

Eight Lecture

Mergers and Globalization

Regimes of differential accumulation (revision)

- Breadth (size) and depth (elemental power)
- External breadth: green-field
- Internal breadth: mergers and acquisitions
- External depth: stagflation
- Internal depth: cost cutting
- Paths of differential accumulation: corporate strategies vs. regimes

External breadth: green-field

- Size of firms, number of firms
- The double edged sword of economic growth

Internal breadth: mergers and acquisitions

- Buy-to-build ratio
- One of the “ten mysteries of finance”
- Marshall’s economies of scale?
- Coase’s transaction costs?
- Corporate size: efficiency or differential profit?
- Merger as a “disciplinary force”?

Breaking the envelope

- The merger waves: monopoly, oligopoly, conglomerate, global
- Tobin’s Q – are investors out of their mind?
- “Eating the goose that lays the golden eggs”
- Depleting the pool of takeover targets
- Merger as a social transformation

Amalgamation and globalization

- Globalization cycles
- The Unholy Trinity: state sovereignty, capital mobility, monetary stability
- Gross and net flows
- Capital mobility and ownership
- Foreign investment: efficiency or power?

Earnings

$$\text{earnings} \equiv \text{employment} \times \frac{\text{earnings}}{\text{employment}}$$

$$\text{earnings} \equiv \text{employment} \times \text{earnings per employees}$$

$$\text{earnings} \equiv \text{breadth} \times \text{depth}$$

Differential Earnings

$$\text{earnings}_{D} \equiv \text{employment}_{D} \times \text{earnings per employees}_{D}$$

$$\frac{\text{earnings}_{DK}}{\text{earnings}_{A}} \equiv \frac{\text{employment}_{DK}}{\text{employment}_{A}} \times \frac{\text{earnings per employees}_{DK}}{\text{earnings per employee}_{A}}$$

Table 1
Regimes of Differential Accumulation

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

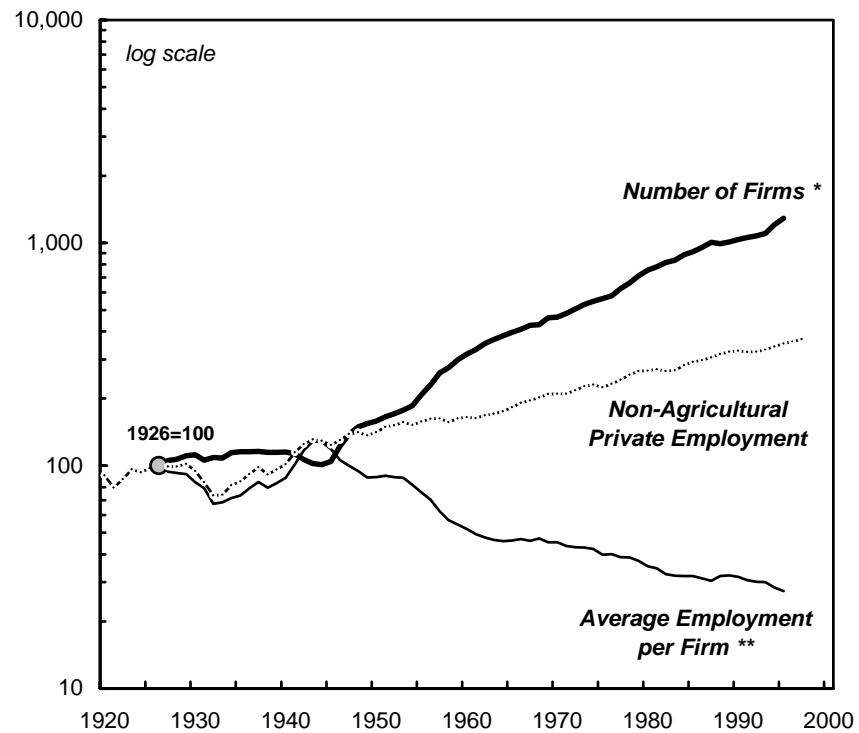


FIGURE 1 U.S. Employment, Firms and Firm Size

* Corporations only.

** Non-agricultural employment divided by the number of corporations.

SOURCE: U.S. Internal Revenue Service; US Department of Commerce.

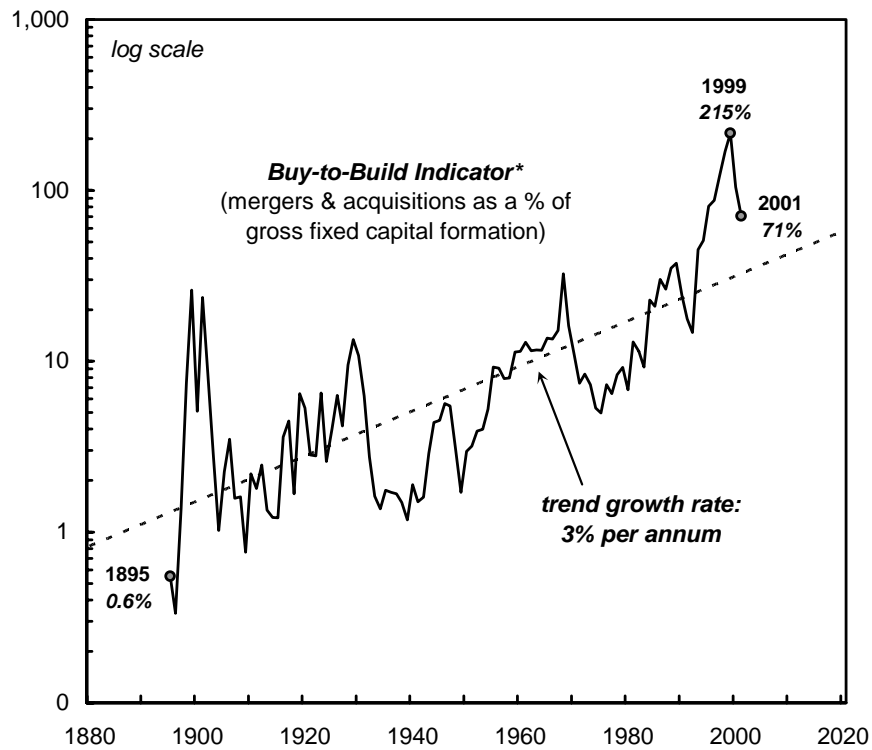


FIGURE 2 U.S. Accumulation: Internal vs. External Breadth

* Based on splicing of separate series.

SOURCE: Jonathan Nitzan and Shimshon Bichler (2002) *The Global Political Economy of Israel*, p. 54; data extended to 2001.

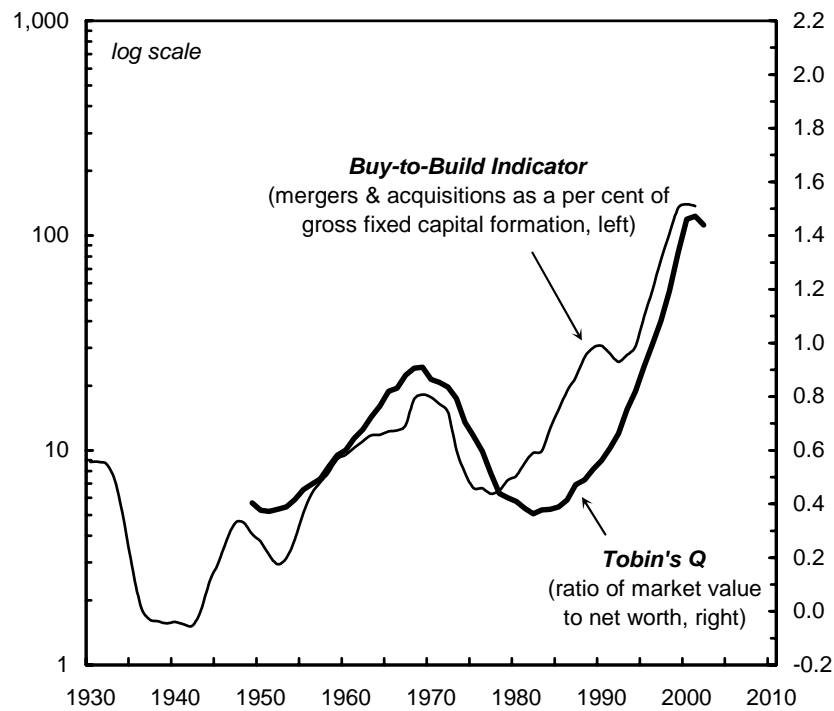
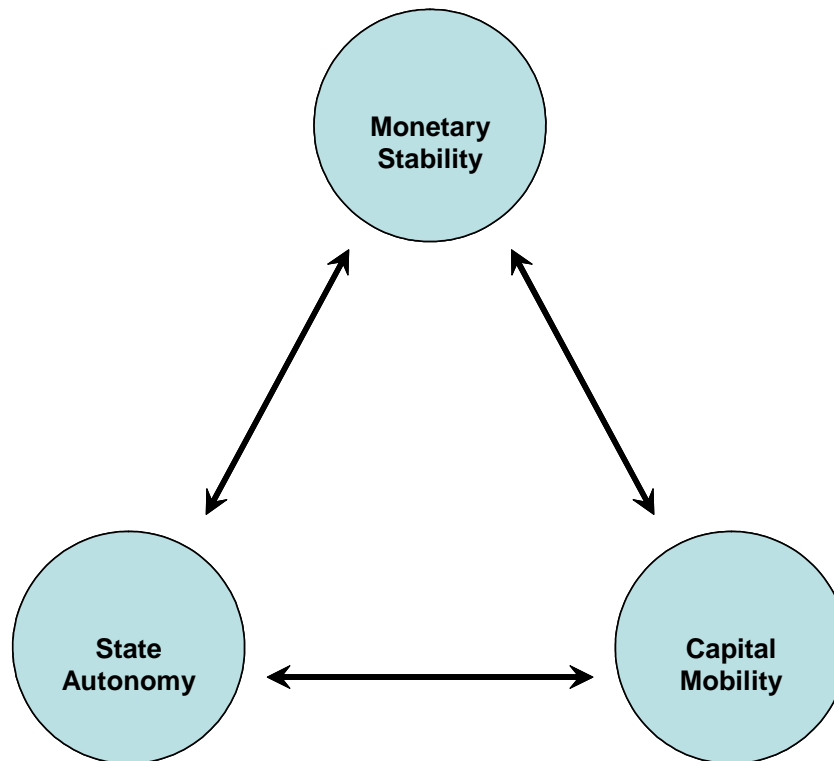


FIGURE 3 Tobin's Q?

NOTE: Quarterly data converted to annual figures and shown as 5-year moving averages.

SOURCE: Tobin's Q pertains to nonfarm nonfinancial corporations, and is computed from Federal Reserve Board data through *Global Insight* (Flow of Funds codes: BS103164003L for market value; BS102090005L for net worth at replacement cost). For the buy-to-build indicator, see Data Appendix.

The Unholy Trinity



Period	Sovereignty	Stability	Capital Mobility
Gold Standard (1870-1914)	✗	✓	✓
Inter-War (1914-1944)	✓	✗	✓
Bretton Woods (1944-1971)	✓	✓	✗
Neo-liberalism (1971-present)	✓	✗	✓

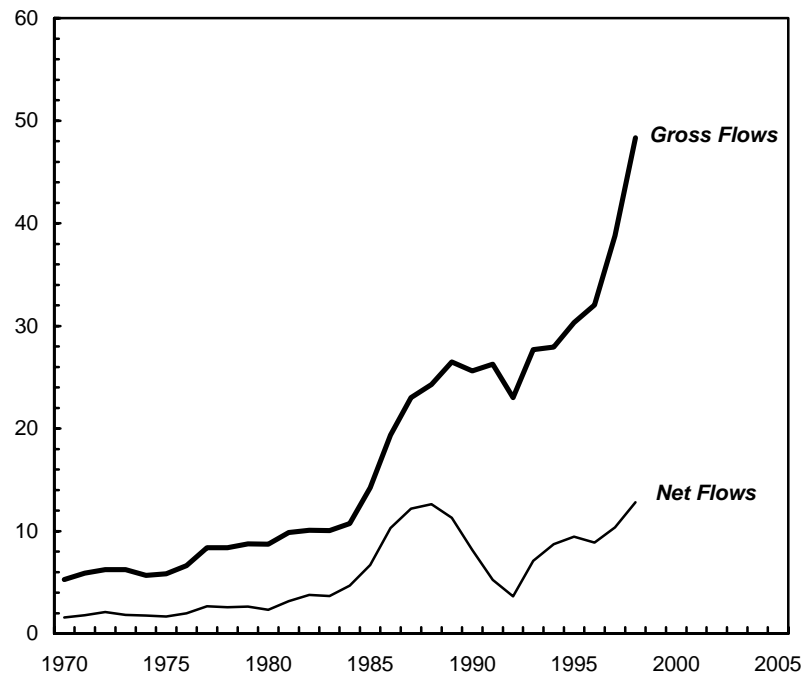


FIGURE 4 G7 Private Investment Flows (% of gross fixed capital formation)

NOTE: Series are shown as 3-year moving averages. Flows 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: IMF *Balance of Payment Statistics* and *International Financial Statistics*.

Table 2
The Globalization of Ownership

Year	Ratio of Global Gross Foreign Assets* to Global GDP (%)	Share of Global Gross Foreign Assets* (%)	
		U.K. Owners	U.S. Owners
1825		56	0
1855		78	0
1870	7	64	0
1900	19	51	2
1914	18	50	6
1930	8	44	36
1945	5	40	43
1960	6	41	51
1980	25	21	28
1985	36	20	29
1990	49	19	21
1995	62	16	22
2000	92	15	25

* Gross foreign assets stocks consist of cash, loans, bonds and equities owned by non-residents.

SOURCE: Obstfeld, Maurice, and Alan. M. Taylor. 2004. *Global Capital Markets: Integration, Crisis and Growth*. Cambridge: Cambridge University Press, pp. 52-3, Table 2.1

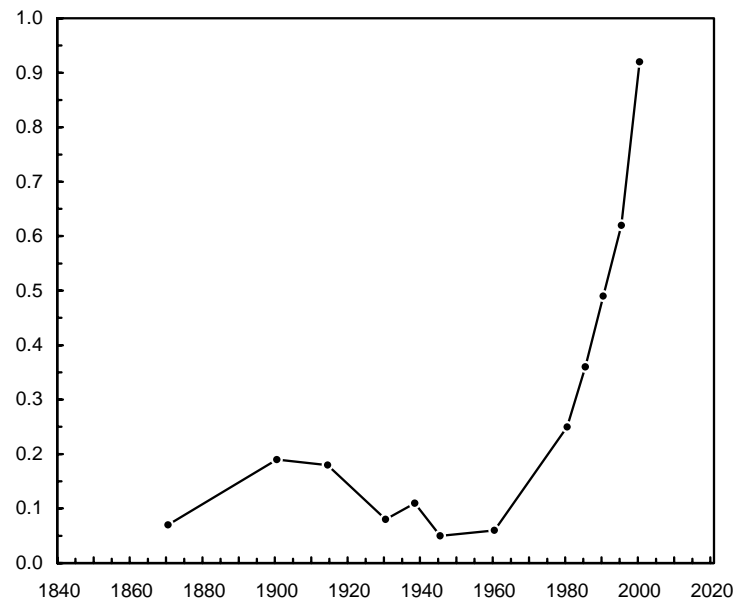


FIGURE 5 Ratio of Global Gross Foreign Assets to Global GDP

SOURCE: Table 2

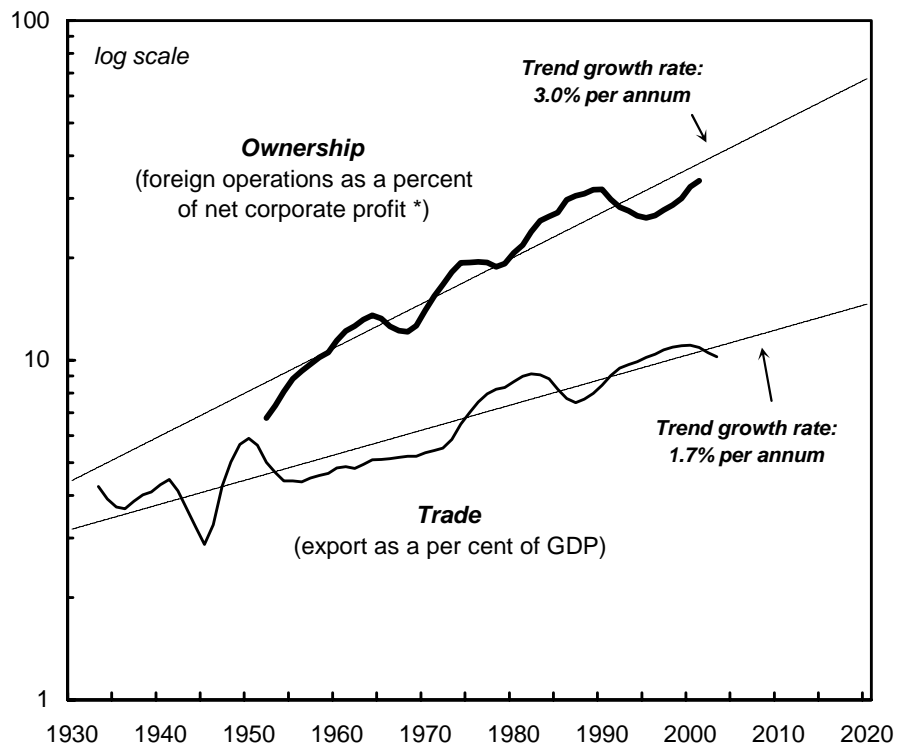


FIGURE 6 The Globalization of U.S. Business: Ownership vs. Trade

* Receipts from the rest of the world as a percent of corporate profit after tax.

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

SOURCE: U.S. Department of Commerce through *Global Insight* (series codes: ZAWTYF for corporate profit after tax received from the rest of the world; ZA for corporate profit; X for export; GDP for GDP).