Hollowing Out? Canadian capitalism in comparative context

Paul Kellogg

Centre for Integrated Studies

Athabasca University

Paper presented to the annual conference,

Canadian Political Science Association (Political Economy),

June, Concordia University, Montreal

Draft only

May 20, 2010

Comments to pkellogg@athabascau.ca

Introduction[1]

A recurring theme of Canadian political economy has been the dependence of Canada's capitalist class. In the 1960s and 1970s the focus of the discussion was on non-Canadian (unfortunately, but inevitably, referred to throughout the literature as “foreign”) ownership and foreign direct investment – both seen as indicators of an unusual degree of dependence. In recent years, the debate has taken a new form, with a focus on the purchase – by non-Canadians – of long-standing corporate symbols of Canadian capitalism. The Canadian economy is being "hollowed out," it is claimed, with dangerous consequences for sovereignty and for social and economic development.

This perspective is beginning to be challenged by 21st century political economists. One recent example, very relevant to the analysis being developed here, comes from William Carroll and Jerome Klassen. Basing themselves in a “sociological research tradition,” they have challenged the hollowing-out thesis through an examination of “interlocking directorates for the largest corporations in Canada and the world.”[2] This paper will develop the critique from a different angle, through an examination of both the empirical and theoretical underpinnings of the hollowing-out thesis. It will argue that empirically, the thesis is impossible to sustain. Both in terms of number of acquisitions and value of acquisitions, Canadian corporations are more visible as acquirers of foreign holdings, than as sellers. Theoretically, the paper will challenge the notion that the term “comprador” can be applied to Canada's capitalist class. This is an idea that was current in the 1970’s political economy debates, and has returned as a recurring theme in contemporary analyses of Canadian capitalism. The term comprador is best reserved for use with the really dependent economies of sections of the Global South. Canada’s capitalist class is increasingly displaying all the signs of an independent class – economically, politically and militarily – in an alliance with the U.S., but as a "relatively autonomous" actor in its own right.

Whose Canada?

Although none of us knew it at the time, to grow up in Cornwall Ontario in the 1960s was to grow up in a microcosm of Canada. Its smokestacks spewed forth the filthy residue from typical Canadian industries – pulp and paper giant Domtar to the west with its piles of stinking sulphur, rayon and textile producing Courtaulds to the east, Aluminum smelters across the St. Lawrence on the U.S. side. We predicted the weather by what industry we could smell. If you could smell nothing, it would be cold – there were no plants in the north of the town.

But it wasn't just industry that made Cornwall, Canada in miniature. Go to a hockey game at the Water Street Arena, in the east end of the city, and you were in a part of town where the main language was French – some one-third of the town were Franco-Ontarians. Go to the west, and the proud neighbours of Cornwall Collegiate and Vocational Institute (CCVS) would gladly point out that this was the oldest secondary school in all of Canada. Descendants of the United Empire Loyalists – who had settled what came to be called Upper Canada – were everywhere. Travel south to the U.S. and you would drive over what we called "Cornwall Island." It wasn't until years later that we learned its real name was Akwesasne, home to 12,000 Kanienkehaka or Mohawk people.[3]

Stinking industry, one of which organized around the exploitation of a resource staple, a sometimes tense relationship between French and English, an unresolved relationship with First Nations, and the great shadow to the south, the United States – what could be more Canadian? These remain some of the main themes of a now very old tradition called Canadian Political

Economy. CPE was, and is, a left tradition, most forcefully developed in the context of the radicalization of the 1960s and 1970s. In those decades, it rammed its way past ossified traditional political science and economics, and insisted that what we know as Canada could not be understood without a perspective that included class and nation. At its best, CPE insisted that along with class and nation, race and gender had to be at the centre of analysis. The CPE tradition has made an enormous contribution to several generations' attempts to conceptualize the Canadian experience.

However, it would be inaccurate to describe CPE as solely left. Sometimes explicitly, often implicitly, Canadian nationalism accompanied the left perspective. The ever-present reality of the United States – the world's biggest economic and military power just across our bridge in Cornwall – has formed the central organizing theme for much of the scholarship. The tradition was "left" – concerned with class, gender, ethnicity and national oppression. The tradition was also Canadian nationalist, centred on a concern for the threat to Canadian sovereignty, development and values implicit in a relationship usually seen as dependent on the United States. To the extent that one term can adequately cover a rich generations-long tradition, left-nationalism is the best choice.

That the term left-nationalism still has salience, is clear from a perusal of one of the most recent collection of CPE essays – a series of articles dealing with the challenge of "deep integration" collected in a book called *Whose Canada?*[4] The book is "left" – it is concerned with the defence of social programs and labour rights from neoliberal attacks. But many of its articles are also very much infused with nationalism.

The nationalism is expressed in the choice of language. Maude Barlow talks about "our nation's future."[5] The editors write about "a likely U.S. demand", "U.S. corporate interests" creating pressure to "dissolve all that is distinctive about the northernmost section of North America." What is at stake they argue is further "Americanization" of Canada which will undermine "Canadian democracy."[6] Bruce Campbell talks about "we as a nation" with our "core national interests of identity and autonomy" and our "bonds of Canadian nationhood … our national identity."[7] The language is very clear, the language of Canadian nationalism, establishing an enemy – the United States – and a victim – Canada.

This nationalism is more than just a choice of words. Key articles work on the presumption that Canada's experience can be equated with the experience of the dependent countries of the Global South. Both Duncan Cameron and Murray Dobbin, in articles in the volume, use the term "Washington Consensus" to describe the imposition of neoliberal policies in Canada.[8] This is important, because the term "Washington Consensus" was not developed to analyze advanced capitalist economies such as Canada's, but rather the debt-ridden, dependent economies of Latin America.[9] The institutions which applied the "Washington Consensus" to restructure Latin American economies were principally the International Monetary Fund (IMF) and the World Bank. But Canada plays a very important role in shaping policy in both of these. In the IMF, only eight countries out of the 183 members have more votes in shaping policy than Canada.[10] In the International Bank for Reconstruction and Development, part of the World Bank, only six countries out of the 185 members have more votes than Canada.[11] Canada must be seen not as a victim but rather as a co-architect of the Washington Consensus. It is among the very small group of countries, at the top of the hierarchy of nations, which shape and implement the policies of neoliberalism – of which the Washington Consensus comprises a part.

Consistent with this is Dobbin in particular, using the term "comprador" to describe Canada's ruling elites: "a comprador class – both economic and political – that has always had limited loyalty to the idea of the Canadian nation, grudgingly accepting nation-building policies only when it suited its narrow economic interests."[12] The use of the term "comprador" has a long pedigree in CPE. Wallace Clement, in his classic 1975 study, used it as part of his taxonomy of the Canadian capitalist class.[13] But long pedigree or not, using such a term in the Canadian context is very problematic. "Comprador" was a term first attached to left-wing analysis by Mao Tse-Tung in 1926, describing the very difficult situation in China emerging from under the devastation of European imperialism. China, Mao said was "economically backward and semi-colonial". In this situation, the "landlord class and the comprador class are wholly appendages of the international bourgeoisie." These classes "hinder the development of her productive forces." They "always side with imperialism and constitute an extreme counterrevolutionary group."[14]

Clearly there are challenges simply importing the term "comprador" into the Canadian context. It is very hard to maintain that Canada is either economically backward or semi-colonial. It is one of the richest countries on the planet and is in many regions, not seen as colonized but as the colonizer. But use of the term is in sync with a long tradition of seeing Canada as an "exploited" country in terms of its relationship to the U.S.[15] Without question, a political economy perspective imbued with these kinds of perspectives, is a perspective that is nationalist – concerned with the defence of Canadian nationhood from U.S. imperialist domination.

The evidence marshalled in this paper and by a growing body of 21st century Canadian political economy, makes the case that the nationalist half of the CPE tradition has left it in a dead end. Empirically, the evidence is overwhelming that Canada belongs not to the Global South, but the Global North. Its economy is not dependent, but independent. In terms of sovereignty, it is many generations ago that a fully sovereign Canadian state emerged – as sovereign as any equivalent country of the Global North, be it Denmark, France, Germany or Sweden. Categories useful to the analysis of the Global South – such as "Washington Consensus" and "comprador" – lead simply to confusion when applied to the Canadian context. And trying to fit the Canadian reality into the framework of national oppression means a constant and recurring misunderstanding of the motives and trajectory of the Canadian capitalist class which is imposing the neoliberal restructuring that motivates much of contemporary political economy.

Life itself is exposing the analytic difficulties in keeping the "nationalist" half of the equation glued to its "left" prefix. May 7, 2007, U.S.-based Aluminum giant Alcoa said it wanted to take over Alcan, one of the biggest multinational companies based in Canada – a takeover valued at $33-billion (U.S.).[16] A U.S. firm looked set to take over a big Canadian company. In a very short time, discourse in the business press on the threat this posed seemed an awful lot like discourse in the writings of 1970's Canadian left-nationalism – except this time, the argument was coming not from the margins, but from the mainstream of Canadian society.

May 3, 2007 – before the Alcan takeover news hit – Dominic D'Allessandro, president and chief executive of Manulife Financial said: "I sometimes worry that we may all wake up one day and find that as a nation, we have lost control of our affairs."[17] Gordon Nixon, chief executive of the Royal Bank of Canada became almost strident. "Are we going to let the country go virtually 100 percent foreign-owned, with the exception of small businesses? Do you draw the line in the sand at some point, or do you never draw the line in the sand?"[18] With the Alcan announcement, many new voices joined the choir. "I'm just sick about Alcan," said Dick Haskayne, author of *Northern Tigers: Building Ethical Canadian Corporate Champions*. "At the current pace" wrote Ken Smith, managing partner of SECOR Consulting, the Canadian economy will be effectively hollowed-out in less than a decade."[19] Robert Brown, chief executive of CAE Inc. warned that "A country must be in charge of its own destiny and can't have key decisions made outside. That means retaining large head offices and the top-quality jobs they provide."[20]

This corporate Canadian nationalism was echoed in the media. The liberal and nationalist *Toronto Star* editors wrote that "what's at stake here are Canadian jobs, Canadian decision-making and, ultimately, Canada's standard of living."[21] David Olive, business journalist at the *Toronto Star*, put the case forcefully. "There have been close to 600 foreign takeovers since the start of last year," he said. "Familiar names from Inco Ltd. To John Labatt Ltd." had been taken over. "Lesser-known but important names on the list of losses include Biochem Pharma Inc., developer of the world's first widely dispensed AIDS drug; ID Biomedical Corp., a pioneer in vaccines; and ATI Technologies Inc., leading global graphic chips maker. … Inco succumbed to … Compahania Vale do Rio Doce (CVRD), and nickel producer Falconbridge … submitted to the blandishments of … Xstrata PLC."[22]

May 22, 2007, things did not seem so clear. Alcan rejected Alcoa's offer saying that it undervalued the company and was "highly conditional and uncertain," and began discussions with BHP Billiton Ltd. as an alternative suitor.[23] Finally, on July 11, Alcan was purchased not by Alcoa, but by Rio Tinto. Alcan's fate was to be subsidiary, known as Rio Tinto Alcan, with headquarters in Montreal.[24] For those with a nationalist, let alone left-nationalist framework, this posed a problem. In the 1970s, the vast majority of "foreign takeovers" were made by U.S. corporations. The whole discussion of foreign ownership, then, was about Canada being subservient to U.S. imperialism. Nationalism could take the form of left-nationalism, with nationalist politics directed against U.S. imperialism. But both BHP Billiton and Rio Tinto are Australian-British multinationals. CVRD which purchased Inco is Brazilian. Xstrata which bought Falconbridge, is Swiss. It competed unsuccessfully with Norilsk, a Russian company, to buy Lion-Ore. Essar Global, which purchased Algoma, is based in India. This is clearly a much more complex picture than in the 1970s. It is a little hard to, with credibility, argue that Canada is being "oppressed" by not just U.S., but Swiss, Australian, British, Russian and Indian "imperialism".[25]

This is only part of the story. In an interview where he announced the rejection of the Alcoa takeover, Alcan CEO Dick Evens "refused to rule out any scenario … including one in which Alcan would turn the tables by launching its own bid for Alcoa."[26] A U.S. takeover of a Canadian crown corporate jewel was being transformed into a threat to aggressively assert Canadian corporate capitalist interests into the heart of the U.S. economy. That is the piece of the picture missing from the nationalist lament for the sale of corporate Canada. There are many "foreign" companies buying Canadian firms. But there are in fact many more Canadian firms buying foreign firms. Canadian capitalism is not the weak, declining, dependent beast that is portrayed in the press.

If May 8, 2007, we heard of the attempted takeover of Alcan – spurring the outcry over the takeover of Canadian corporations – the next day KPMG released an important study that revealed a very different picture. "Based on data supplied by Thomson Financial Securities Data," the KPMG study concluded that while foreign takeovers of Canadian companies increased in 2005 and 2006, there were in fact more takeovers of foreign corporations by Canadian capitalists. In 2005 there were 277, and in 2006 there were 383 takeovers of Canadian firms by non-Canadians. But in those same years, there were, respectively, 348 and 442

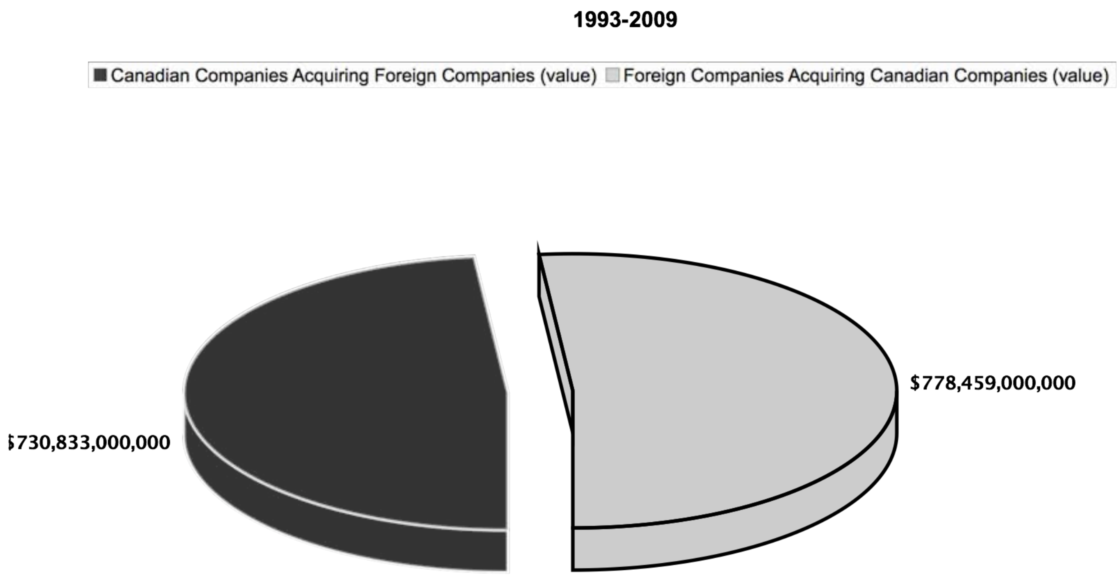
Canadian takeovers of non-Canadian firms. Canadian corporations were taking over foreign firms at a rate "20 percent greater" than foreign takeovers of Canadian firms. It is true that the dollar value of foreign takeovers is greater than the dollar value of Canadian takeovers of foreign firms – about $99 billion compared to $52 billion. But these kinds of studies can be hugely affected by "one or two big transactions, and that was the case in 2006 with two significant transactions in Canada's mining sector involving Falconbridge and Inco. Those two transactions accounted for U.S. $38 billion."[27]

This picture of corporate Canada aggressively pushing abroad with takeovers of foreign corporations that outweigh foreign company purchases of Canadian corporations is not a short-term anomaly. Michael Marth of Statistics Canada, authored an interesting study of cross-border mergers and acquisitions between 1997 and 2002. His conclusions are clear. "Canadian firms acquired foreign companies at a faster pace than foreign firms were acquiring companies in Canada. Between 1997 and 2002, Canadian firms acquired 447 foreign companies … while foreign companies acquired 345 Canadian companies."[28]

The empirical evidence

The most comprehensive source for information on this subject comes from the "investment banking services" firm Crosbie & Company, which has tracked mergers and acquisitions in Canada going back to 1993. What is remarkable about the picture painted by their figures, is the way in which it completely reverses the "hollowing out" picture painted above. Figure 1-1 shows the value of Canadian takeovers of foreign companies and the value of foreign takeovers of Canadian companies from 1993 to 2009 – a pie chart to show overall totals in those years, and an accompanying table to show year on year fluctuations. In some years Canada does lag behind, but in other years it jumps far ahead. In general, the figures are more similar than different, and are hard to display as evidence of a hollowing out of the Canadian economy. Over the time period considered, the value of takeovers in each direction is similar – with the value of foreign takeovers of Canadian corporations coming in somewhat higher ($778 billion) compared to Canadian takeovers of foreign corporations ($731 billion).

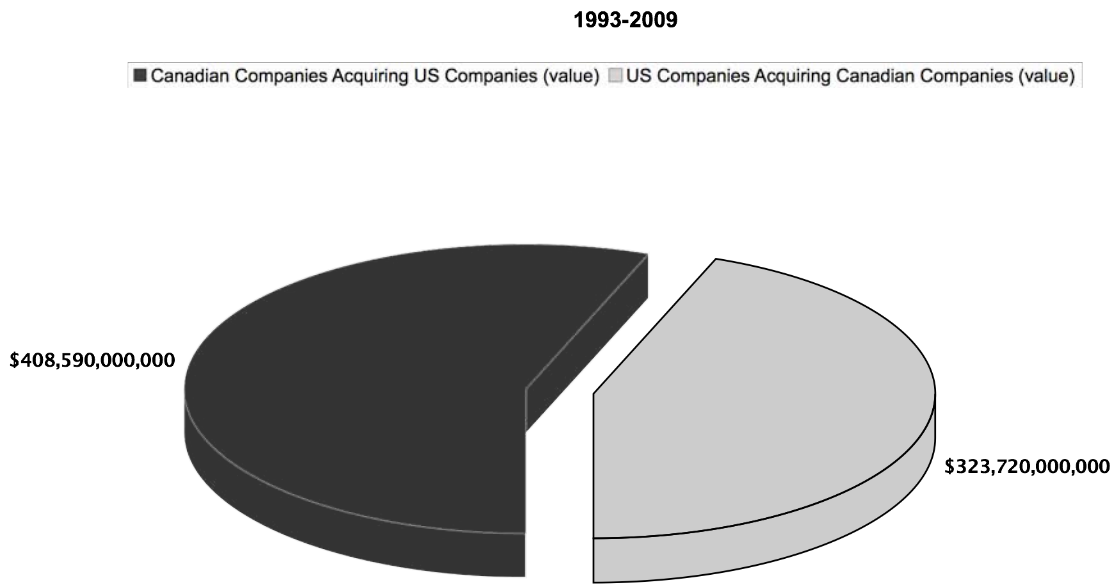
Figure 1-1: Comparison (value) Canadian, Foreign Corporate Takeovers, 1993-2009[29]



	Canadian Companies Acquiring Foreign Companies (value)	Foreign Companies Acquiring Canadian Companies (value)
1993	$12,744,000,000	$5,134,000,000
1994	$14,384,000,000	$11,409,000,000
1995	$26,241,000,000	$29,209,000,000
1996	$23,290,000,000	$21,879,000,000
1997	$29,853,000,000	$27,347,000,000
1998	$61,257,000,000	$33,045,000,000
1999	$41,215,000,000	$48,896,000,000
2000	$59,614,000,000	$113,820,000,000
2001	$39,202,000,000	$52,740,000,000
2002	$31,916,000,000	$14,521,000,000
2003	$48,599,000,000	$13,877,000,000
2004	$54,177,000,000	$23,288,000,000
2005	$37,862,000,000	$60,655,000,000
2006	$87,714,000,000	$114,238,000,000
2007	$98,995,000,000	$139,463,000,000
2008	$22,749,000,000	$35,186,000,000
2009	$41,021,000,000	$33,752,000,000

An interesting picture emerges in Figure 1-2, where the comparison is one between Canadian takeovers of U.S. corporations and U.S. takeovers of Canadian corporations. Given the emphasis in CPE literature on the issue of U.S. corporate control of the Canadian economy, this picture of the trajectory of U.S. corporate activity relative to Canadian corporate activity is more important than the figures of overall foreign corporate activity. Here, the overall value of Canadian takeovers is actually greater than the overall value of U.S. takeovers, $409 billion as compared to $324 billion. The data table shows that this trend is a solid one. In the 17 years surveyed, in only five (2005, 2001, 1999, 1996 and 1994) do the value of U.S. corporate takeovers of Canadian corporations exceed the value of Canadian corporate takeovers of U.S. corporations. In every other year this century, the story has been of the value of Canadian takeovers of U.S. corporations considerably outnumbering the value of U.S. takeovers of Canadian corporations.

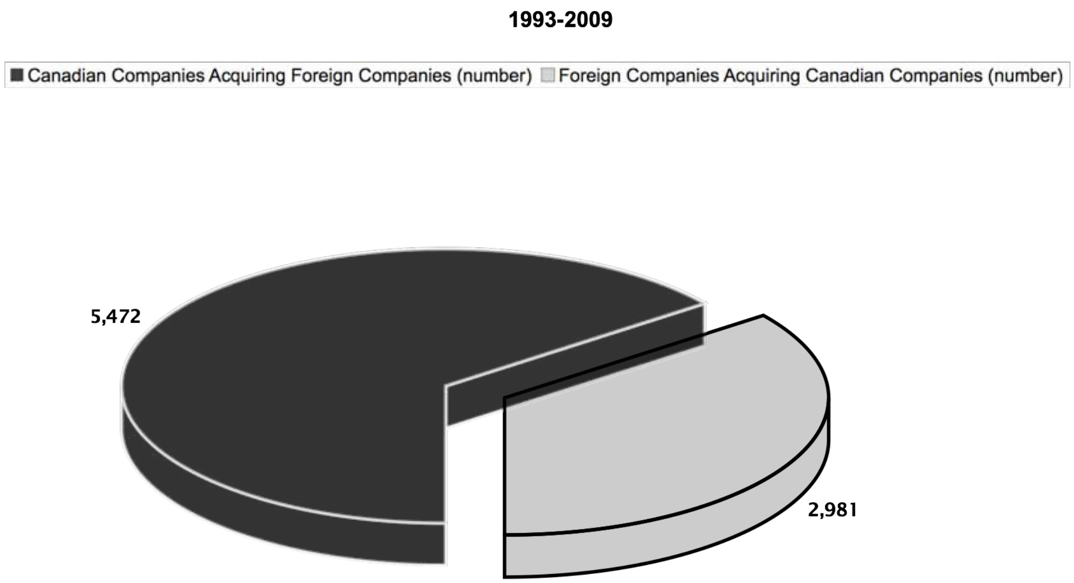
Figure 1-2: Comparison (value) Canadian, U.S. Corporate Takeovers, 1993-2009



	Canadian Companies Acquiring US Companies (value)	US Companies Acquiring Canadian Companies (value)
1993	$3,368,000,000	$1,788,000,000
1994	$4,442,000,000	$5,646,000,000
1995	$14,885,000,000	$8,760,000,000
1996	$14,001,000,000	$14,328,000,000
1997	$20,366,000,000	$8,095,000,000
1998	$33,871,000,000	$16,863,000,000
1999	$19,567,000,000	$26,556,000,000
2000	$47,581,000,000	$20,435,000,000
2001	$26,808,000,000	$37,394,000,000
2002	$11,002,000,000	$6,841,000,000
2003	$27,718,000,000	$10,715,000,000
2004	$32,754,000,000	$12,751,000,000
2005	$17,726,000,000	$43,010,000,000
2006	$55,073,000,000	$43,391,000,000
2007	$50,055,000,000	$48,909,000,000
2008	$14,442,000,000	$12,809,000,000
2009	$14,931,000,000	$5,429,000,000

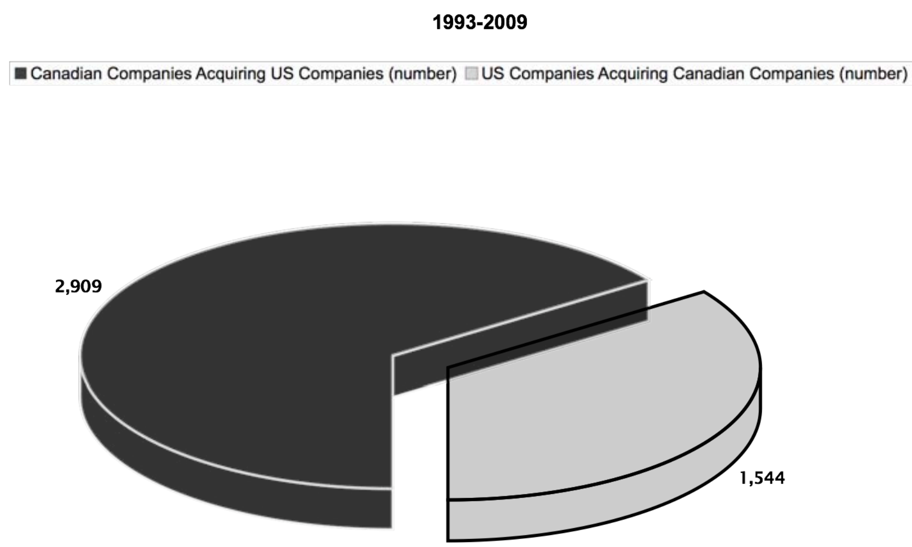
When the data is reworked to measure not the value of the transactions which take place, but the numbers of transactions, an even more interesting picture emerges. Figures 1-3 and 1-4 track the number of corporate takeovers, Canadian, foreign and U.S., from 1993 to 2009. Figure 1-3 shows that from 1993 to 2009, in every year, there were more Canadian takeovers of foreign companies than foreign takeovers of Canadians, sometimes considerably more. Overall there were 5,472 Canadian takeovers of foreign firms, just 2,981 the other way. Figure 1-4 shows that for those same years, this picture is even more pronounced when Canada and the U.S. is compared. Again, in every year, there are more Canadian takeovers of U.S. corporations than the reverse. In total, there were 2,909 instances of Canadian corporations taking over U.S. corporations, just 1,544 in the other direction. The fact that it is the 1,544 U.S. takeovers of Canadian corporations which receive the most press, and not the almost 3,000 Canadian takeovers of U.S. corporations, does speak to journalistic one-sidedness, but not to the validation of the "hollowing out" thesis.

Figure 1-3: Comparison (number) Canadian, Foreign Corporate Takeovers, 1993-2007



	Canadian Companies Acquiring Foreign Companies (number)	Foreign Companies Acquiring Canadian Companies (number)
1993	190	112
1994	304	156
1995	240	175
1996	300	196
1997	344	194
1998	355	212
1999	318	244
2000	350	286
2001	269	179
2002	274	134
2003	267	97
2004	275	118
2005	408	143
2006	538	194
2007	531	241
2008	286	175
2009	223	125

Figure 1-4: Comparison (number) Canadian, U.S. Corporate Takeovers, 1993-2007

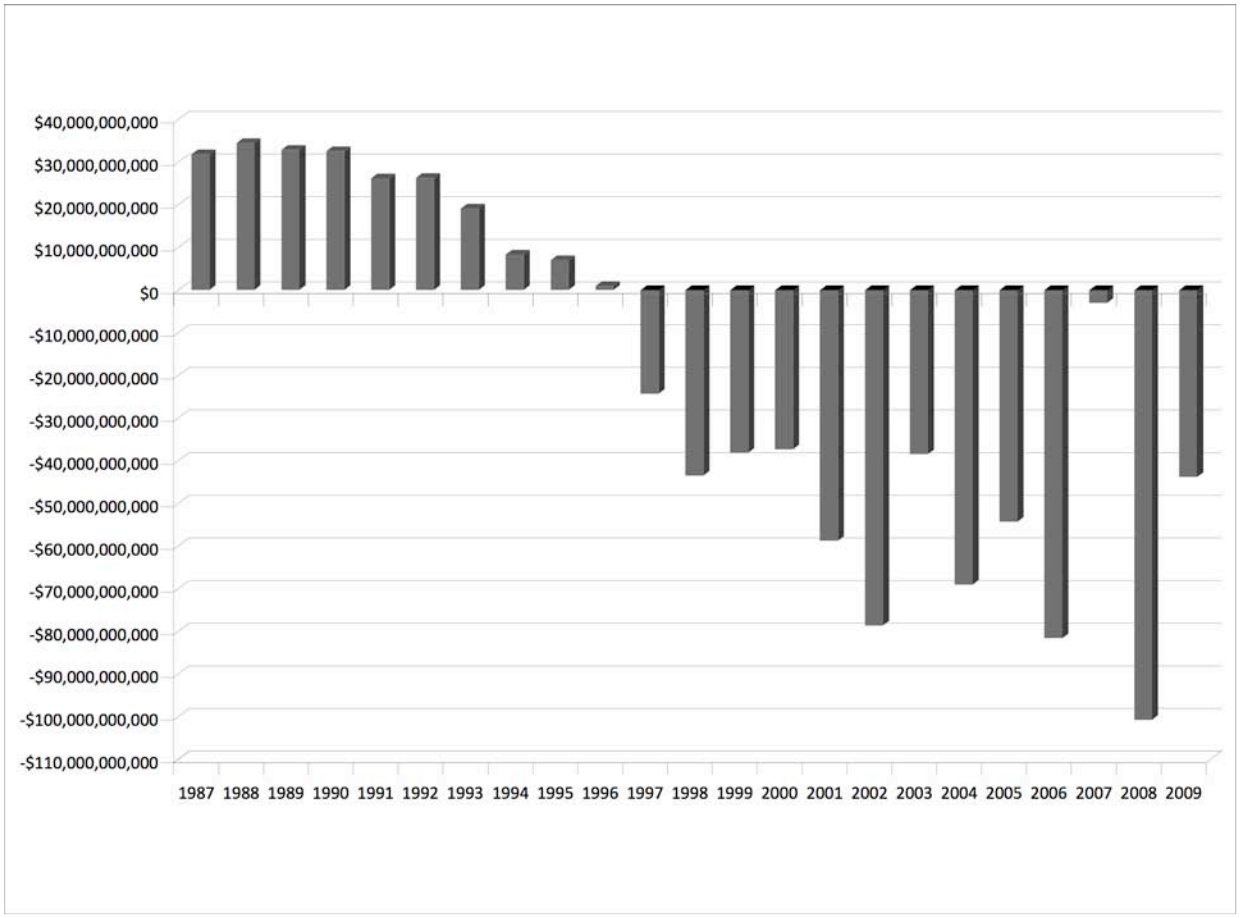


	Canadian Companies Acquiring US Companies (number)	US Companies Acquiring Canadian Companies (number)
1993	87	65
1994	138	92
1995	110	91
1996	138	122
1997	189	104
1998	212	120
1999	187	142
2000	248	139
2001	143	101
2002	141	77
2003	137	46
2004	134	65
2005	241	77
2006	263	79
2007	291	106
2008	148	71
2009	102	47

It is useful to approach the question with another set of statistics. In the 1970s, the left-nationalists who linked foreign ownership to U.S. imperialist control of the Canadian economy, identified Foreign Direct Investment (FDI) as the key mechanism through which this control was exercised. The argument was that Canada received huge inflows of FDI each year – far more than Canadian corporations invested abroad – leading to a long term decline in Canadian control of the economy. The whole FDI question is of considerable importance, and will be examined in the book manuscript of which this paper forms a part. But a few words are pertinent here.

There were two problems with the traditional CPE argument concerning FDI. First, U.S. control of the economy peaked in the early 1970s, and has been declining since. The second problem is revealed in Figure 1-5. It measures the relative weight of Foreign Direct Investment into Canada, and Canadian direct investment abroad. For a very long time, there was much more of the former than the latter. But through the 1970s, 1980s and 1990s, Canadian direct investment abroad grew steadily faster than Foreign Direct Investment into Canada. The turning point came in 1997. That year, for the first time, there was more Canadian capitalist investment abroad, than foreign capitalist investment into Canada. That trend has strengthened and continued. Canadian capitalists now, every year since (except for 2007), invest far more abroad, than foreign capitalists invest into Canada. This is the classic profile of an advanced capitalist – and hence imperialist – country: a productive developed economy, that needs to find investment outlets abroad to deal with overproduction at home.

Figure 1-5: Net Foreign Direct Investment in Canada, 1987-2009[30]



Finally, in spite of the alarm bells about the takeover of corporate Canada, there is absolutely no evidence of increasing foreign ownership. There is a high level of non-Canadian ownership of the manufacturing sector (compared to other advanced capitalist countries) but it is not increasing, and the interpretation of this fact is open to question. The raw facts are as follows. In 1999, measured by assets, 80 percent of the Canadian economy was controlled by Canadians. In 2007, the figure was 78.7. Measured by revenue, the figures were 71.3 and 70.6. Measured by profits, the figures were 71.7 and 73.8. For manufacturing the equivalent figures for assets were 54 and 47.2, for revenue, 48.2 and 46.2, for profit, 44.8 and 48.6. For Oil and gas in terms of assets, the figures were60.8 and 61.5, for revenue, 49.4 and 51.2, for profit, 33.7 and 55.4..[31]

Again, these figures will be looked at in more detail in the book-length presentation of this research.

The comprador trap

A perspective that understands Canada's full membership in the advanced capitalist world of the Global North has no trouble with these facts. In the Global South, Foreign Direct Investment is often a tool to establish imperialist control. But in an advanced capitalist country, it is simply a mechanism by which capitalists here acquire money which they in turn invest to increase their wealth and power. There is foreign investment in the Canadian economy. But there is also a tremendous amount of Canadian capitalist investment. That class is not selling out the economy at the behest of an imperialist power in the U.S., but is behaving as capitalist classes do all over the advanced capitalist world – buying and selling in order to maximize corporate profits and class power. We have our own capitalist class, with its own interests, its own projects, its own pursuit of profit.

The fixation on foreign ownership by a nationalist-oriented media, by leaders of Canadian industry, or by left-nationalist political economists, creates a very large distortion in the image of Canadian capitalism in the world economy. There is a tendency to ignore or downplay Canadian corporate actions abroad. But in the summer of 2007, Talisman had just discovered 400 million barrels of oil in Alaska.[32] Onex was trying to buy a stake in Australia's Quantas Airways.[33] The Ontario Teachers' Pension Plan was investing $1 billion in Chile's water and sewage industry, as well as participating in a bid to buy a big stake in Birmingham International Airport.[34] And often, a "foreign takeover" isn't as foreign as it seems. Before Canadian icon BCE Inc. (Bell Canada) was purchased by a consortium including the Ontario

Teachers Pension Plan, Cerebrus Capital Management, based in the U.S., was arranging financing to try and lead a takeover bid. Surely this would qualify as the "hollowing out" of Corporate Canada. However, to assist in this takeover, Cerebrus lined up a few partners – CanWest Global Communication, the Hospitals of Ontario Pension Plan and OPTrust which manages pension money for the Ontario Public Service Employees Union.[35] These are all pre-eminent representatives of Canadian capitalism.

This aspect of the picture – Canadian corporations and investment institutions looking to invest abroad and acquire non-Canadian firms, was ironically, very much part of the news even during the peak of the controversy over the rumoured sale of Alcan. The front page of the Business section of the *Toronto Star* May 9, 2007, is a good example. The lead story said, in a big headline, "Alcan buyout must be good for Canada, Harper vows."[36] But two other stories could have equally been chosen as leads for the page. One documented the proposal for Canada's Thomson Corp. to buy Reuters. The other documented the proposal for Canada's Magna Corporation to buy Chrysler. The latter, in the end, did not happen – Frank Stronach's Magna, in spite of teaming up with Gerry Schwartz's Onex Corp., losing out in the end to Cerberus Capital Management. Onex is not a minor player in Canadian capitalism. Wikipedia is not the best source for academic research, so all information from that site should be taken with a grain of salt. But according to that online compendium of information, Onex at the time of these events, was Canada's biggest employer with 138,000 employees.[37] But if the latter – the Magna/Onex takeover of Chrysler – did not take place, the former did – a $17 billion takeover of Reuters, "a move one observer described as a 'monumental transaction.'"[38]

It is worth saying a few words about Magna in this context. Frank Stronach's corporation is a huge player on the world stage, with 235 manufacturing facilities and 62 productdevelopment and engineering facilities around the world – and plans to build 300 plants in Russia in the next 10 years.[39] Stronach's Canadian credentials don't make him any less a corporate capitalist than his U.S. counterparts. He is well-known as a skillful employer who usually is able to keep unions out of his workplaces. And in the run-up to the Chrysler bid, he brought on board a very interesting partner. For $1.54 billion (U.S.). Oleg Deripaska purchased a stake in Magna. Deripaska is one of a generation of Russian billionaires who became fabulously wealthy through the fire-sale of Russian state-enterprises after the collapse of the U.S.SR in 1991. This wealth – gained at the expense of the misery of Russia's workers, whose life expectancy dropped spectacularly in the 1990s – was now being used to expand Stronach's corporate empire.

Canada-based Onex, similarly, has the same anatomy as any take-over company that is based in the U.S. One of the reasons some were hoping for a Magna/Onex takeover of Chrysler, is that the alternative was likely to be a U.S.-based "asset-stripper." Alex Taylor, auto-industry observer in the U.S., wrote in his blog: "Does anyone really expect Blackstone Group, Centerbridge Capital Partners or Cerberus Capital Management to rebuild Chrysler and run it for the long term? … Not when they can sell it and reap 20 percent of the profits for themselves."[40] However, check out Onex on wikipedia. The entry states that the "firm specializes in buying firms in Canada and the United States that are undervalued or in need of restructuring, then later selling them at a profit. These restructuring efforts often involve cutting wages and workforces and outsourcing work to lower wage countries abroad."[41] Asset-stripping is at the core of how many of these investment companies work – whether they be U.S. or Canadian.

Take for example Brookfield Asset Management Inc. and West Face Capital. They were two of the three major institutional investors involved in the restructuring of Hamilton's Stelco, a company that filed for bankruptcy protection January 29, 2004. In 2005, the bankrupt company turned to several investment funds to provide funds for restructuring. Brookfield and West Face were two of the three large institutional investors. Brookfield (through Tricap Management Ltd.) invested $55-million (Canadian) into Stelco, West Face (through Sunrise Partners) about half that. Between, them, they controlled 54.4% of the corporation. When in August 2007, Stelco was purchased by US Steel, Brookfield's $55 million investment was recouped, along with $375 million in profits! Greg Boland of West Face was also pleased – his $27.3 million investment was now worth $194-million. So yes – a US corporation did take over a Canadian corporation. But the money they paid for it does not go nowhere. The largest portion of the money paid for the purchase of Stelco went to these two investment funds – which are by the way, Canadian – who once the restructuring was complete, had between them, more than half a billion dollars to invest somewhere else. So – is the sale of Stelco to a US corporation an example of the hollowing out of the Canadian economy? Or is it an example of clever Canadian capitalists investing very little into a corporation, and running off with some very big profits. Listen to Rolf Gerstenberger, president of United Steelworkers local 1005, which represents workers at Stelco's Hamilton plant. "All during that [bankruptcy] process we kept saying it was legalized theft. ... It's quite a coup – it's like a 600 percent return on investment. We kept saying the [bankruptcy protection process] was legalized theft, and now they're making a killing."[42]

With this picture in mind, the contemporary nationalist musings by Canadian corporate leaders can be better understood. First, there is a portrayal of Canadian corporate weakness. Peter Munk, chairman of Barrick Gold, for instance, offered his opinion as to the failings of the members of his class. "[Making international acquisitions] requires balls, it requires guts, it requires vision, and those are not qualities that come to [Canadian] senior corporate managers."[43]

A weak corporate sector might just need a helping hand. Laurent Beaudoin, chairman of Bombardier Inc. openly advocates government action. "In the context of foreign acquisitions of Canadian companies, it is crucial that the consequences be analyzed carefully by all players to gauge the long-term impact of the loss of identity of our Canadian jewels … If, in the end, government intervention is needed, then it will have to because we can't continue to leave things as they are now, without somehow protecting Canadian interests."[44] It was left to Gerry Schwartz, CEO of Onex Corp. to clearly specify exactly what type of government action would be appropriate. "We should have incentives that help Canadian businesses grow, expand their worldwide leadership, keep the best and most creative young Canadians here and give Canadian companies a set of tax and other laws that don't put them at a disadvantage to foreign competitors."[45] So a weak and declining capitalist class, should be protected by state action, through getting even more tax breaks than they already have. The nationalism of these corporate executives is clearly quite self-serving, as well as being – as the analysis above demonstrates – completely counter-factual.

The corporate executives quoted to date have their own private interests for becoming Canadian nationalists. There are others – without clear private interests in a Canadian nationalist stance -- whose bread and butter is tracking developments in Canadian and world capitalism. For them, the facts presented here offer no surprises. In 2006, Jack Mintz of the C.D. Howe Institute, outlined a very different view than that of Munk, Schwartz, et. al.

> … foreign ownership is becoming less important in the largest companies operating in Canada. For example, 56 percent of the top 50 companies in Canada were owned by foreigners in 1997 (using the typical threshold of a minimum of 10 percent ownership),falling remarkably to 32 percent by 2003. Of the top 500

> companies, 50 percent were owned by foreigners in 1997 and 37 percent in 2003. No matter how you slice the data, little evidence supports a significant hollowing-out of Canadian business. … The real story of the past 10 years is that Canada is hollowing out businesses in other countries. … Canadian business have acquired 43 investments, of at least $1-billion in transaction value, in foreign jurisdictions from 1995 to 2004 totalling $129.4-billion. On the other hand, only 38 large foreign purchases (with at least $1-billion involved) totaling $146.5 billion occurred here in the same period … Since the mid-1990s, Canada has become a net exporter of capital, with the stock of foreign acquisitions of Canadian companies now over 6 percent of GDP, which is more than the stock of foreign-owned capital in Canada of about 5.5 percent of GDP.[46]

Conclusion

The 21st century emergence of a Canadian corporate nationalism rising in synch with Canada's corporate presence abroad, should be enough to make political economists at least pause to reconsider the nationalist assumptions inherited from an earlier era. Even in the 1970s – long before this aggressive turn abroad by Canadian capitalism – the left got into a dead-end with a focus on U.S.-control as the great enemy of the working class. That led over and over again to strategic alliances with the nationalist Liberal Party to try and "fend off the U.S." The Liberals were only too happy to accept the support of sections of the left – use this to get into office – and then rule very efficiently in the interests of the corporations. It was the Liberals who gave us NAFTA, the Liberals who sent us to war in Yugoslavia and Afghanistan, the Liberals, under Paul Martin and Jean Chrétien who savaged the welfare state in the 1990s. We need a clear analysis of what Canada is. It is an advanced capitalist country, whose state protects the wealth and power of its corporations through imperialism abroad.

The longer book project will provide more evidence with which to challenge the left-nationalism that is hegemonic in CPE, and sketch the outlines of an alternative foundation on which to renew Canadian political economy for the 21st century. The awareness of the need for such an analysis is growing. Evidence for this is in the pages of *Whose Canada?* This paper has focused on some of the left-nationalist assumptions which weaken the analysis in the book. But it would be quite wrong to characterize all of the contributions as left-nationalist. The editors write:

> Many who fought against free trade in the 1980s saw themselves as Canadian nationalists defending their country's sovereignty ... Their position evolved as they joined forces with progressive Americans, Mexicans, and other Latin Americans also resisting free trade and neoliberalism on the continent. They developed a more nuanced view of the international role of the Canadian state and adopted sharper internationalist positions on many issues.[47]

Hopefully this paper has made a small contribution to increasing this internationalism.

Notes

---

[1] This paper forms part of a wider research project, Paul Kellogg, *After Left Nationalism: The Future of Canadian Political Economy* (Toronto: University of Toronto Press, under submission).

[2] William K. Carroll and Jerome Klassen, "Hollowing out Corporate Canada? Changes in the Corporate Network since the 1990s," *Canadian Journal of Sociology / Cahiers canadiens de sociologie* 35 (1) 2010, pp. 4 and 1.

[3] "About Akwesasne," *Akwesasne: A Special People in a Special Place*, Vo. 1 #1, Winter 2007 <http://www.akwesasne.ca/news/ASPSP/ASPSPV1A5.html>, accessed May 20, 2010.

[4] Ricardo Grinspun, Yasmine Shamsie, eds., *Whose Canada? Continental Integration, Fortress North America, and the Corporate Agenda*, (Montreal and Kingston: McGill-Queen's University Press, 2007).

[5] Maude Barlow, "Foreword," Grinspun and Shamsie, p. xxi.

[6] Ricardo Grinspun and Yasmine Shamsie, "Canada, Free Trade, and 'Deep Integration' in North America: Context, Problems, and Challenges," in Grinspun and Shamsie, pp. 3-53.

[7] Bruce Campbell, "Managing Canada-U.S. Relations: An Alternative to Deep Integration," in Grinspun and Shamsie, pp. 527-545.

[8] Duncan Cameron, "Free Trade Allies: The Making of a New Continentalism," in Grinspun and Shamsie, p. 66; Murray Dobbin, "Challenging the forces of Deep Integration," in Grinspun and Shamsie, p. 501.

[9] The term "Washington Consensus" emerges with in John WIlliamson, "What Washington Means by Policy Reform", in John Williamson, ed., *Latin American Readjustment: How Much has Happened?* (Washington: Institute for International Economics, 1989).

[10] Based on information taken from International Monetary Fund, "IMP Members' Quotas and Voting Power, and IMF Board of Governors", <www.imf.org/external/np/sec/memdir/members.htm>, accessed June 20, 2007

[11] Based on information taken from The World Bank, "IBRD Votes and Subscriptions," <http://go.worldbank.org/GC8OQ79ES0>, accessed June 20, 2007

[12] Dobbin, "Challenging the forces of Deep Integration," p. 501.

---

[13] Wallace Clement, *The Canadian Corporate Elite: An Analysis of Economic Power* (Toronto: McClelland & Stewart, 1975).

[14] Mao Tse-tung, "Analysis of the Classes in Chinese Society," in Mao Tse-tung, *Selected Works*, Volume I, <http://www.marxists.org/reference/archive/mao/selected-works/volume-1/mswv1_1.htm>

[15] See Cameron, "Free Trade Allies", p. 66.

[16] Lisa Wright, "Alcoa hits Alcan with hostile bid," *Toronto Star*, May 8, 2007, p. D1.

[17] cited in David Olive, "Canada beating industrial retreat," *Toronto Star*, May 13, 2007, <www.thestar.com>

[18] "Hollowing Out," *The Globe and Mail Report on Business,* May 30, 2007, p. B1

[19] Ken Smith, "Hollowed is not hallowed," in *The Globe and Mail*, May 9, 2007, p. A19.

[20] Geoffrey Stevens, "Foreign takeover frenzy is close to its tipping point," *Kitchener-Waterloo Record*, June 4, 2007, p. A6.

[21] Editorial, "Alcan warning signal," *Toronto Star*, May 8, 2007.

[22] David Olive, "Canada beating industrial retreat," *Toronto Star*, May 13, 2007, <www.thestar.com>

[23] Sinclair Stewart, Andy Hoffman, Andrew Willis and Boyd Erman, "Alcan rejects Alcoa, turns to BHP," *Globe and Mail Report on Business*, May 23, 2007, p. B1.

[24] "Rio buys Alcan," FT.com, July 12, 2007, <www.ft.com>

[25] Information taken from "Fall of corporate Canada," *Toronto Star*, May 13, 2007, p. A15.

[26] Sinclair Stewart, Andy Hoffman, Andrew Willis, Boyd Erman, "Alcan rejects Alcoa, turns to BHP," *The Globe and Mail Report on Business*, May 23, 2007, p. B1.

[27] KPMG, "Canadian Companies on Buying Spree: Will It Last?", Media Release, KPMG in Canada, May 9, 2007, <www.kpmg.ca/en/news/pr20070509.html>

[28] Michael Marth, "Cross-border Acquisitions: A Canadian Perspective," (Ottawa: Statistics Canada, May 2004), p. 1.

[29] Data for Figures 1-1 , 1-2, 1-3 and 1-4 from Crosbie & Company, "Mergers & Acquisitions in Canada", 1 January, 1995-2003; "M&A Quarterly Report", Q4, 2003-2009

---

[30] Statistics Canada, CANSIM (Canadian Socio-Economic Information Management System), Table 3760051, "International investment position, Canadian direct investment abroad and foreign direct investment in Canada, by country, annually (Dollars)"

[31] Statistics Canada, CANSIM, Table 1790004, "Corporations Returns Act (CRA), major financial variables, annually"

[32] David Ebner, "Talisman makes oil strike in Alaska," *Globe and Mail Report on Business*, May 10, 2007, p. B7

[33] Lori McLeod, "Onex's bid group considers next move in Qantas pursuit," *The Globe and Mail Report on Business*, May 8, 2007

[34] Lori McLeod, "Teachers places big bet on infrastructure in Chile," *The Globe and Mail Report on Business*, May 16, 2007 and McLeod, "Teachers flies high with stake in British airport," *The Globe and Mail Report on Business*, May 18, 2007, p. B5

[35] Andrew Willis, Jacquie McNish, Catherine McLean and Boyd Erman, "CanWest joins Cerberus run at BCE," *The Globe and Mail Report on Business*, May 24, 2007, p. B1.

[36] Les Whittington, "Alcan buyout must be good for Canada, Harper vows," *Toronto Star*, May 9, 2007, p. F1.

[37] According to Wikipeida, "Onex Corporation," <www.wikipedia.org>, accessed May 17, 2007.

[38] Chris Sorensen, "Reuters, Thomson outline merger plans," *Toronto Star*, May 9, 2007, p. F1

[39] Greg Keenan, "Stronach says he can't be bought at any price," *The Globe and Mail*, May 12, 2007

[40] Cited in David Olive, "Magna should pass on Chrysler," *The Toronto Star*, April 16, 2007, <www.thestar.com>

[41] Wikipedia, "Onex Corporation," <www.wikipedia.org>

[42] Janet McFalrand, "Big payday for top shareholders," in *Report on Business: The Globe and Mail*, August 28, 2007, p. B4.

[43] "Hollowing Out," *The Globe and Mail Report on Business,* May 30, 2007, p. B1

[44] Bertrand Marotte, "Beaudoin joins calls for takeover protection; Long-term view needed, CEO says," *The Globe and Mail Report on Business*, May 30, 2007, p. B1

[45] "Hollowing Out," *The Globe and Mail Report on Business,* May 30, 2007, p. B1

[46] Jack Mintz, "Don't be so protective; We should be encouraging more foreign investment, not less, says business economist Jack Mintz," *The Globe and Mail*, July 5, 2006, p. A17.

[47] Ricardo Grinspun, Yasmine Shamsie, "Introduction" to Grinspun and Shamsie, eds., *Whose Canada? Continental Integration, Fortress North America, and the Corporate Agenda*, (Montreal and Kingston: McGill-Queen's University Press, 2007), p. 40.