*Note:* The Top 60 are the largest Canadian-based firms ranked annually by market capitalization.

*Source:* Compustat through WRDS for shares outstanding and closing share price; Canadian Financial Markets Research Centre; TSX Review, e-Review and Factbook for total equity capitalization; Veall (2010) for the top income share.

#### **Figure 11: Equity Capitalization of the Top 60 Firms and the Top Income Share**

*Source:* Compustat through WRDS for shares outstanding and closing share price; Canadian Financial Markets Research Centre; GDP from Historical Statistics of Canada (F1-13) and Cansim (Table 3800016); Veall (2010) for top income share.

#### **Figure 12: The ‘Degree of Monopoly’**

*Note:* Profits are after tax. Both series smoothed as 3-year moving averages.

*Source:* Compustat through WRDS for shares outstanding, closing share price, total revenue and net income; Canadian Financial Markets Research Centre; Moody's Corporate Manuals through Mergent Webreports; Report on Business Top 1000 Companies; IMF through Global Insight for corporate profit; Cansim for total corporate revenue (Catalogue 61-207 and Tables 1800001-1800003).

#### **Figure 13: Relative Firm Size and Pricing Power**

*Note:* The top 60 are the largest Canadian-based firms ranked annually by market capitalization. Top 60 markup smoothed as a 5-year moving average.

*Source:* Compustat through WRDS for shares outstanding, closing share price, total revenue and after-tax profit; Canadian Financial Markets Research Centre; Moody's Corporate Manuals through Mergent Webreports; Report on Business Top 1000 Companies; TSX Factbook.

#### **Figure 14: Markup of the Top 60 Firms and Capital-Labour Redistribution**

*Note:* Both series smoothed as 3-year moving averages.

*Source:* Compustat through WRDS for shares outstanding, closing share price, total revenue and net 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 (F1-13) of Canada and Cansim (Table 3800016).

#### **Figure 15: Institutional Strength—Big Business vs Organized Labour**

*Note:* Both series smoothed as 5-year moving averages.

*Source:* Union density from Historical Statistics of Canada (E175-177) and Cansim Tables (2790026 and 2820078); Compustat through WRDS for shares outstanding, closing share price, total revenue and net income; Canadian Financial Markets Research Centre; Moody's Corporate Manuals through Mergent Webreports; Report on Business Top 1000 Companies.

#### **Figure 16: FDI and the Profit Share of the Top 60 Firms**

*Note:* Both series smoothed as 5-year moving averages.

*Source:* Compustat through WRDS for shares outstanding, closing share price and net income; Canadian Financial Markets Research Centre; Moody's Corporate Manuals through Mergent Webreports; Report on Business Top 1000 Companies; Balance of International Payments (Capital and Financial Accounts) through Cansim (Table 3760002); GDP from Historical Statistics (F1-13) of Canada and Cansim (Table 3800016).

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