



Regimes of differential accumulation: mergers, stagflation and the logic of globalization

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ABSTRACT

The paper offers a new approach for analysing capitalist development and crisis, tying together mergers and acquisitions, stagflation and globalization as integral facets of accumulation. The framework builds on the concept of differential accumulation, emphasizing the power drive by dominant capital groups to beat the average and exceed the normal rate of return. Four regimes of differential accumulation are articulated: internal breadth by amalgamation, external breadth through green-field investment, internal depth via cost-cutting, and external depth through stagflation. The complex relationships between these different regimes, as well as their broader societal implications, are analysed in light of the US experience over the past century. Several broad conclusions emerge. (1) Of the four regimes, the most important are amalgamation and stagflation, which tend to oscillate inversely to each other. (2) Over the longer haul, amalgamation grows exponentially relative to green-field investment, contributing to the stagnation tendency of modern capitalism. (3) The wave-like pattern of mergers and acquisitions reflects the progressive break-up of socio-economic 'envelopes', as dominant capital moves through successive amalgamation at the industry, sectoral, national, and, finally, global level. In this sense, the current global merger wave is an integral facet of differential accumulation. (4) Periodic lulls in amalgamation tend to be compensated for by stagflation, which appears as a crisis at the societal level, but which contributes significantly to differential accumulation at the disaggregate level. An end to the present worldwide merger boom could therefore trigger global stagflation. (5) Stagflation crises have been previously 'resolved' when dominant capital broke its existing envelope, pushing to amalgamate within a broader universe of takeover targets. Given that there is nothing more to conquer beyond the global envelope, future stagflation crises may prove much more difficult to tame.

KEYWORDS

Capital accumulation; crisis; globalization; mergers and acquisitions; stagflation; power.

1 INTRODUCTION: THREE MYSTERIES

Corporate mergers, stagflation and globalization are usually studied as separate phenomena, belonging to the fields of finance, economics and international political economy, respectively. This paper attempts to tie them together as integral facets of capital accumulation.

Analysed independently, all three phenomena appear problematic, even mysterious. Take mergers and acquisitions. These are now constantly in the news, and for a good reason. Over the past decade, their value reached unprecedented levels, surpassing for the first time in history that of newly created capacity. Yet, despite their importance, mergers and acquisitions remain enigmatic. 'Most mergers disappoint', writes *The Economist*, 'so why do firms keep merging?' (1998). According to the textbooks, there is no clear answer. Corporate merger remains one of the 'ten mysteries of finance', a riddle for which there are many partial explanations but no *overall* theory (Brealey *et al.*, 1992: ch. 36).

Stagflation, although presently dormant, is equally embarrassing. Most mainstream economists believe that prices should increase when there is excess demand and overheating, but stagflation – a term coined by Samuelson (1974) to denote the combination of *stagnation* and *inflation* – shows they can also rise in the midst of unemployment and recession.¹ A similar difficulty arises with the opposite phenomenon of *inflationless* growth, such as the one experienced recently in the US. The standard explanation rests on the disinflationary impact of accelerating productivity, although that scarcely solves the problem. The fact is that even faster efficiency gains have often failed to tame inflation in the past, so why is it that they succeed now? Frustrated, many economists seem to have finally thrown in the towel, suggesting that we now live in a 'new economy', where the old rules simply no longer apply.

And globalization, too, remains perplexing to some extent. Although theories here vary a great deal, most seem to assume that in the final analysis globalization occurs because it is more efficient. Capitalist accumulators, goes the argument, are propelled by the dual need to cut costs and broaden markets; this is best achieved through integration; hence the relentless pressure toward globalization. There is, however, a little glitch in this logic. Somehow, intensifying trade and the integration of production always seem to come together with various barriers, restrictions and limitations. International political economists tend to analyse these as facets of statist protectionism, external *reactions* to market globalization. Yet one could equally argue that such 'protectionism' is in fact essential for accumulation, and that the logic of globalization therefore has to do not with efficiency *per se*, but with the *control* of efficiency for profitable ends.

As it turns out, some of the mist surrounding these phenomena begins to dissipate when we examine them not in isolation, but together, as interrelated facets of accumulation. The following section, building on the concept of differential accumulation, outlines an alternative framework in which capital is understood as a strategic power institution. The third section articulates the various regimes of differential accumulation through which capital power is augmented, as well as sketching their broader societal implications. It identifies four distinct paths: green-field investment (external breadth), mergers and acquisitions (internal breadth), cost-cutting (internal depth) and stagflation (external depth). The remainder of the paper develops and analyses the interconnections between these regimes. The fourth section looks at the conflicting effects on differential accumulation of green-field investment. The fifth and sixth sections, examining a century of mergers and acquisitions in the US, combine the logic of corporate restructuring, capitalist integration and globalization. The seventh and eighth sections explore the impact on differential accumulation of cost-cutting and stagflation, respectively. The final section ties up the analysis by presenting a tentative framework for understanding the pendulum of global accumulation and crisis.

2 DIFFERENTIAL ACCUMULATION

This paper is part of a larger joint research project, by Shimshon Bichler and myself, into the nature and broader ramifications of 'capital *as* power'. The analysis builds on the concept of differential accumulation, with capital viewed as a strategic institution, a reflection of capitalist power over social reproduction.² Radical writers have for long debated the relative significance for accumulation of 'production' as opposed to 'circulation' (for instance, Weeks, 1981; and Sherman, 1985). Classical Marxists, preoccupied with the labour process, prioritized the former, whereas Monopoly Capital theorists, stressing the structure of ownership, shifted some of the emphasis to the latter. Less attention, however, has been paid to the categories themselves. The main problem is that the very separation between production and circulation, evident as it was in Marx's time, is no longer clear cut: services currently account for over 70 percent of economic activity, complex production is increasingly carried out by huge corporate coalitions whose non arm's-length transactions blur the meaning of market 'circulation', and alienation, expropriation and capitalist power have long transcended the boundary of the factory, spilling over into consumption and into politics at large. Indeed, given that capitalist labour and capitalist ownership are two sides of the same thing, it is unclear why we need to prioritize one over the other to begin with.

The concept of differential accumulation seeks to go beyond the 'production-circulation' debate. It sees capital as inherently *political*,

which in turn enables us to integrate into the analysis, in addition to production and consumption, also diverse phenomena such as oligopolization, ideology, religion, the state and military conflict, as well as mergers and acquisitions, stagflation and globalization. Most importantly, such power processes are seen not as auxiliaries to an otherwise 'pure' notion of capital, but rather as essential to its understanding *from the very start*.

Capital accumulation is of course one of the more problematic concepts of political economy (for instance Robinson, 1953–4; Harcourt, 1972; Bliss, 1975; Obrinsky, 1983). Although the issue cannot be resolved here, the thrust of the problem can be briefly outlined. The main difficulty haunting both conservative and Marxist analyses is excessive emphasis on 'materialist' considerations. For the neoclassicists, capital is a tangible means of production, measured in its own technical units. For Marxists, capital is not a physical thing but a dynamic socio-material transformation. Yet, when it comes to measurement, Marxists too resort to materialistic units of 'dead labour'.

The problem, first identified by Thorstein Veblen and later articulated in the Cambridge Controversies, concerns the *units* of accumulation. Neoclassical theory has never been able to explain what these units are. Marxist theory measures capital in terms of 'dead labour', yet as Marx himself openly acknowledged, once production grows in complexity it becomes difficult if not impossible to identify labour contents, even on paper; they simply do not exist (for more, see Nitzan, 1992; Nitzan, 1998; and Nitzan and Bichler, 2000a).

An alternative way to tackle the issue is to build on Veblen, and treat capital as a strategic institution, related to but distinct from production as such. Seen from this perspective, the magnitude of capital, measured in relative monetary terms as elaborated below, is *a crystallization of capitalist power to shape and reshape the process of social reproduction*. Much as in Marx's scheme, this power is exerted over human beings, mediated through production for profit. But in contrast to Marx, who tried to construct such power from the bottom up based on intrinsic labour values, we look at it from the top down.

On the face of it, capital appears as finance, and *only* finance. In form, it is simply the present value of expected capitalist earnings. The contents of capital, however, are political in the widest sense of the term, and the reason is not hard to see. Capitalist earnings are connected to production, but the links are complicated and highly nonlinear. Owners are interested not in production *per se*, but in its effect on their relative profit. And since 'too much' production is by definition detrimental to profit, it is clear that production alone – that is, without its surrounding power institutions – is too limited a basis for understanding profit and accumulation.

More importantly, there are numerous institutions and processes which are linked to production remotely or not at all, yet bear heavily on profit and accumulation. Corporate collusion, patents, taxation, transfer pricing, racial discrimination, the moulding of consumer 'wants', brainwashing, entertainment, armed conflict, and so on and on – all have an impact on profit. And once such effects are 'discounted' into asset prices, they become facets of capital.

In other words, capital embodies, or crystallizes power which emanates not only from the relations of production, but from the entire spectrum of social power in capitalism. This broader perspective suggests that a bottom-up analysis of capital, based on what Marx called the production base, is potentially too limited. A top-down approach, which incorporates from the very start all forms of power affecting profit, is possibly more revealing.

Strictly speaking, capitalists exert their power over society as a whole, so one whose profit amounts to one-hundredth of the total can be said to control 1 percent of the entire capitalist process. But such power is relevant only in relation to that of other capitalists, and only insofar as it changes. In other words, the real challenge is not to exert power as such, but to *expand it against other contenders*. And indeed, in a developed capitalist context, modern investors seek not to 'maximize profit' but to 'beat the average'. Their ultimate goal is not absolute accumulation, but *differential* accumulation: having their profit rise faster than the average, so as to make their distributive share bigger and bigger.³

The reason, again, is not hard to see. Like all other forms of power, capitalist power is also based on exclusion. Unlike other forms of power, though, the dynamics of capitalism – particularly the 'natural right of investment' – requires capitalists to exclude not only workers, but also most other capitalists from accessing their sources of profit; failure to do so implies not only the shrinking of their own share, but also glut and the possible disappearance of profit altogether. In this sense, capitalist power is necessarily two-dimensional: imposing it on society both assumes and implies a pecking order among capitalists themselves.

At the same breath, one can also argue that the very purpose of capitalist enterprise, much like in Mumford's 'mega machine', is to articulate, assemble and operate such power arrangements in the first place (Mumford, 1967; Mumford, 1970; and Nitzan, 1998). And if we are to believe Veblen and Braudel, this power quest is not at all new; it lies at the very essence of capitalism and has from the very beginning (Veblen, 1904; Veblen, 1923; Braudel, 1985).

The result is that capitalist power institutions, however different qualitatively, are always the same in one crucial respect. They all aim at, and are measured by, their relative outcome: the extent to which they

generate differential accumulation. In this sense, capital is the highest form of commodification, the *commodification of power itself*.

Note that, as it stands, differential accumulation is not a deterministic law of motion. It does not have to happen. Our claim here is rather that, over time, the *quest* for differential accumulation grows into an increasingly central moment of capitalist development. That being said, there is no telling whether or not differential accumulation will succeed, or how exactly it will unfold. As a power process, it involves purposeful action against opposition, so its outcome cannot possibly be automatic. In contrast to neoclassical and some versions of Marxian economics, where unobservable concepts such as utility, factor productivity, labour value and maximum profit are used to build 'closed' deterministic models, the analysis of differential accumulation relies on an observable category – the rate of differential accumulation – in order to construct 'open', contingent explanations. And, indeed, on its own, differential accumulation is a mere framework. Making it into a theory requires that we prioritize its various trajectories, explaining how and why they unfold, the circumstances under which they proceed or are held back, and their broader societal implications. The present paper is an attempt to explore some of these questions.

Furthermore, there is no assumption here that the same group of capitalists will dominate the process throughout. On the contrary, the very essence of differential accumulation is an intra-capitalist struggle simultaneously to restructure the pattern of social reproduction as well as the grid of power (see for instance, Bichler, 1994–5; Nitzan and Bichler, 1996; and Nitzan and Bichler, 2001). The important point for us in this paper, though, is the progressive differential growth of big business *as a whole*, regardless of its particular composition. As George Orwell aptly put it, 'A ruling group is a ruling group so long as it can nominate its successors. . . . *Who* wields power is not important, provided that the hierarchical structure remains always the same' (Orwell, 1948: 211, original emphasis).

The centrality of differential accumulation brings to the forefront the process of *corporate centralization*. The first to emphasize this process was Marx (for instance, 1909, vol. I, ch. XXV), although he never integrated it into his bottom up theory of value and accumulation, which relied heavily on the assumption of competition and the free movement of capital and labour. This limitation no longer applies in a top-down power theory of capital. If accumulation is to be understood differentially, its analysis should focus from the start not only on capital in the aggregate, but also – and indeed more so – on the large corporate groups of *dominant capital* at the core of the process.⁴ The origin of these groups, the political-economic patterns of their evolution, the means by which they expand, the broader implications of their differential growth, and

the limits and contradictions imposed on that growth, are central to our understanding of capitalist development in general and its current trajectory in particular.⁵

3 BREADTH AND DEPTH

How could dominant capital achieve differential accumulation? For the corporation, the level of profit is the product of the number of employees times the average profit per employee. This decomposition, although true by definition, is purposeful in that it helps us distinguish between the ‘size’ of capitalist organization on the one hand, and its ‘elemental weight’, so to speak, on the other (a slightly different decomposition, with profit seen as the product of sales times the profit share of sales, is examined in Nitzan and Bichler (2001)). The firm can therefore raise its profit in two ways. The first, which we call ‘breadth’, is to augment its organization by having more employees. The second, which we label ‘depth’, is to make its existing organization a more effective appropriator so as to generate higher profit per employee.

Applying the same logic at the differential level, the implication is that a large firm will accumulate differentially by either: (1) expanding its employment faster than the average; (2) raising its profit per employee faster than the average; or (3) some combination of the two.⁶ Each avenue – breadth or depth – can be further subdivided into ‘internal’ and ‘external’ sub-routes, leading to a four-way taxonomy:

Regimes of differential accumulation		
	<i>External</i>	<i>Internal</i>
<i>Breadth</i>	Green-field	Mergers & Acquisitions
<i>Depth</i>	Stagflation	Cost-cutting

- 1 *External Breadth: green-field investment.* A firm can achieve differential accumulation by building new capacity and hiring new employees faster than the average. This method is labelled ‘external’, since from a societal perspective it involves a net addition of employees.⁷ Its upper ceiling is the extent of proletarianization. The more immediate limit comes through the negative impact it has on depth: ‘excessive’ green-field growth creates a downward pressure on prices and hence on profit per employee.
- 2 *Internal Breadth: mergers and acquisitions.* Strictly speaking, internal breadth involves differential earnings growth through inter-firm labour mobility. This can happen when a firm adds new capacity and employment against cutbacks elsewhere, although such movements

relate more to *industrial* restructuring (labour mobility between sectors) than to the *size* redistribution of firms (labour moving from small to large firms). The situation is different with corporate amalgamation via mergers and acquisitions, where no new capacity is created. By taking over other companies, the firm increases its own profit relative to the average (which is virtually unaltered). We call this route 'internal' since it merely redistributes control over existing capacity and employment. Merger and acquisition activity is perhaps the most potent form of differential accumulation, serving to kill two birds with one stone: it directly increases differential breadth, while indirectly helping to protect and possibly boost differential depth (relative pricing power). It is limited, however, both by the availability of take-over targets as well as by social, political, and technological barriers.

- 3 *Internal Depth: cost-cutting.* The purpose is to cheapen production faster than the average, either through relative efficiency gains, or by larger reductions in input prices. It is 'internal' in that it redistributes income shares within a given price. Although cost-cutting is relentlessly pursued by large firms (directly as well as indirectly through outsourcing), the difficulty of both monopolizing new technology and controlling input prices suggests that the net effect is commonly to meet the average rather than to beat it.
- 4 *External Depth: stagflation.* Our emphasis on stagflation rather than inflation is deliberate: contrary to conventional wisdom, inflation usually occurs with, and often necessitates, some slack. Now, for a single seller, higher prices commonly are more than offset by lost volume, but things are different for a coalition of sellers. Dominant capital, to the extent it acts in concert, can benefit from higher prices since, up to a point, the relative profit gains per unit outweigh the relative decline in volume.⁸ Of course, for this to become a continuous process (inflation rather than discrete price increases), other firms must join the spiral. Yet, since small companies have little political leverage and are usually unable to collude, the result is to redistribute income in favour of the bigger ones who can. We refer to this method as 'external', since the redistribution occurs through a (pecuniary) expansion of the pie.

What are the implications of this taxonomy? In addressing this question, it is important to distinguish the case of an individual large corporation from the broader analysis of dominant capital as a group. A single firm may successfully combine different facets of breadth and depth. Not so for dominant capital as a whole. If we look at breadth and depth not as firm strategies, but as overall *regimes*, it quickly becomes apparent that broader conditions which are conducive to one often undermine the other. For the sake of brevity, we group our arguments here into eight related propositions:

- *Proposition 1: understood as broad regimes, breadth and depth tend to move counter-cyclically to one another.* Breadth presupposes some measure of economic growth as well as relative political-economic stability. Depth, on the other hand, commonly implies restrictions, conflict, and stagflation. Although strictly speaking the two regimes are not mutually exclusive, they tend to 'negate' one other, with more breadth associated with less depth, and vice versa.
- *Proposition 2: of the two regimes, breadth is the path of least resistance.* There are two reasons for this. First, it is usually more straightforward and less conflictual to expand one's organization than it is to engage in collusive increases in prices or in struggles over input prices. Second, breadth is relatively more stable and hence easier to extend and sustain, whereas depth, with its heightened social antagonism, is more vulnerable to backlash and quicker to spin out of control.
- *Proposition 3: over the longer haul, mergers and acquisitions tend to rise relative to green-field investment.* While both routes can contribute to differential accumulation, as capitalism spreads geographically and dominant capital grows in importance, so does the threat of excess capacity. Mergers and acquisitions alleviate the problem whereas green-field aggravates it.⁹ The broader consequence of this shift is for chronic stagnation to gradually substitute for cyclical instability.
- *Proposition 4: the relative growth of mergers and acquisitions is likely to oscillate around its uptrend.* Corporate amalgamation involves major social restructuring and is hence bound to run into roadblocks. The result is a wave-like pattern, with long periods of acceleration followed by shorter downturns.
- *Proposition 5: the underlying logic of mergers and acquisitions implies progressive 'spatial' unification, and, eventually, globalization.* For amalgamation to run ahead of overall growth, dominant capital must successively break its 'envelopes', spreading from the industry, to the sector, to the national economy, and ultimately to the world as a whole. In this sense, differential accumulation is a prime mover of spatial integration and globalization.
- *Proposition 6: cost-cutting is not a real alternative to an amalgamation lull. The pressure to reduce cost is ever present, but its effect is more to meet than beat the average.* The principal reason is that productivity improvements are neither inherently related to corporate size, nor easy to protect. Similarly, reductions in input prices are seldom proprietary and often spill over to other firms.
- *Proposition 7: a much more potent response to declining mergers and acquisitions is inflationary increases in profit margins.* This is often facilitated by previous corporate centralization, and although the process is inherently unstable and short-lived, it can generate very large differential gains. By its nature, though, such inflation is possible only

through a vigilant limitation of production, with the result being that inflation appears as stagflation.

- *Proposition 8: over the longer term, differential accumulation depends primarily on mergers and acquisitions. In the shorter term, it can benefit from sharp stagflationary crises.* The main engine of differential accumulation is corporate amalgamation, which thrives on overall growth and the successive break-up of ownership ‘envelopes’. Occasional discontinuities in the process, however, push dominant capital toward an alternative regime of stagflationary redistribution. The result is a pendulum-like oscillation between long periods of relative political-economic stability accompanied by economic growth and low inflation, and shorter periods of heightened conflict, stagnation, and inflation.

A fuller theoretical and historical analysis of these general propositions is too wide to be undertaken here. It is nonetheless possible to highlight their significance by a brief examination of the US experience over the past century. While this history is certainly unique to some extent, the leading role of the US in general and of US firms in particular may offer insight into other cases, as well as into the broader nature of capitalist development. Before starting our exploration, however, a word of caution. Although the US offers the best historical data, these are not always suited to our disaggregate analysis, occasionally forcing us into rough approximations, roundabout estimates and bare speculations. Our conclusions are therefore tentative, open to challenges, and inviting further research and discussion.

4 GREEN-FIELD

Employment growth is a double-edged sword for dominant capital, directly augmenting external breadth (differential employment per firm), while indirectly threatening external depth (differential pricing power). Consider first the direct impact. In general, overall employment growth augments the differential breadth of dominant capital, but the reason is largely due to the way it affects smaller firms. Large companies react to overall growth mainly by increasing their employment ranks. Smaller companies, on the other hand, respond by growing in number (through the birth of new firms), as well as in size (by hiring more workers). This is important since newborn firms, by their very nature, tend to be smaller than the average. The implication is that, even if green-field growth is spread proportionately between dominant capital and the rest of the business universe, as long as some of this growth results in the birth of smaller firms, the net impact is to reduce average employment per firm, thus augmenting the differential breadth of dominant capital.

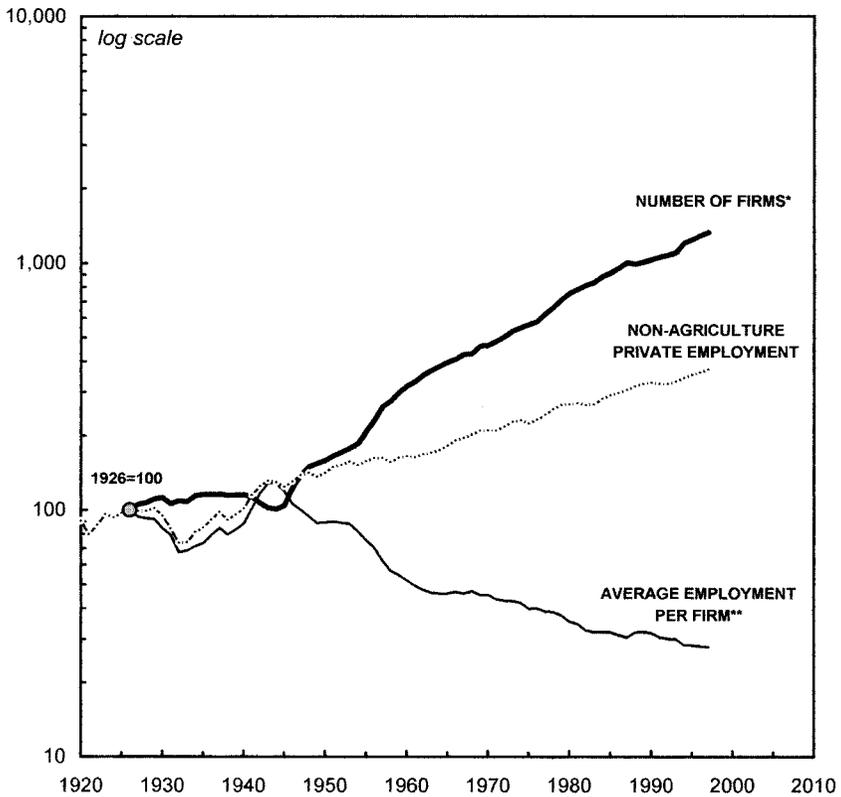


Figure 1 US employment, number of firms and employment per firm
 *Corporations only, based on the number of tax returns by active corporations.
 **Non-agriculture private employment divided by the number of corporations.
 Source: US Internal Revenue Service; US Department of Commerce through McGraw-Hill (Online).

The evolution of this process in the US is illustrated in Figure 1 (series are rebased for comparison). The data show that since 1926, the number of corporations has risen 3.6 times faster than overall employment, causing average employment per firm to drop by 72 percent (note the logarithmic scale).¹⁰ The process has not been even, however. During the two decades between the mid-1920s and mid-1940s, the number of firms remained relatively stable, first because of the great depression, and subsequently due to World War II. Changes in overall employment were consequently reflected more or less fully in the average size of firms, which fell during the early part of the depression only to rise rapidly thereafter. In the longer run, however, this proved an

aberration. Capitalism is subject to strong centrifugal forces, one of which is the inability of business enterprise to control the overall number of actors on the scene. And indeed, after the war, the number of firms started multiplying again while their average size trended more or less continuously down. Since large firm employment has increased over the same period, we can safely conclude that overall employment growth boosted the differential breadth of dominant capital.

The indirect impact, operating through depth, is more complex and harder to assess. On the one hand, the multiplicity of small firms keeps their profit per employee low, partly by precluding cooperation and pricing discretion, and partly by undermining collective political action. This bears positively on the differential depth of dominant capital. On the other hand, unruly growth in the number of small firms can quickly degenerate into excess capacity, threatening to unravel cooperation within dominant capital itself. The balance between these conflicting forces is difficult if not impossible to determine.

In sum, green-field growth is no panacea for dominant capital. Although the process boosts its differential breadth, it has an indeterminate, and possibly negative effect on differential depth. The main way of counteracting this latter threat is through corporate amalgamation, to which we turn now.

5 MERGERS AND ACQUISITIONS

Our discussion in this section begins with Figure 2. In this chart we plot a 'buy-to-build' indicator which expresses the dollar value of mergers and acquisitions as a percent of the dollar value of gross fixed investment. In terms of our own categories, this index corresponds roughly to the ratio between internal and external breadth. (The data sources and method of computing this index are described in the Data Appendix.)

The chart illustrates two important processes, one secular, the other cyclical. First, it shows that, over the longer haul, mergers and acquisitions indeed tend to become more important relative to green-field investment (Proposition 3). At the end of the nineteenth century, money put into amalgamation amounted to less than 1 percent of green-field investment. A century later, the ratio is approaching 200 percent, and rising. The trend growth rate indicated in the chart suggests that, year in, year out, mergers and acquisitions grew roughly 3 percentage points faster than new capacity.

Now, whereas employment associated with new capacity is added by small and large firms alike, amalgamation, almost by definition, increases mostly the employment ranks of dominant capital. The net effect of this trend, therefore, is a massive contribution to the differential accumulation of large firms.¹¹

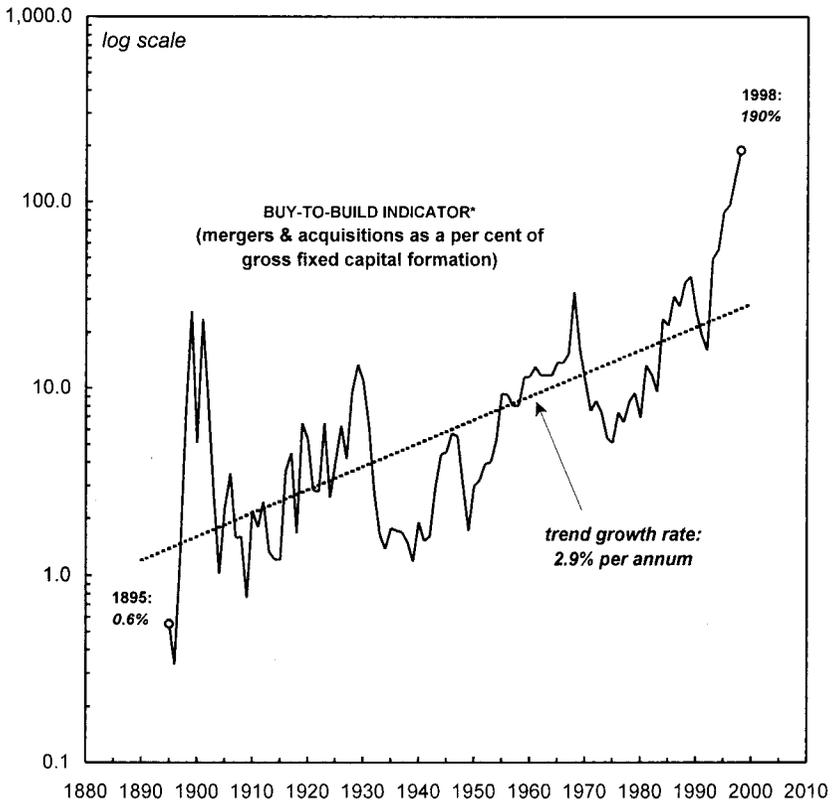


Figure 2 US accumulation: internal vs. external breadth

*Based on splicing of separate series.

Source: See Data Appendix.

The reasons for this tendency are not at all obvious. Why do firms decide to merge with, or take over other firms? Why has their urge to merge grown stronger over time? And what does it mean for the broader political economy?

Needless to say, corporate amalgamation is a real headache for mainstream economics, whose models commonly rely on the assumption of atomistic competition. Marshall (1920) tried to solve the problem by arguing that firms, however large, are like trees in the forest: eventually they lose their vitality and die out in competition with younger, more vigorous successors. On its own, though, the forest analogy was not entirely persuasive, if only because incorporation made firms potentially perpetual. For the sceptics, therefore, Marshall had to offer an additional explanation. Even if large firms failed to die, he said, and instead grew

into a corporate caste, the attendant social costs were still tolerable – first because such caste tended to be benevolent and, second, since the costs were outweighed by the greater efficiency of large-scale business enterprise.

The rigorous spin on this latter argument was put by Coase (1937), who stated that the size of firms was largely a matter of transaction costs. Inter-firm transactions, he asserted, were the most efficient since they were subject to market discipline. Such transactions, however, were not free, and therefore made sense only if their efficiency gains exceeded the extra cost of carrying them through. Otherwise, they were better internalized as intra-firm activity. Using such calculus, one could then determine the proper ‘boundary’ of the firm, which according to Coase was set at the point where ‘the costs of organizing an extra transaction within the firm become equal to the costs of carrying out the same transaction by means of an exchange on the open market or the costs of organizing in another firm’ (p. 96).

The ideological leverage of this theory proved immense. It implied that if companies such as General Electric, Cisco or Lucent decided to ‘internalize’ their dealings with other firms by swallowing them up, then that must be socially efficient, and that their resulting size – no matter how big – was necessarily ‘optimal’ (for instance, Williamson, 1985; and Williamson, 1986). In this way, the nonexistence of perfect competition was no longer an embarrassment for neoclassical theory. To the contrary, it was the *market itself* which determined the right ‘balance’ between the benefits of competition and corporate size, and what more, the whole thing was achieved automatically, according to the eternal principals of marginalism.

The argument is hard to refute, although that is by no means a blessing. The problem is that marginal transaction costs – much like marginal productivity and marginal utility – are unobservable, so reality can never be shown as being at odds with the theory. For instance, one can use transaction costs to claim that the historical emergence of ‘internalized’ command economies such as Nazi Germany or the Soviet Union means they were more efficient than their market alternatives. The obvious counter argument, which may well be true, is that these systems were imposed ‘from above’, driven by a quest for power rather than efficiency. But then, can we not say the exact same thing about the development of oligopolistic capitalism?¹²

In fact, if it were only for efficiency, corporations should have become smaller, not larger. According to Coase’s theory, technical progress, particularly in information and communication, reduces transaction costs, making the market look increasingly appealing and large corporations evermore cumbersome. And indeed, using this very logic Fukuyama (1999) recently announced the ‘death of the hierarchy’, while advocates

of the 'E-Lance Economy' (as in freelance) argue that today's corporate behemoths are anomalous, and will soon be replaced by small, 'virtual' firms (Malone and Laubacher, 1998). So far, though, these predictions seem hopelessly misplaced: amalgamation has not only continued, but accelerated, including in the so-called high-technology sector, where transactions costs supposedly fell the most.

How can that be true? Why do firms give up the benefit of market transaction in pursuit of further, presumably more expensive internalization? Are they not interested in lower cost? The riddle can be solved by using Veblen's distinction between 'industry' and 'business' (cf. 1904). Improved technology can certainly reduce the minimum efficient scale of production (MES), and indeed today's largest establishments (plants, head offices, etc.) are often smaller than they were a hundred years ago. Firms, on the other hand, are business units, and since they can own many establishments, their boundary need not depend on production as such. The real issue with corporate size is not efficiency but differential profit, and the key question therefore is whether amalgamation helps firms beat the average, and if so, how?

The conventional wisdom here is that mergers and acquisitions are a disciplinary form of 'corporate control'. According to writers such as Manne (1965), Jensen and Ruback (1983) and Jensen (1987), managers are often subject to conflicting loyalties which may compromise their commitment to profit maximization. The threat of takeover puts them back in line, forcing them not only to improve efficiency, but also to translate such efficiency into higher profit and rising shareholders' value.

This argument became popular during the 1980s, when the earning yield on US equities fell below the yield on long-term bonds for the first time since the 1940s, giving corporate 'raiders' the academic justification (if they needed one) for launching the current merger wave. The logic of the argument, however, was problematic. Mergers may indeed be driven by profit, but that in itself has little to do with productivity gains. To begin with, there is not much evidence that mergers are either prompted by inefficiency, or that they make the combined firms more efficient (Ravenscraft and Scherer, 1987; Caves, 1989; Bhagat *et al.*, 1990). Indeed, as we argue below, the latent function of mergers in this regard is not to boost efficiency, but to *tame* it, by keeping a lid on overall capacity growth. Moreover, there is no clear indication that mergers make the amalgamated firms more profitable than they were separately, although here the issue is somewhat more complicated.

First, there is a serious methodological difficulty. Most attempts to test the effect of merger on profitability are based on comparing the performance of merged and non-merged companies (for instance, Ravenscraft, 1987; Ravenscraft and Scherer, 1989; and Scherer and Ross, 1990: ch. 5). While this method may offer some insight in the case of individual firms,

it is misleading when applied to dominant capital as a whole. Looking at the amalgamation process in its entirety, the issue is not how it compares with 'doing nothing' (that is, with not amalgamating), but rather how it contrasts with the alternative strategy of green-field investment. Unfortunately, such comparison is impossible to make, since the very purpose of mergers and acquisitions is to avoid creating new capacity. In other words, amalgamation removes the main evidence against which we can assess its success.

Perhaps a better, albeit unscientific way to tackle the issue, is to answer the following hypothetical question: what would have happened to the profitability of dominant capital in the US, if instead of splitting its investment one-third for green-field and two-thirds for mergers and acquisitions, it were to plough it all back into new capacity? As Veblen (1923: 373) correctly predicted, such a 'free run of production' is not going to happen, so we cannot know for sure. But then the very fact it has not happened, together with the century-long tendency of moving in the opposite direction, from green-field to amalgamation, already suggest what the answer may be. . . .¹³

The second important point concerns the meaning of 'profitability' in this context. Conventional measures such as earnings-to-price ratio, return on equity, or profit margin on sales, relevant as they may be for investors, are too narrow as indicators of *capitalist power* when such power is vested in and exercised by corporations rather than individuals. A more appropriate measure for this power is the distribution and differential growth of corporate profit, and from this perspective mergers and acquisitions make a very big difference.

By fusing previously distinct earning streams, *amalgamation contributes to the organized power of dominant capital*, regardless of whether or not it augments the more conventional rates of return. In our view, this 'earning fusion', common to all mergers, is also their ultimate reason. And indeed, by gradually shifting its emphasis from building to buying, corporate capitalism has so far been able not only to lessen the destabilizing impact of green-field cycles pointed out by Marx, but also to reproduce and consolidate on an ever growing scale, instead of collapsing under its own weight. The broader consequence of this shift has been creeping stagnation (Proposition 3), yet as Veblen suggested earlier in the century, the large accumulators have learned to 'manage' this stagnation for their own ends.¹⁴

Now, this general rationale for merger does not in itself explain the concrete historical trajectory of corporate amalgamation. Mergers and acquisitions grow, but not smoothly, and indeed the second feature evident in Figure 2 is the cyclical pattern of the series (Proposition 4). Over the past century, we can identify four amalgamation 'waves'. The first wave, occurring during the transition from the nineteenth to the twen-

tieth century, is commonly referred to as the 'monopoly' wave. The second, lasting through much of the 1920s, is known as the 'oligopoly' wave. The third, building up during the late 1950s and 1960s, is nicknamed the 'conglomerate' wave. The fourth wave, beginning in the early 1980s, does not yet have a popular title, but based on its all-encompassing nature we can safely label it the 'global' wave.

This wave-like pattern remains something of a mystery. Why do mergers and acquisitions have a pattern at all? Why are they not erratic, or alternatively, why do they not proceed smoothly? So far, most attempts to answer these questions have approached the issue from the micro perspective of the firm, which is precisely why they usually run into a dead end.

One of the more famous explanations was offered by Tobin and Brainard (1968; 1977). Their basic claim was simple: if green-field capacity is cheaper, a firm will build it from scratch; if existing capacity is cheaper, the firm will buy it from others. Extending this logic to the economy as a whole, we should therefore expect the buy-to-build ratio to be inversely correlated with the ratio of market value to replacement cost, now known as *Tobin's Q*: the less expensive existing assets are relative to new ones, the greater the proportion of 'financial' to 'real' investment, and vice versa.

This seems sensible, except that in reality things happen to move in the opposite way. Figure 3 depicts two series: our own buy-to-build indicator, measuring mergers and acquisitions as a percent of gross fixed investment, and *Tobin's Q*, based on the ratio of market value to net worth at replacement cost of nonfarm nonfinancial corporations (with series smoothed for easier comparison). According to the chart, US capitalists seem to have gone out of their minds: instead of investing in what is cheap, they systematically overspent on the expensive!

This looks anomalous, but only because we are using neoclassical microeconomic logic to explain a complex power process. New capacity may indeed be cheap if you are the only one adding it. But if your competitors all do the same it is a different matter altogether. Under the latter circumstances, the threat of glut and falling profit makes buying existing assets much cheaper than it looks on paper. As we explain below, large firms understand this all too well and act accordingly.¹⁵

In short, mergers and acquisitions, although pursued by individual firms, occur within a broader and ever-changing political economic context. It is only when making this restructuring process the centre of our analysis that the general pattern of amalgamation begins to make sense.

A highly interesting attempt in this direction was offered by Lebowitz (1985), who tried to derive the tendency toward Monopoly Capitalism from the very logic of classical Marxism. According to Marx, argues

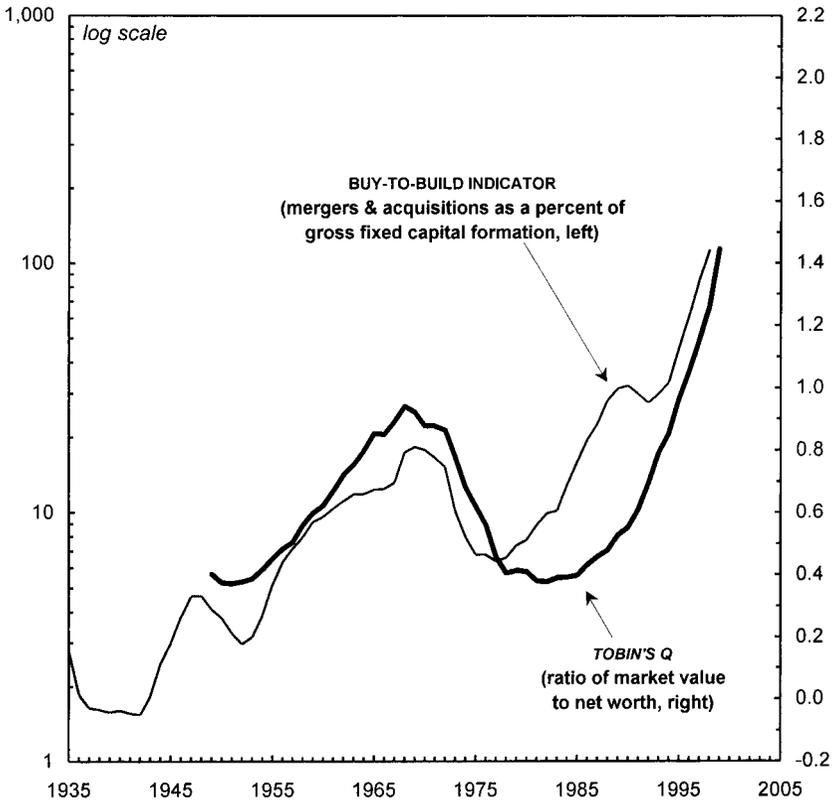


Figure 3 Tobin's Q?

Note: Series are smoothed as 5-year moving averages.

Source: Tobin's Q pertains to 'nonfarm' 'nonfinancial' corporations, and is computed from the Federal Reserve Board's *Flow of Funds* data through McGraw-Hill (Online) (*Flow of Funds* codes: BS103164003L for market value, and BL102090005L for net worth at replacement cost). For the buy-to-build indicator, see Data Appendix.

Lebowitz, the essence of accumulation is the expropriation of means of production – initially from workers, but ultimately also from most capitalists – until capital becomes One, a unitary amalgamate held by a single capitalist or a single corporation. The road toward such amalgamation, he continues, proceeds through horizontal, vertical and conglomerate integration (although not necessarily following the stylised pattern in Figure 2), and the key challenge is to show that all three phenomena are *inherent* in the inner logic of accumulation. To establish this link, Lebowitz begins by assuming, along with Marx, an intrinsic connection leading from productivity growth to accumulation. Next, he suggests that all three forms of integration increase efficiency and hence contribute to

accumulation: horizontal integration creates economies of scale; vertical integration leads to more roundabout, or mechanized production runs; and conglomerate integration improves allocative efficiency through inter-sectoral capital mobility. To constrain any of these processes is therefore to hinder accumulation, and since according to Marx capital works to dismantle its own barriers, it follows that all three types of integration are inevitable, and that capitalism is destined to become monopolistic.

Based on its own premises, the logic is undoubtedly elegant. The premises themselves, however, are partly incorrect, as well as incomplete. The first problem concerns production. As noted earlier and argued further in section 7, beyond a certain point there is no necessary connection between industrial size and efficiency/profitability, so complete productive integration cannot be traced to the inner logic of accumulation.¹⁶ The second problem is the absence of power. Even if greater industrial integration was always more efficient and profitable, that would still leave unexplained a growing proportion of mergers which merely fuse ownership while leaving production lines separate. The difficulty is most clearly illustrated in the case of conglomerate integration: inter-sectoral capital movement can improve allocative efficiency only through green-field investment, but if so why does conglomerate consolidation almost invariably take the route of merger? The answer, by now a bit tedious, is that business consolidation is not about efficiency, but the control of efficiency for differential ends. While capital is forever trying to remove the barriers on its own accumulation, this very accumulation is inherently impossible without barriers being put on others, including on most other capitalists. The act of merger fulfils both of these requirements, allowing investors to exercise their *freedom to limit*.

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.¹⁷ Thus, everything else remaining the same, it makes more sense to buy than to build. But then everything else does not, and indeed *cannot* remain the same. The reason is simple: amalgamation transforms the very conditions on which it is based.¹⁸

Three particular transformations need noting here. First, amalgamation is akin to eating the goose that lays the golden eggs. By gobbling up takeover targets within a given corporate universe, acquiring firms are depleting the pool of future targets. Unless this pool is somehow replenished, mergers and acquisitions eventually lead to a highly centralized structure in which dominant capital owns everything worth owning. From a certain point onward, the pace of amalgamation therefore has to decelerate. Although further amalgamation within dominant capital itself may be possible (large firms buying each other), the impact on the

group's differential accumulation relative to the average is negligible: by this stage, dominant capital has grown so big it *is* the average.

Green-field growth, by adding new employment and firms, works to replenish the takeover pool to some extent. But then, and this is the second point worth noting, since green-field growth tends to trail the pace of amalgamation in both employment volume and dollar value, its effect is mostly to slow down the depletion process, not stop it. Indeed, the very process of amalgamation, by directing resources away from green-field investment, has the countervailing impact of reducing growth, and hence hastening the depleting process. Thus, sooner or later, dominant capital is bound to reach its 'envelope', namely the boundaries of its own corporate universe with few or no takeover targets to speak of.¹⁹

Third, corporate amalgamation is often socially traumatic. It commonly involves massive dislocation as well as significant power realignments, and is ultimately limited by the speed at which the underlying organizations can adapt (this last point is emphasized by Penrose, 1959). The consequence is that as amalgamation builds up momentum, it also generates higher and higher roadblocks, contradictions and counter forces.²⁰

Taken together, the depletion of takeover targets, the negative effect on growth associated with lower levels of green-field investment, and the emergence of counter forces, suggest that corporate amalgamation cannot possibly run smoothly and continuously (Proposition 4).

But then, why should amalgamation move in cycles? In other words, why does the uptrend resume after it stumbles? And what does this resumption mean? From the perspective of dominant capital, amalgamation is simply too important to give up. And while there may be not much worth absorbing in their own corporate universe, *outside* of this universe targets are still plentiful. Of course, to take advantage of this broader pool, dominant capital has to break through its original 'envelope', which is precisely what happened as the US moved from one wave to the other (Proposition 5).

The first, 'monopoly' wave marked the emergence of modern big business, with giant corporations forming within their own original *industries*. Once this source of amalgamation was more or less exhausted, further expansion meant that firms had to move outside their industry boundaries. And indeed, the next 'oligopoly' wave saw the formation of vertically integrated combines whose control increasingly spanned entire *sectors*, such as in petroleum, machinery and food products, among others. The next phase opened the whole *US corporate universe* up for grabs, with firms crossing their original boundaries of specialization to form large conglomerates with business lines ranging from raw materials, through manufacturing, to services and finance. Finally, once the national scene has been more or less integrated, the main avenue for further expansion is across international borders, hence the current *global* merger wave.²¹

So far, the global wave has been characterized by considerable deconglomeration, with many firms refocusing on so-called core-activities where they enjoy a leading profit position. The reason is that globalization enables additional intra-industry expansion across borders while legitimizing further domestic centralization in the name of 'global competitiveness'. Eventually, though, such refocusing is bound to become exhausted, pushing dominant capital toward renewed conglomeration, this time on a global scale. In fact, this is already happening in areas such as computing, communication, transportation and entertainment, where technological change is rapidly blurring the lines between standard industrial classifications.²²

And, indeed, the pivotal impact of mergers is to alter not the structure of production *per se*, but the broader *structure of power*. The reason is rooted in the dialectical nature of amalgamation. By constantly pushing toward, and eventually breaking through their successive social 'envelopes' – from the industry, to the sector, to the nation state, to the world as a whole – mergers create a strong drive toward 'jurisdictional integration', to use Olson's terminology (1982). Yet this very integration pits dominant capital against new rivals under new circumstances, and so creates the need to constantly restructure power institutions, of which corporate amalgamation is itself an important dimension. Surprisingly, though, these power dynamics of mergers have drawn relatively little attention in an area where they seem to matter most, namely in the process of globalization.

6 AMALGAMATION AND GLOBALIZATION

The gist of capitalist globalization is the spatial spread of accumulation, whose main vehicle is *the movement of capital*.²³ Most analyses of the process concentrate on its alleged cyclicity. The common view is that although capital flow has accelerated since the 1980s, the increase is part of a broader recurring pattern whose peaks were in fact recorded during the late nineteenth and early twentieth century (Taylor, 1996). The standard approach to these ups and downs in capital mobility is the so-called 'Unholy Trinity' of international political economy. According to this framework, there is an inherent tradeoff between state sovereignty, capital mobility and international monetary stability, of which only two can co-exist at any one time (Fleming, 1962; Mundell, 1963; Cohen, 1993).²⁴ Thus, during the 'liberal' Gold Standard which lasted until World War I, limited state sovereignty allowed for both free capital mobility and international monetary stability; during the subsequent, inter-war period, the emergence of state autonomy along with unfettered capital flow served to upset this monetary stability; after World War II, the quasi-statist system of Bretton Woods put a check on capital mobility,

so as to allow domestic policy autonomy without compromising monetary stability; finally, since the 1970s, the rise of neoliberalism has again unleashed capital mobility, although it is still unclear which of the other two nodes of the Trinity – state sovereignty or monetary stability – will have to go.

Why has the world moved from liberalism, to instability, to statism and back to (neo)liberalism? Is this some sort of inevitable cycle, or is there an underlying historical process here which makes each 'phase' fundamentally different? The answers vary widely.²⁵ Liberal interpretations emphasize the secular impact of technology which constantly pushes toward freer trade and greater capital mobility, with unfortunate setbacks created by government intervention and distortions. From this perspective, postwar statism, or 'embedded liberalism' as it came to be known, was largely a historical aberration. After the war, governments took advantage of the temporary weakness of capitalism to impose all sorts of restrictions and barriers. Eventually, the unstoppable advance of information and communication forced them to succumb, with the result being that the rate of return rather than political whim once again governed the movement of capital. Critics of this 'natural-course-of-things' theory tend to reverse its emphasis. Thus, according to Helleiner (1994), the key issue is neither the expansionary tendencies of technology and markets, nor their impact on the propensity of capital to move, but rather the willingness of states to let such movements occur in the first place. From this viewpoint, state regulation is not an aberration but rather the determining factor, which governments remain free to switch on and off. One of the reasons for such cyclical change of heart, suggests Frieden (1988), is the shifting political economy of foreign debt. According to this view, during the Gold Standard Britain became a 'mature creditor', and was therefore interested in liberalization so that its debtors could have enough export earnings to service their foreign liabilities. The US reached a similar position during the 1970s, and used its hegemonic power to re-impose liberalization for much the same reason. According to Goodman and Pauly (1995), this second coming of liberalism was further facilitated by the desire of governments to retain the benefits of transnational production. The latter required that they also opened the door to transnational financial intermediation, hence the dual rise of portfolio and foreign direct investment.

Plus ça change, plus c'est pareil? Perhaps, but only because much of this discussion focuses on the cyclicity of capital flow. As it turns out, though, this preoccupation, convenient as it may be for those sceptical of globalization, is not entirely warranted.²⁶ First, although the *pace* of globalization as indicated by the ebb and flow of capital movement has indeed oscillated over time, its impact on the *level* of globalization tends to be cumulative (Magdoff, 1969). Thus, while sceptics such as Doremus

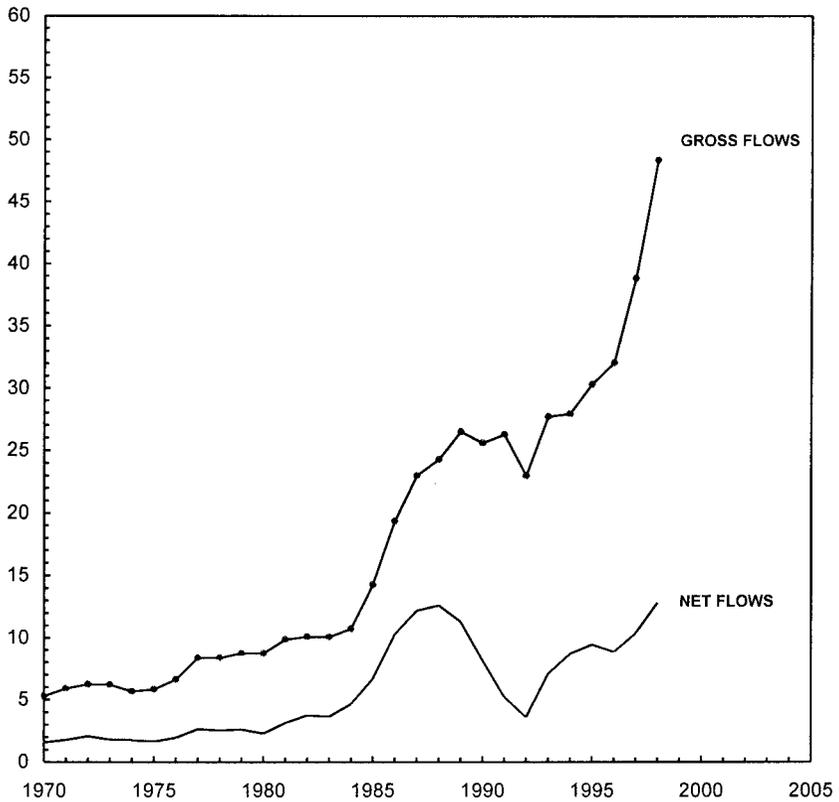


Figure 4 G7 private investment flows as a percent of gross fixed capital formation

Note: Series are expressed as 3-year moving averages. Flow comprise direct and portfolio investment. Gross flows are computed as the sum of inflows and outflows. Net flows are computed separately for each country as the difference between inflow and outflow, and then converted into absolute values and aggregated. Each series denotes the ratio of overall G7 flows to overall G7 gross fixed capital formation, both in \$US. Data prior to 1977 pertain to Canada, Italy, UK and the US only.

Source: International Monetary Fund *Balance of Payment Statistics* and *International Financial Statistics* through McGraw-Hill (Online).

et al. (1998) are correct in pointing out that most companies are still more national than global, the rapid pace of globalization suggests the situation may not stay that way for long.²⁷ A second, related point is that most analyses of capital flow concentrate on *net* movements – namely, on the difference between inflow and outflow. This choice is inadequate and potentially misleading. Capitalist integration and globalization can move both ways, which means that the proper measure to use here is

the *gross* flow – that is, the sum of inflow and outflow (Wallich, 1984). The net and gross magnitudes are the same when capital goes in only one direction, either in or out of a country. But when the flow runs in both directions, the numbers could be very different. This is clearly illustrated in Figure 4, which contrasts capital flow with gross fixed capital formation in the G7 countries. The chart shows that since the 1980s, the relative increase of gross private flows was both powerful and secular, whereas that of net flows was more limited and cyclical. As a result, by 1998, the value of gross flows reached 58 percent of green-field investment, compared to only 14 percent for net flows.²⁸ Unfortunately, lack of historical data on gross movements makes it difficult to compare current developments with conditions prevailing at the turn of the century. Nonetheless, the fact that the share of gross investment in GDP was generally higher than now, and that two-way capital flow is a relatively recent phenomenon, together serve to suggest that the current pace of globalization, let alone its level, may well be at an all time high.

The other common thread going through most analyses is that capital flow is largely a response to the more ‘primordial’ forces of production and trade. To us, this is akin to putting the world on its head. The global movement of capital is ultimately a matter of *ownership* and hence *power* (Nitzan and Bichler, 1996; Robinson and Harris, 2000). Note that, on its own, the act of foreign investment – whether portfolio or direct – consists of nothing more than the creation or alteration of ownership titles.²⁹ Note further that the magnitude of such titles is equal to the present value of their expected future earnings. Now, since these earnings can fall as well as rise with output, and given the many ‘political’ factors at play, it seems clear that cross-boarder capital flows reflect the restructuring not of global production as such, but of the global *politics* of production.

One of the first to approach international capital mobility as a fact of ownership and power was Hymer (1960), who argued that firms would prefer foreign investment over export or licensing when such ownership conferred differential power, or ‘ownership advantage’ as it later came to be known. Based on this interpretation, the power of US-based foreign investors seems to have risen exponentially over the past half century, as illustrated in Figure 5.

The chart presents two proxies for the globalization of US business. The first, measuring the share of export in GDP, provides a rough indication of the contribution to overall profit of trade. The second, measuring the share of foreign operations in overall net corporate profit, approximates the significance of foreign as opposed to domestic investment. Up until the 1950s, the relative contribution to profit of foreign assets was similar to that of export (assuming domestic and export sales are equally

profitable, so that the ratio of export to GDP corresponds to the ratio of export profit to overall profit). But since then, the importance for profit of foreign investment has grown roughly twice as fast as that of trade, reaching 20 to 25 percent of the total in recent years. The faster growth of foreign profit may seem perplexing since, even with the recent resurgence of capital mobility, US trade flows are still roughly three times larger than capital flows. But then, unlike trade, investment tends to accumulate, eventually causing overseas earnings to outpace those coming from export.

This divergence serves to heighten the power underpinnings of trade liberalization. Advocates of global integration, following in the footsteps of Adam Smith and David Ricardo, tend to emphasize the central role

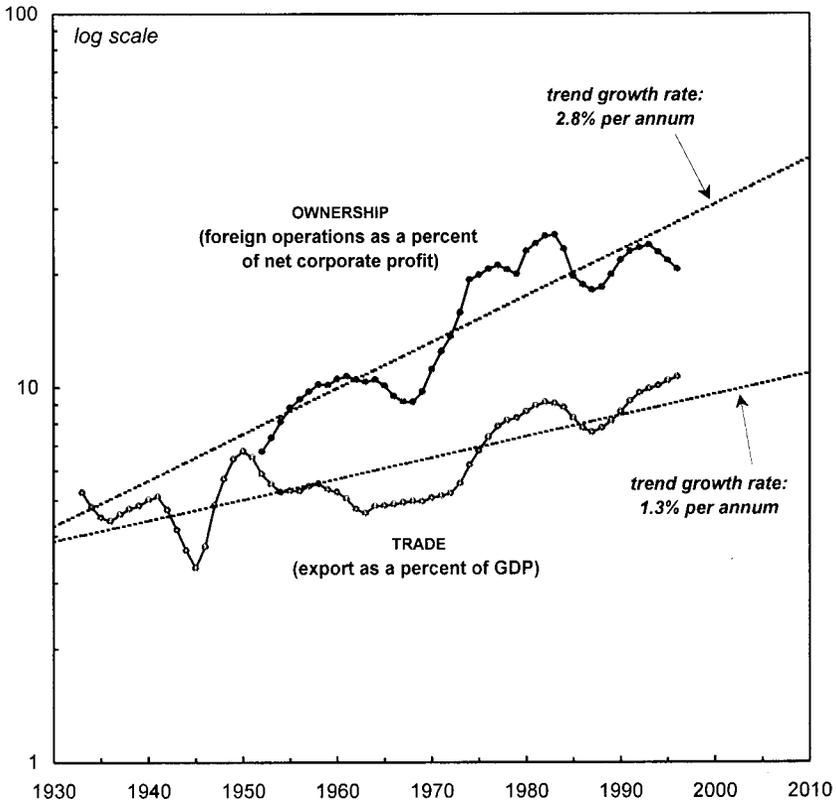


Figure 5 The globalization of US business: ownership vs trade

Note: Series are shown as 5-year moving averages.

Source: US Department of Commerce through McGraw-Hill (Online).

of free trade. Unhindered exchange, they argue, is *the* major force underlying greater efficiency and lower prices. And as it stands their claim may well be true. Indeed, this is one reason why dominant capital is often halfhearted about indiscriminate deregulation, particularly when it allows competitors to undermine its differential margins. Yet despite this threat, large firms continue to support freer trade, and for a very good reason. For them, it is a means to something much more important, namely free investment – or more precisely, the *freedom to impose and commodify power*.

Although difficult to ascertain with available data, the cumulative (albeit irregular) build-up of international investment has probably contributed greatly to the differential accumulation of US dominant capital. The reason is that whereas exports augment the profits of small as well as large firms, the bulk of foreign earnings goes to the largest corporations. It is therefore the globalization of ownership, not trade, which is the real prize. While free trade could boost as well as undermine differential accumulation, free investment tends mostly to raise it. But then, since free investment can come only at the footsteps of liberalized trade, the latter is worth pursuing, even at the cost of import competition and rising trade deficits.

Foreign investment, like any other investment, is always a matter of power. The nature of this power, though, has changed significantly over time. Until well into the second half of the nineteenth century, the rapid spatial expansion of capitalism enabled profitability to rise despite the parallel increase in the number of competitors (Veblen, 1923: ch. 4; Josephson, 1934; Hobsbawm, 1975: chs 2–3; Arrighi *et al.*, 1999). As a result, there was only limited need for collusion, and indeed most capital flows were relatively small portfolio investments, associated mainly with green-field expansion (Folkerts-Landau *et al.*, 1997: Annex VI). Eventually, though, excess capacity started to appear, giving rise to the progressive shift from green-field to amalgamation described in the previous section. Yet for more than half a century the shift was mostly domestic, with mergers and acquisitions initially breaking through the various national ‘envelopes’. It was only since the 1970s and 1980s that the process started to become truly global, and when that happened the character of capital flow changed. The need to exert control has gradually moved the emphasis toward larger, ‘direct’ foreign investment, while the threat of excess capacity pushed such investment away from green-field, with over 75 percent of the world total now taking the form of cross-boarder mergers and acquisitions (United Nations Conference on Trade and Development, 2000: Figure IV.9, p. 117). From a power perspective, therefore, one could say that whereas during the late nineteenth and early twentieth-century capital mobility was largely a ‘choice’, by the end of the twentieth century it became more of a ‘necessity’,

mandated by the combination of excess capacity and the cumulative build-up of giant firms, for whom profitable expansion increasingly requires global amalgamation.

In summary, there is a long but crucial link leading from capitalism, to differential accumulation, to amalgamation, to capital mobility (Proposition 5). From this perspective, the present process of globalization is inherent in capitalist development and therefore not easily reversible without altering capitalism, or moving away from it altogether. Moreover, contrary to popular perception, the underlying force here is not greater efficiency, but the control of efficiency, and the purpose is not aggregate but differential gain. Over time, and particularly since the 1980s, foreign investment has come to rely less on green-field and more on cross-boarder mergers and acquisitions, as firms increasingly break through their national 'envelope.' The big winners are the large 'distributional coalitions' of dominant capital. For society as a whole, the picture is less cheerful, as the emphasis progressively shifts from green-field to amalgamation, causing growth to recede and stagnation to creep in (Proposition 3).

7 COST-CUTTING

Although mergers and acquisitions are the most effective engine of differential accumulation, they are not always feasible (Proposition 4). And when merger activity recedes, dominant capital has to resort to other means, or risk differential *decumulation*. In principal, this can be done through either relative cost reduction (internal depth), or differential stagflation (external depth). In practice, though, the latter is much more effective (Propositions 6 and 7).

Consider cost-cutting first. The conflictual dynamics of capitalism, persistent even in the presence of oligopoly and monopoly, imply a constant pressure on firms to improve productivity and reduce input cost. This pressure, identified by the classical economists and reiterated by all subsequent schools, radical as well as conservative, seems beyond dispute. From the perspective of differential accumulation, however, cost-cutting is much like 'running on empty'. It helps dominant capital meet the average rather than beat it.

This claim is difficult to test directly, since data on productivity and input prices are rarely, if ever, broken down by firm size. The indirect evidence, though, seems to support our view here, if only provisionally (figures in this section are computed on the basis of data from *Fortune*, the US Internal Revenue Service, and the US Bureau of Labor Statistics). The logic is straightforward: output per employee, taken as a broad measure of 'productivity', is given by the ratio of sales per employee divided by unit price (abstracting from inventory changes). Now, over

the past half century, dollar sales per employee in large firms (the Fortune 500) have changed little relative to the comparable figure for the average firm: the ratio between them was 1.4 in 1954, fell gradually to 1.1 by 1969, and then rose steadily, reaching 1.7 by 1993 (although the latter increase is probably overstated due to the growing significance of outsourcing by large firms). We can also reasonably assume that prices charged by larger firms have not fallen relative to those of smaller ones, since as we show in the next section inflation has historically worked in their favour (direct evidence, though, is again unavailable). These conjectures, along with our above definition, imply that productivity gains by dominant capital have probably been roughly equal to the economy's average.

The difficulty of achieving systematic differential cost-cutting is really not that surprising. First, even the largest firms have only limited control over their input prices, particularly with the proliferation of outsourcing, and when they do exercise such control, the benefits often spill over to other firms (a wage freeze by dominant capital groups would empower smaller firms to do the same; political pressure on OPEC by car companies to reduce oil prices would benefit all energy users; an importer winning a tariff reduction gives competing importers a free ride, etc.).³⁰ Second, there is no inherent reason why large firms should be better than small ones at developing new production technologies. For instance, much of the current advances in bio-technology, information and communication are driven by smaller companies, some with only a handful of workers. Dominant capital is often unable to match this flurry of innovation, and in many cases finds it cheaper to let smaller companies incur the R&D cost and then buy the more promising start-ups, sometimes just to keep their technology from spreading too quickly.³¹ Finally, production techniques, by virtue of their integrated *societal* nature, are notoriously difficult to monopolize. Unlike new products which could often be protected through patents, copyrights and other threats, improvements in the social organization of production tend to proliferate easily, undermining the initial advantage of whoever implemented them first.

8 STAGFLATION

Unlike cost cutting, stagflation is a highly effective means of differential accumulation. At first sight, this seems strange. How could large firms benefit from a crisis of rising prices, stagnating output and falling employment? And if stagflation is indeed so 'accumulation friendly', why does it not continue indefinitely? A fuller analysis of these questions is beyond our scope here, but the general thrust of the argument can be briefly outlined (for more on this, see Nitzan, 1992; and Nitzan and Bichler, 2000b).

The impact on profit of raising prices and lowering volume is of course nonlinear (think about the consequence for profit of moving along a downward-sloping demand curve). But recall that our concern here is not prices, but *inflation*. Furthermore, we are interested in the impact of inflation not on profit, but on *differential* profit. These two qualifications make a big difference.

In contrast to mergers and acquisitions, which are commonly pursued only by a subset of firms (the larger ones), a strategy of inflationary redistribution can succeed only within a broader inflationary context in which *all* prices tend to rise. That being said, it is also true that inflation is never uniform and hence never 'neutral'. Indeed, this is the whole point: inflation exists precisely because it redistributes. Paraphrasing Milton Friedman, we can safely state that 'Inflation is always and everywhere a redistributive phenomenon'. The key question is who benefits from such redistribution, and this cannot be answered *a priori*. The essence of inflation is a comprehensive destabilization and restructuring of all market relations, and although there is good reason to expect the more powerful groups to come out on top, the identity of such groups cannot be determined up front. It can only be decided in hindsight, based on the distributional outcome.

In the case of the US, this outcome, illustrated in Figure 6, leaves little doubt as to who the winners are. The data in the figure contrast two series. The first is the rate of inflation, measured by the annual percentage change of the wholesale price index. The second is the profit-per-employee ratio, computed by dividing profit per employee in the Fortune 500 group of companies by profit per employee for the economy as a whole. The latter index corresponds to our notion of differential depth, its fluctuations measuring the extent to which dominant capital – approximated here by the Fortune 500 – is able to raise its profit per employee faster than the average.

As the figure shows, the success of dominant capital here has been tightly and positively correlated with the overall rate of inflation.³² In other words, higher rates of inflation have played into the hands of the big players, allowing them to raise their profit per unit of organization faster than their smaller counterparts. (Further analysis reported elsewhere suggests that the link between inflation and differential depth was positively related to firm size: the larger the firm, the greater and more systematic the differential gains from inflation. See Nitzan, 1992.)

But if the chart shows that dominant capital clearly benefited from inflation, it also suggests that this benefit was always short lived, lasting only as long as the underlying bout of inflation. Indeed, the only way to keep such gains coming is to keep inflation going; and if the gains are to be raised, inflation needs to be accelerated. Although such increases occasionally happen, and often with the desired impact on differential

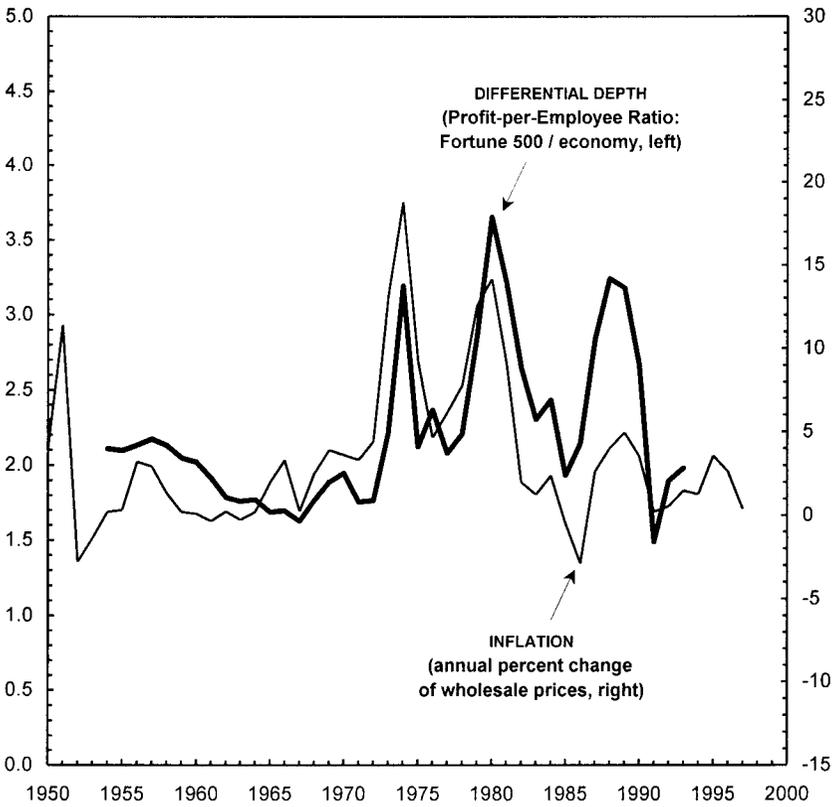


Figure 6 Differential depth and inflation

Note: The economy's profit per employee is computed by dividing corporate profit with inventory valuation adjustment and capital consumption allowance, less taxes, by the number of non-agricultural employees. Fortune's profit per employee is computed by dividing net profit by the number of employees.

Source: *Fortune*; US Department of Commerce through McGraw-Hill (Online).

accumulation, they cannot last indefinitely. As illustrated repeatedly throughout history and across the world, inflation is a risky business. It is difficult to 'manage' and often degenerates into an uncontrollable spiral whose consequences – for differential accumulation and more broadly for the structure of capitalist power as a whole – are difficult to predict.

For this reason, inflation is more of a stop-gap option for dominant capital. In contrast to breadth, whose differential impact is slower to develop, the differential gains from inflation, which has no upper 'technical' limit, are potentially huge. These gains, however, come with

considerable risks, which under normal circumstances are deemed too high. It is only when the gains from breadth dry up, that dominant capital, seeing its differential accumulation undermined, moves reluctantly toward relying on inflationary redistribution.

The connection between inflation and power here cannot be overstated. Mainstream theory, built on the belief in competitive markets, insists that inflation and growth should go hand in hand.³³ This belief, though, is usually based on a cyclical argument about supply constraints, which, valid or not, is meaningful only in the short term. Over the longer haul, capacity can be increased as needed so material bottlenecks are largely irrelevant.

The real key then becomes power. Since production provides no 'natural' bottlenecks, these have to be created institutionally, through collusive and other arrangements among the key players. Regardless of their particular form, the purpose of all such arrangements is to keep overall capacity from growing too fast. The emphasis here on *overall* capacity is crucial; dominant capital may be able to keep its own production stable or even growing, but unless it manages to cap overall growth, coordination is bound to disintegrate into a price war, leading to disinflation or even outright deflation.

The upshot is simple: over the longer haul, we should expect inflation and growth to be *inversely* related. Long-term growth, far from stoking the inflation fire, works to cool it off by undermining collusion. Inflation, on the other hand, requires slack and therefore tends to appear as stagflation. Before testing this proposition, however, it should be noted that the term stagflation has more than one interpretation. The 'weak' version, due to Samuelson (1974: 801), views stagflation as inflation together with unemployment and under-capacity utilization. The 'moderate' version, found for instance in Baumol *et al.* (1986: 83), defines it as inflation combined with slow growth or recession. Finally, the 'strong' version, adopted for example by Parkin and Bade (1986: 618), limits stagflation only to instances in which inflation occurs with falling output. For our purpose here, the 'weak' version is not very interesting: twentieth-century capitalism has been characterized by some measure of unemployment and unused capacity throughout, so its inflation was invariably stagflationary according to this definition. The 'strong' version is also not very helpful, since falling overall output is relatively rare. The more useful of the three is the 'moderate' version, particularly when understood as a relationship. If growth is positively related to inflation, stagflation is clearly an anomaly. If, on the other hand, the relationship is negative, stagflation must be seen as a 'normal' phenomena, intensifying as growth declines and inflation rises, and receding when growth increases and inflation falls.

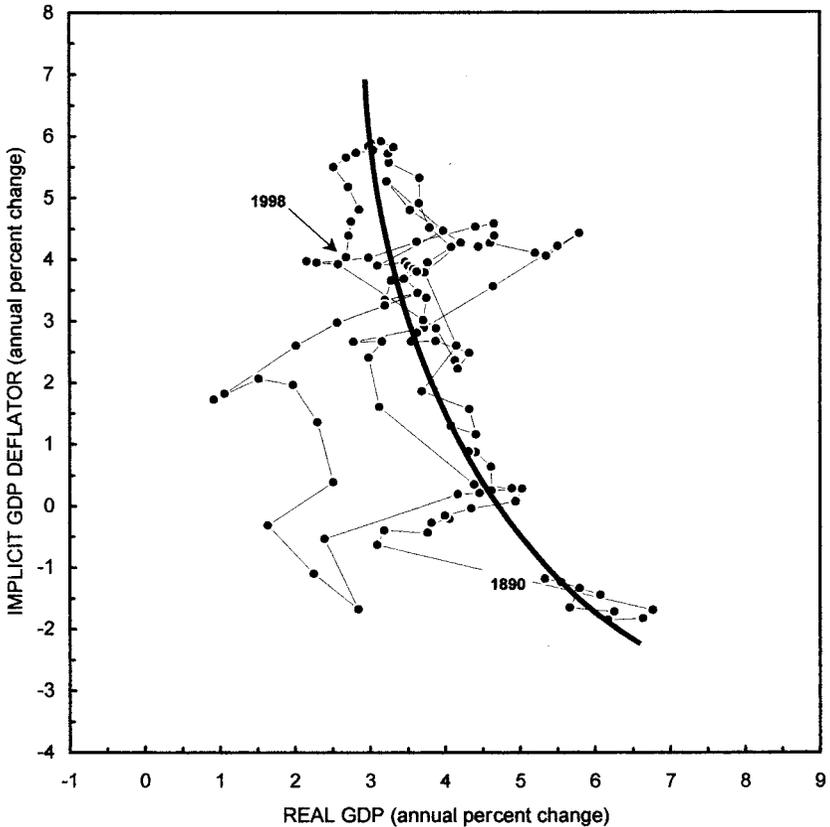


Figure 7 US: long-term inflation and growth

Note: Series are shown as 20-year moving averages. The thick curve running through the observations is drawn free hand for illustration purposes.

Source: US Department of Commerce through McGraw-Hill (Online); US President (Annual).

As it turns out, the long-term relationship between inflation and growth is almost invariably negative. Indeed, the evidence on this is nothing short of overwhelming (although systematically ignored by most economists). Figures 7 and 8 illustrate respectively the case of the US over the past century or so, and of the industrialized countries since the late 1960s. The data contrast inflation and growth, both smoothed as 20-year moving averages to accentuate their long-term pattern. The overall relationship in both charts is clearly inverse, and these are by no means exceptions. In fact, the same long-term pattern seems to repeat itself in numerous individual countries, both developed and developing.

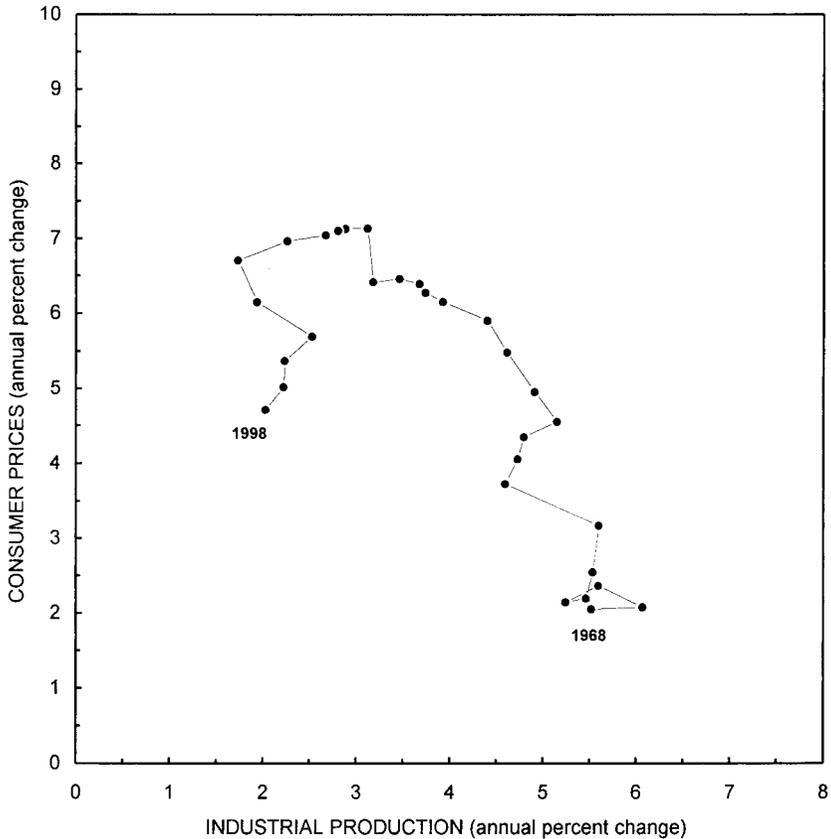


Figure 8 Industrialized countries: long-term inflation and growth

Note: Series are shown as 20-year moving averages.

Source: International Monetary Fund, *International Financial Statistics* through McGraw-Hill (Online).

The negative long-term correlation between growth and inflation also helps explain the post-war schizophrenia of policy makers in capitalist countries. Their stated, eternal purpose is to promote growth and assure price stability. Their unstated commitment, though, has progressively drifted in favour of differential accumulation. During breadth periods, the stated and latent goals are consistent, with high growth and low inflation allowing policy makers to do little and claim success. The problem arises when differential accumulation moves into depth, and the macroeconomic scene turns stagflationary. Then the two commitments clash, and the winner is almost invariably dominant capital. Policy is tightened, presumably in order to rein in inflation, but the conse-

quence is often exactly the opposite: the economy slows, which is precisely what dominant capital needs in order to keep inflation going!

Occasionally, policy tightening claims a big victory – for instance, during the early 1980s, when higher interest rates were eventually followed by disinflation. But was tighter policy here indeed the *cause* of lower inflation? As illustrated in Figure 2, during the early 1980s dominant capital began shifting back to breadth, with a new merger wave gathering momentum. Under these circumstances, both the need for inflation and the ability to co-ordinate it tend to decline. If this interpretation is correct, the real cause of disinflation was resumed breadth, with restrictive policy in fact keeping inflation higher than it would have been otherwise.

Summing up, our analysis so far suggested that of the four paths to differential accumulation, the more important are internal breadth through mergers and acquisitions, and external depth via stagflation (Proposition 8). To wrap up the discussion, we now turn to examine the relationship between the two, and what it may mean for the future.

9 ARE WE HEADING FOR GLOBAL STAGFLATION?

Figure 9 contrasts our amalgamation index (the buy-to-build indicator), with a composite stagflation proxy (both smoothed as five-year moving averages). The latter proxy is constructed first by expressing unemployment and inflation as percentage deviations from their respective historical means, and then averaging the two series into a combined stagflation index. (The purpose of including both inflation and unemployment is to accentuate the broader crisis aspects of depth, although the pattern would have been similar had we used inflation only.)³⁴

The chart highlights several interesting features. First, it suggests that, over the long haul, mergers and acquisitions were indeed the path of least resistance (Proposition 2). Whereas stagflation moved sideways, oscillating around its own stable mean, mergers and acquisitions rose exponentially relative to green-field investment (note the logarithmic scale).

Second, it shows that since the turn of the century, following the initial emergence of big business in the US, internal breadth and external depth tended to move counter-cyclically, with temporary declines in the former ‘compensated’ for by sharp increases in the latter (Propositions 1 and 8). This pattern is indeed quite remarkable, particularly since, as we have emphasized, differential accumulation does not have to happen, and can as easily go into reverse. Yet, as the chart reveals, major declines in merger activity were almost invariably matched by intensifying stagflation, and when merger activity resumed stagflation promptly dropped.

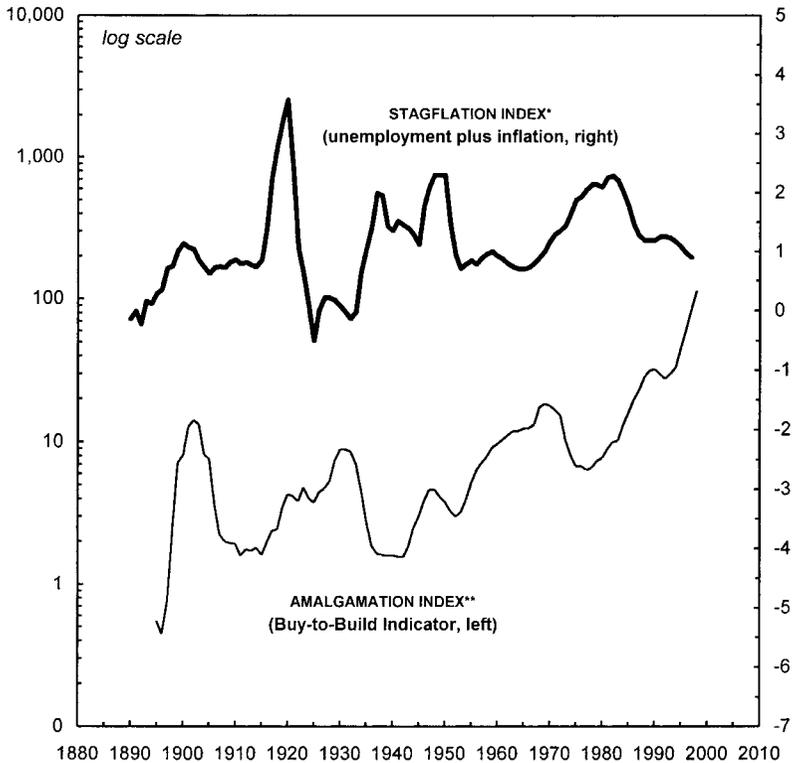


Figure 9 Amalgamation and stagflation in the US

* Average of standardized unemployment and standardized GDP Deflator inflation (percent deviations from mean).

**Mergers and acquisitions as a percent of gross fixed capital formation.

Note: Series are shown as 5-year moving averages (the first four observations cover available data only).

Source: US Department of Commerce through McGraw-Hill (Online) and sources listed in the Data Appendix.

Significantly, this inverse correlation seems to have grown tighter over time, perhaps as a consequence of the ascendancy of dominant capital and differential accumulation.³⁵ During the latter decade of the nineteenth century, when big business was just emerging, the two series still moved in the same direction. This changed in the first decades of the twentieth century, and with dominant capital assuming centre stage, the relationship became clearly negative although still somewhat loose. And, then, from the 1930s onward, with differential accumulation becoming entrenched, the negative fit grew tighter and tighter.

What are the implications of these patterns? First, they suggest that globalization, far from contributing to growth, is likely to further exacerbate stagnation and unemployment. Considering the increasing inclination of larger firms to buy capacity rather than build it, and given that giant cross-border deals now make this tendency truly global, there is little reason to expect brisk growth ahead. Based on this logic at least, the downward growth trend evident for much of the post-war period is likely to continue (Proposition 3).

Second and equally important is the tendency of lulls in merger activity to trigger stagflation crises. As noted, differential accumulation is not a deterministic law of motion. If the process is to continue, however, the logic elaborated in this article suggests that an end to the present merger wave will likely be followed by yet another stagflation crisis. This time, though, the crisis could be different in both scope and duration. Contrary to previous crises whose extent was at least partly contained by national borders, this one may turn out to be truly global, in origin as well as magnitude. Moreover, its resolution is likely to prove much more difficult than before. Previous crises were defused when dominant capital broke its 'envelope', moving to acquire firms outside its original universe. This time, there are no more 'envelopes' to break. Dominant capital now makes the world its playing field. When this field no longer yields enough takeover targets, where can the large companies go? And if, after this merger wave ends, there is indeed no new universe to conquer, what will bring stagflation to an end?

Of course, as these lines are written this scenario may seem far-fetched. The global pool of takeover targets – including the privatization of state-owned firms and public services – remains vast. Moreover, half of the world's population still lives pretty much outside the capitalist fold. Their proletarianization promises plenty of new green-field investment to come, which will in turn continue to generate new takeover targets.

Nonetheless, the analysis presented in the paper suggests that as dominant capital gets closer to its ultimate, global 'envelope', capitalism will become increasingly prone to stagflation crises. The more immediate barrier on further global amalgamation will likely be regulatory or financial. In many sectors global amalgamation is approaching 'antitrust thresholds' as they are now called, and in some of them – including information and telecommunication – it has already triggered regulatory intervention (Hargreaves *et al.*, 2000; and Pretzlik and Lewis, 2000). Also, much of the current merger drive has been financed by a rising stock market, and if and when the boom turns to bust, this too could bring amalgamation into a temporary halt.

The ultimate barrier, however, is the contradiction inherent in a system built on *ever increasing* power. Over the past several centuries, this contradiction was obscured by the 'horizontal' dimensions of markets –

equal exchange, free opportunity, democracy, and growing output. Yet markets, important as they may be, are merely a mechanism in capitalism. The essence of capitalism is differential accumulation and the relative expansion of power. This contrast between means and end is crucial. Conceived of merely as a market system, capitalism could function indefinitely, at least in principle. But as a social order built on *augmenting* power, it is necessarily self-limiting, and therefore finite. From this perspective, the key issue is not the level of profit, but its distribution: whereas the former can always be increased, no capitalist can ever own more than the entire profit pie. And so, if large companies continue to spend on amalgamation twice as much as they do on new capacity, eventually – although we cannot say when – there will be nothing more for them to conquer. The resulting corporate oligarchy, reminiscent of Jack London's description in *The Iron Heel* (1907), may be able to increase its profit, but not its relative power. Differential accumulation can disintegrate at any time. At this point, however, it *must* come to an end, and with it so must capitalism as we know it.

DATA APPENDIX

There are no systematic historical time series for mergers and acquisitions in the US (other countries have even less). The series constructed in this paper and plotted in Figures 2, 3 and 9, is computed on the basis of various studies, which often use different definitions, covering different universes of companies.

The dollar value of mergers and acquisition for the period 1895–1919 are taken from Nelson (1959: Table 14, p. 37), whereas those covering the period 1920–9 come from Eis (1969), as reported in *Historical Statistics of the United States* (US Department of Commerce. Bureau of the Census, 1975: vol. 2, Table V38-40, p. 914). Both data sets cover manufacturing and mining transactions only, and thus fail to reflect the parallel amalgamation drive in other sectors (Markham, 1955).

Data for the 1930–66 period are from the US Federal Trade Commission, reported in *Historical Statistics of the United States* (1975: vol. 2, Table V38-40, p. 914). These data, again covering only manufacturing and mining, pertain to the number of transactions rather than their dollar value. Significantly, though, the number of mergers and acquisitions correlates closely with the value ratio of mergers and acquisitions to green-field investment, during previous and subsequent periods for which both are available (the 1920s and 1960s–80s). In our computations, we assumed a similar correlation to have existed during 1930–66, and hence used the former series (with proper re-basing) as a proxy for the latter ratio.

From 1967 onward, we again use value data which this time cover all sectors. Figures for 1967–79 are from W.T. Grimm, reported in Weston (1987: Table 3.3, p. 44). For 1980–3, data are from Securities Data Corporation, comprising transaction of over \$1 million only. The last batch, covering the period from 1984 to the present and coming from the same source, consists of transactions of \$5 million or more. The latter two data sets are reported regularly in the US Department of Commerce's *Statistical Abstract of the United States* (Annual).

In constructing our indicator for the ratio of mergers and acquisitions to gross fixed investment, we divided, for each year, the dollar value of mergers and acquisitions by the corresponding dollar value of gross fixed capital formation (taken from the *Historical Statistics of the United States* (1975) and from various issues of the *Statistical Abstract of the United States*). For the period 1930–66, we spliced in the number of deals, linking it with prior and latter value ratios.

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NOTES

- 1 During the late 1970s, a new branch of macroeconomic theory emphasizing supply shocks claimed to have solved the mystery of stagflation by blaming it on extra-market forces such as wicked oil sheikhs and greedy labour unions (for instance, Blinder, 1979; and Bruno and Sachs, 1985). By pushing up the cost of raw materials and labour, these aliens cause deficient supply (rather than excess demand), which in turn has the double impact of raising prices while lowering production. Such cost-push explanations are not entirely misguided, only that they are rarely brought to their logical conclusion and are therefore necessarily partial. The problem is that neoclassicists consider profit to be a cost of production, on par with wages and rent. But if that is true, why can we have a wage shock and an oil shock, but not a 'profit shock'? Another solution, favoured by the expectations school (cf. Phelps, 1968; Lucas, 1972; and Friedman, 1976), was to return to Hume's classical dichotomy and argue that inflation was a 'nominal' phenomenon, dependent exclusively on expectations and liquidity, and hence consistent with either stagnation or growth which were 'real' phenomena. The problems with this latter theory are numerous, including the fact that its key explanatory variables – notably, expectations and the 'natural rate of unemployment' – cannot be observed directly, and often end up being 'determined' so to speak by the econometric fit (see Nitzan, 1992).
- 2 The political essence of capital is emphasized in Bichler (1986) and developed more fully in Bichler (1991). For the concept, implications and applications

- of differential accumulation, see Nitzan (1992); Nitzan and Bichler (1995); Bichler and Nitzan (1996a); Bichler and Nitzan (1996b); Nitzan and Bichler (1996); Nitzan (1998); Nitzan and Bichler (2000a); Nitzan and Bichler (2000b); and Nitzan and Bichler (2001).
- 3 Conventional theory celebrates the iron law of profit maximization, although it is not very clear why. For one, the concept holds little water in the real world. As Hall and Hitch (1939) showed more than half a century ago, few if any capitalists know what maximum profit means or how to achieve it, and as many studies before and since have suggested they instead use 'mark-up pricing' to achieve a 'target rate of return' (for instance, Brown, 1924; Kaplan *et al.*, 1958; and Blair, 1972). The marginalists could not accept this heresy. Led by Machlup (1946), they lashed back, arguing that regardless of what businessmen said, in the end mark-up formulae were nothing more than real-world techniques for maximizing profit – although they themselves were still unable to show exactly what that 'maximum' was (Robinson, 1966: 78–9). Of course, many theorists cannot be bothered by such earthly debates, only that the situation is hardly better in the higher world of textbooks. As it turns out, maximum profit is indeed 'workable' in the extreme cases of perfect competition and monopoly. But then what about the entire range of 'imperfections' between these (non-existing) ideal types? The problem, first identified by Cournot (1838), is one of oligopolistic interdependence, which in its 'unrestricted' form makes maximum profit indeterminate, even in the mind of the economist. Of course, game theory has solved this problem a million times over, but only by assuming certain predetermined rules. Sadly, though, real firms are free to ignore such rules, so the enigma of maximum profit remains.
 - 4 The concept of dominant capital was first coined and articulated in Bichler (1986), Rowley *et al.* (1988), and Bichler (1991) as central for understanding the development of modern capitalism in general, and of Israel's political economy in particular.
 - 5 By focusing here on the corporation rather than its ultimate owners, we bypass the long debate on the separation of ownership from control, first identified by Marx and latter intensified with the publication of Berle and Means' *The Modern Corporation and Private Property* (1932). The harsher critiques of the 'separation thesis,' such as Zeitlin (1974), contested its conclusions as being based on 'pseudofacts'. Control, they argued, has never truly been separated from ownership. Other, less hostile critiques, like Baran and Sweezy (1966) and more recently Screpanti (1999), accepted that ownership is increasingly separate from control, but maintain that this merely turns the corporation into a more effective 'profit machine'. One way or the other, we concur with Veblen that the corporation itself, regardless of who runs it, was historically necessary for the survival of capitalism. Without this institution, which for Marx signalled the immanent 'abolition of capital as private property within the framework of capitalist production itself' (1909, vol. III: 516), the centrifugal forces of competition and excess capacity would have probably killed the bourgeois order long ago. Any analysis of capitalism must therefore have the corporation as a central building bloc.
 - 6 Strictly speaking, differential accumulation requires not a positive rate of growth, but a positive difference between rates of growth. Dominant capital can therefore accumulate differentially even with its own profit falling, provided the average declines even faster. This understanding is assumed throughout the article.

- 7 For any given firm, green-field investment can of course draw on inter-firm labour mobility as well as on new employment. From an aggregate perspective, however, labour movement between firms is properly classified as internal breadth.
- 8 Corporate capitalism, although always conflictual, is rarely if ever competitive in the sense of firms being 'price-takers'. The view taken here is that the very existence of profit presupposes power, which normally requires some measure of both collusion and exclusion, tacit or otherwise (Nitzan, 1998). The success of such collusion/exclusion is reflected, if only indirectly, in differential profit margins, or what Kalecki (1943a) called the 'degree of monopoly' (for alternative concepts of competition and their relation to profit, see Ochoa and Glick, 1992).
- 9 The notion of excess capacity, associated mainly with Monopoly Capital writers such as Kalecki (1971), Steindl (1952) and Baran and Sweezy (1966), is admittedly problematic. Here, we use it to denote the potential threat to prevailing profit margins from higher resource utilization. To illustrate, since World War II, US margins, measured by the combined profit and interest share of National Income, have been positively related to the rate of unemployment (Nitzan and Bichler, 2000a, Figure 2, p. 80). In this context, a move from higher to lower unemployment increases utilization and threatens margins.
- 10 Our measurements here are not strictly consistent, in that we contrast the number of corporations with overall non-agricultural private employment (which also includes proprietorships and partnership), rather than with corporate employment only (for which data are not publicly available). Based on a comparison of revenue data, and assuming these are roughly proportional to employment trends, corporate employment over the period has grown by 17 percent more than overall non-agriculture private employment. Correcting for this implies that average employment per corporation over the period has fallen by 67 percent, compared with 72 percent indicated in the chart. This bias is clearly too small to alter the overall picture.
- 11 The effect on relative employment growth is probably somewhat smaller than implied by the dollar figures. For one, amalgamated companies often end up shedding some workers, and two, merger and acquisition data include divestitures which reduce rather than raise employment. Correcting for these qualifications, though, would not likely alter the overall trend.
- 12 For more on the contrast between power and efficiency arguments, see Knoedler (1995).
- 13 A glimpse into what such a 'free run' might have looked like is offered by the recent experience of Japan, a country where the merger medicine for green-field is still socially prohibited: 'The underlying problem facing many Japanese companies', writes the *Financial Times*, 'is that they have misallocated capital over a long period. Instead of regarding it as a scarce resource to be used as efficiently as possible, they have pursued engineering excellence. . . . Japanese production lines are often models of automated efficiency, but less attention has been paid to whether the goods on them should be produced at all. Many companies have poured cash into projects that will never generate a return above the cost of capital' (Abrahams and Harney 1999).
- 14 Controlled stagnation is also used as a stick against labour, contributing to the political supremacy of capital by preventing full employment. In the immediate post-war years, this was achieved mainly through what Kalecki (1943b) termed the 'political business cycle', with governments propping up

the economy, only to step on the brakes as soon as employment became 'too high'. In time, the mechanism was perfected into a fully-fledged 'political trend', as Steindl (1979) later called it, with tight neoliberal policies now aimed at maintaining unemployment 'naturally' high. On the surface such policies seem to sacrifice accumulation for the more primordial goal of keeping capitalists in the driver's seat, although in practice the loss is often more apparent than real. First, policy-induced stagnation shifts income from profit to interest, but does not necessarily undermine the overall income share of capital. Second, for dominant capital, redistribution from labour and smaller firms could more than compensate for the negative impact on profit of stunted growth. Finally, and no less important, the greater 'stability' associated with stagnation translates into falling risk premia and a corresponding rise in asset prices.

- 15 In this context, *Tobin's Q* turns from a cause to a consequence, with mergers and acquisitions driving up asset prices and therefore the ratio of market value to replacement cost.
- 16 Economies of scale, impressive as they were in Marx's time, are not a time-less iron law, but rather historically and technologically contingent. Diseconomies of scale can be as important, and there is no reason to believe that completely centralized planning, capitalist or otherwise, is most efficient. Similarly with roundabout processes – longer production runs may be more efficient, but only up to a point, beyond which they almost always run into organizational barriers.
- 17 Note that the act of merger itself has no direct effect on depth. Its impact works only indirectly, through increasing corporate centralization, and even that is merely a facilitating factor. Consolidation makes it easier for firms to collude, but that does not imply that collusion will actually take place, or that it will be effective in raising differential profit per employee.
- 18 This is also why most macro studies of mergers and acquisitions, such as Mitchell and Mulheim (1996), Weston *et al.* (1998) or Winston (1998), are usually insufficient. Although they acknowledge the role of structural changes such as increased competition, technical change and deregulation, they tend to treat them more as external 'shocks' to which amalgamation is then a 'response'.
- 19 A typical illustration of this process is provided by the food business. During the 1980s, the sector went through rapid amalgamation. In 1981, a \$1.9bn merger between Nabisco and Standard Brands created Nabisco Brands, which then merged in a \$4.9bn deal with R.J. Reynolds to create RJR Nabisco. A few years later, KKR, which earlier acquired Beatrice for \$6.2bn, paid \$30.6bn to take over RJR Nabisco in what was then the largest takeover on record. Elsewhere in the sector, Nestlé took over Carnation (\$2.9bn) and Rowntree (\$4.5bn); Grand Metropolitan acquired Pilsbury (\$5.7bn) and Guinness (\$16bn); Phillip Morris bought General Foods (\$5.7bn) and Kraft (\$13.4bn); BCI Holdings took over some Beatrice divisions (\$6.1bn); and Rhône-Poulenc bought Hoechst (\$21.9bn). By the end of the 1980s, the merger flurry died down. According to a recent report in the *Financial Times*, food companies are very cheap, yet 'shareholders have deserted food stocks . . . partly because of the absence of genuinely attractive acquisition targets' in an industry whose 'biggest problem has been minimal sales growth'. During the 1990s, there were a few more big transactions, such as the \$14.9bn acquisition of Nabisco by Philip Morris, but these were mostly reshuffles of assets among the large players. The experience of reaching the 'envelope' was aptly summarized by a Bestfood executive whose company had been taken over by

- Unilever: 'I have been to Bentonville, Arkansas [home of Wal-Mart's headquarters], and I would like to say that it is not the end of the world, but you can see it' (Edgecliffe-Johnson, 2000).
- 20 The effect of such counter forces can be dramatic. The 1933 Glass-Steagle Act, for example, reversed an earlier diversification trend by US banks, preventing them from owning non-financial corporations, a limitation which is only now being relaxed.
 - 21 The process is of course hardly unique to the US. For example, 'Before [South Africa] started the progressive unwinding of exchange controls in 1994', writes the *Financial Times*, 'large companies were prevented from expanding overseas. With capital trapped at home, they gobbled up all available companies in their industries before acquiring companies in other sectors and becoming conglomerates' (Plender and Mallet, 2000). For analyses of differential accumulation, business consolidation and globalization in South Africa and Israel, see Nitzan and Bichler (1996) and Nitzan and Bichler (2001).
 - 22 For instance, information, telecommunication and entertainment companies such as Cisco, Lucent, Microsoft, AOL-Time Warner, NewsCorp, Hutchison and Vivendi now increasingly integrate computing (hardware and software), services (consulting), infrastructure (cables and satellite), contents (television, movies, music and print publishing) and communication (internet and telephony), while leisure firms like Carnival Cruise own shipping lines, resort hotels, air lines and sport teams. Other companies, like General Electric or Philip Morris, have never abandoned conglomeration in the first place and continue spreading in numerous directions.
 - 23 Globalization of course has other dimensions, but these are secondary for our purpose here.
 - 24 The rationale is based on the external account identity between the current and capital balances. If the international monetary system were to remain stable while states retain domestic sovereignty over exports and imports, capital movements must be controlled in order to 'accommodate' the resulting current account imbalances. In the absence of such capital controls, states would have to give up their policy autonomy, for otherwise the mismatch between the current and capital balances would upset international monetary stability.
 - 25 For views and reviews, see Cerny (1993); Helleiner (1994); Sobel (1994); and Cohen (1996).
 - 26 For more on the globalization debate, see Gordon (1988), Du Boff *et al.* (1997); Sivanandan and Wood (1997); Burbach and Robinson (1999); Hirst and Thompson (1999); Radice (1999); and Sutcliffe and Glyn (1999).
 - 27 According to the *World Investment Report*, the share of transnational production in world GDP has risen from 5.3 percent in 1982, to 6.6 in 1990, to 10.1 percent in 1999, while the average 'transnationality' of the world's top 100 transnational corporations increased to 54 percent in 1998, up from 51 percent in 1990 (United Nations Conference on Trade and Development, 2000, Table I.1, p. 4 and Table III.2, p. 76). (UNCTAD's 'Transnationality Index' is defined as the average of the ratios of foreign to total assets, foreign to total sales, and foreign to total employment.)
 - 28 Note that the series in Figure 4 are based on quarterly data and therefore fail to reflect shorter 'hot money' movements. Their inclusion would have further widened the disparity between the gross and net flows.
 - 29 The popular perception that 'direct' investment creates new productive capacity, in contrast to 'portfolio' investment which is merely a paper transaction, is simply wrong. In fact, *both* are paper transactions whose only

difference is relative size: investments worth more than 10 percent of the target company's equity are commonly classified as direct, whereas those worth less are considered portfolio. Conceptually, both direct and portfolio investment occur on the liabilities side of the balance sheet, whereas the creation of capacity affects the asset side. While total liabilities are by definition equal to total assets, there is no one-to-one correspondence between their underlying components. In this way the proceeds from a public offering sold to portfolio investors can end up financing a new factory, while direct investment may be used to buy government T-bills.

- 30 The challenge to differential accumulation of 'universal' cost was summarized neatly by Andrew Grove, Chairman of Intel: 'How do you build a company', he asks 'when your buyers are infinitely knowledgeable and where your suppliers maintain a level playing field for your competitors? What remains your competitive differentiator or your source of value or whatever academic cliché you want to wrap around it?' (Byrne, 2000).
- 31 'Big American companies', writes *The Economist* (1999), 'fear that innovation is the secret of success – and that they cannot innovate'. Indeed, their 'terror' is that 'innovation seems to work best outside of them', with the result being that 'Much of today's merger boom is driven by a desperate search for new ideas', with trading in intangible assets reaching \$100bn in 1998, up from \$15bn in 1990. 'Nobody holds out for organic growth any more', declares Sir Richard Sykes, chairman of Glaxo SmithKline which in 1999 controlled 7.3 percent of the world market for pharmaceuticals. According to a recent *Financial Times* survey in which he is cited, the reason has little to do with 'efficiency gains'. Indeed, 'Those wary of mergers', reports the survey, 'argue there is no evidence of scale contributing to greater efficiency. Ed Scolnick, chief scientist at Merck, found absolutely no correlation between the size and productivity of his company's research laboratories. The relative success of small biotechnology companies suggests that scale in research may even be a disadvantage'. Of course, this is hardly a reason not to merge. As Jim Niedel of Glaxo points out in the same article, 'doubling up' [via merger] allows companies to screen twice as many compounds, not to mention the resulting increase in 'salespower' (Pilling, 2000). In our terminology, it contributes to both internal breadth and external depth.
- 32 *Fortune* stopped reporting aggregate employment after 1993, but the correlation in the chart probably stayed positive for the rest of the decade. Note that the profit-per-employee ratio is the product of the sales-per-employee ratio and the mark-up ratio (the latter being the ratio between the net profit share of sales in the Fortune 500 and in the economy as a whole). Now, as indicated in section 7, the sales-per-employee ratio remained fairly stationary throughout the period. The mark-up ratio, on the other hand, was positively and tightly correlated with inflation throughout the period 1954–98. Given the above relationship between these two series, the implication is that the correlation between inflation and the profit-per-employee ratio depicted in the chart also continued to be positive after 1993.
- 33 Supply-shock explanations of stagflation are in this sense outside the mainstream, since they acknowledge, if only half-heartedly, the existence of market power.
- 34 Inflation fluctuates much more than unemployment, and therefore dominates the combined stagflation index. The correlation coefficient between the combined index and its inflation component, both expressed as 5-year moving averages, is 0.93.

- 35 The 30-year moving correlation between the stagflation and amalgamation indices (with the latter expressed as deviations from trend), rose gradually from a negative 0.11 in 1927, to a negative 0.9 in 1998.

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