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

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

$$earnings \equiv employment \times earnings\ \ per\ employees$$

$$earnings \equiv breadth \times depth$$

Differential Earnings

$$earnings_D \equiv employment_D \times earnings\ per\ employees_D$$

$$\frac{earnings_{DK}}{earnings_A} \equiv \frac{employment_{DK}}{employment_A} \times \frac{earnings\ \ per\ employees_{DK}}{earnings\ \ per\ employee_A}$$

Table 1
Regimes of Differential Accumulation

	External	***Internal***
Breadth	**Green-field**	**Mergers & Acquisitions**
Depth	**Stagflation**	**Cost-cutting**

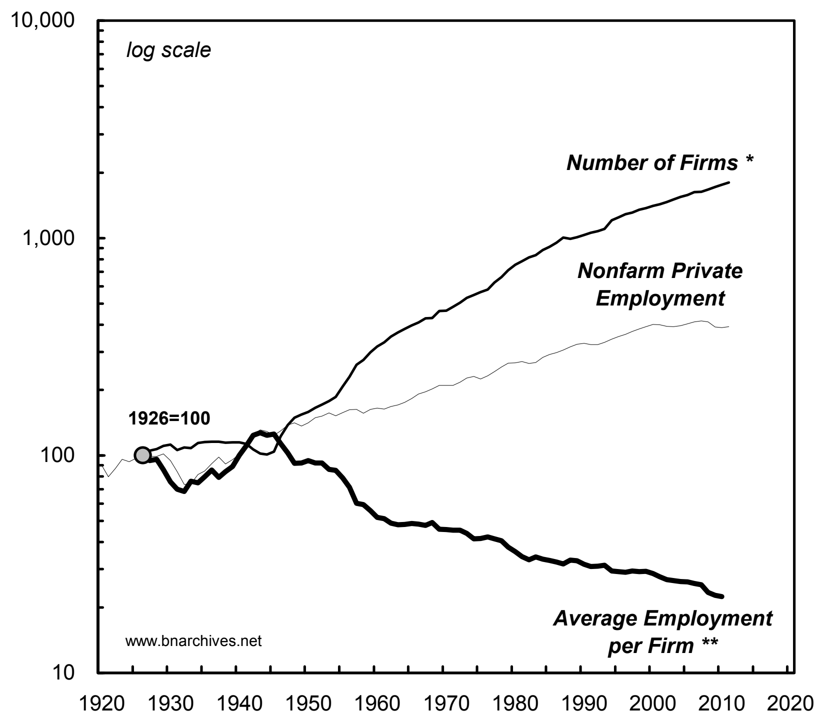


FIGURE 1 U.S. Employment, Firms and Firm Size

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

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

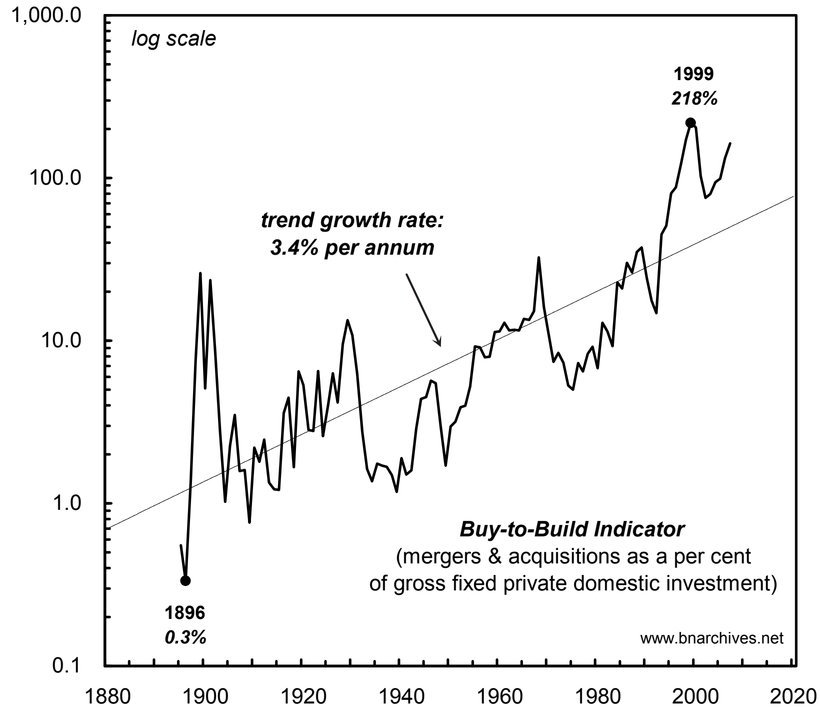


FIGURE 2 U.S. Accumulation: Internal vs. External Breadth

NOTE: Indicator is based on splicing of separate series.

SOURCE: Jonathan Nitzan and Shimshon Bichler (2009) *Capital as Power. A Study of Order and Creorder*, Ch. 15, Data Appendix. (http://bnarchives.yorku.ca/259/)

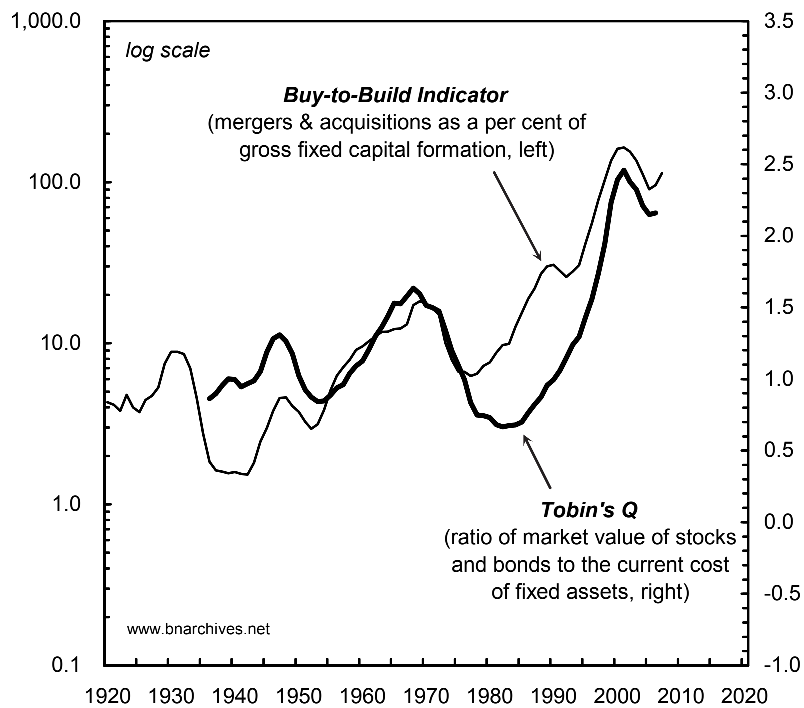
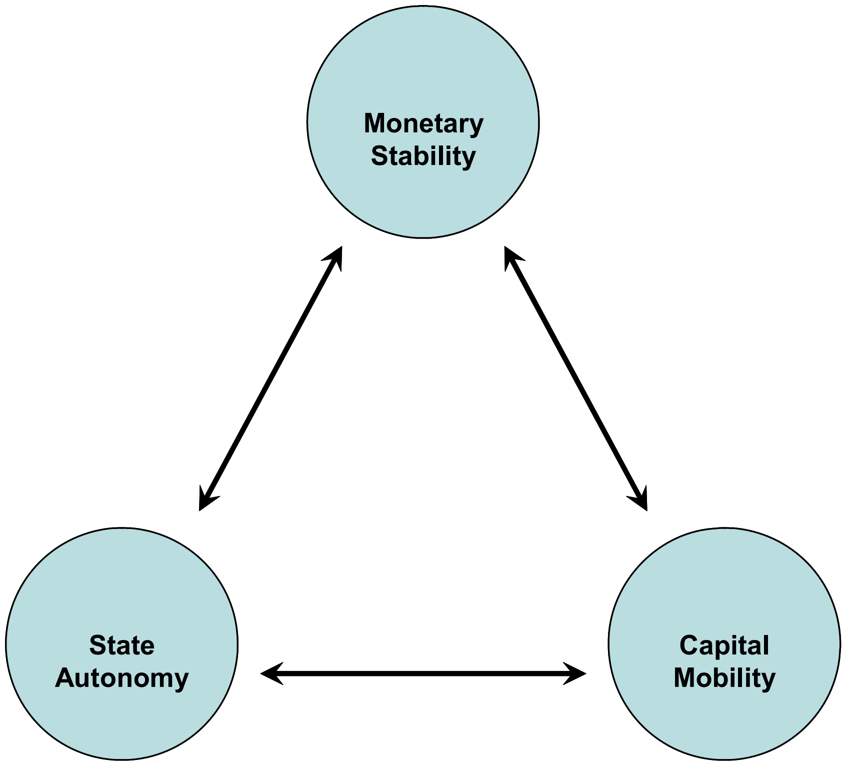


FIGURE 3 Tobin's Q?

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

SOURCE: For data sources and computations of the Buy-to-Build Indicator, see Data Appendix to Chapter 15 in Nitzan and Bichler, *Capital as Power. A Study of Order and Creorder* (London & New York, Routledge, 2009) (http://bnarchives.yorku.ca/259/). Data for *Tobin's Q*: U.S. Bureau of Economic Analysis through Global Insight (series codes: FAPNREZ for current cost of corporate fixed assets). 1932-1951: Global Financial Data (market value of corporate stocks and market value of bonds on the NYSE). Spliced with 1952-2007: Federal Reserve Board through Global Insight (series codes: FL893064105 for market value of corporate equities; FL263164003 for market value of foreign equities held by U.S. residents; FL893163005 for market value of corporate and foreign bonds; FL263163003 for market value of foreign bonds held by U.S. residents).

The Unholy Trinity



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

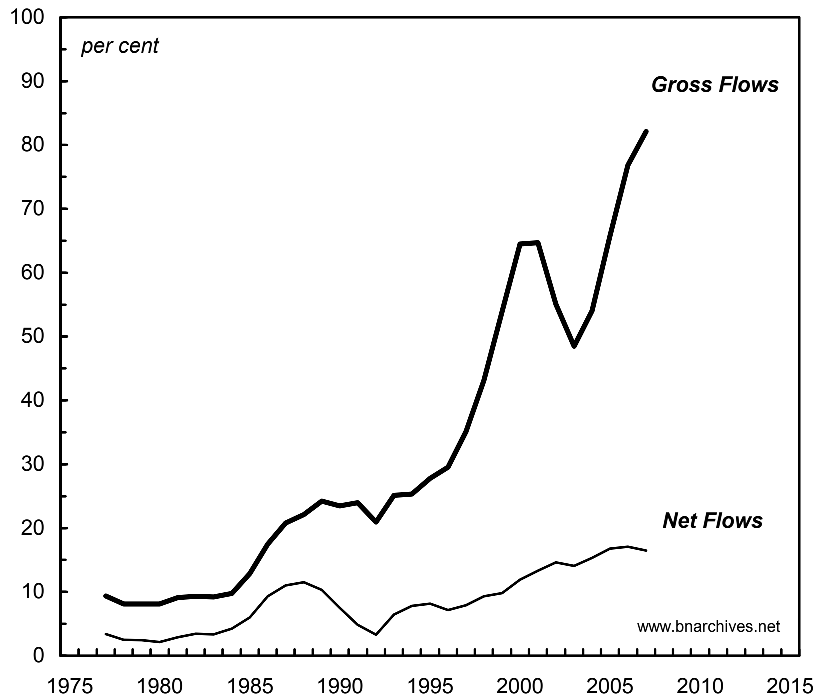


FIGURE 4 G7 Cross-Border Private Investment Flows (% of Gross Fixed Capital Formation)

NOTE: Series are smoothed 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 inflows and outflows and are 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.

SOURCE: Jonathan Nitzan and Shimshon Bichler, *Capital as Power. A Study of Order and Creorder* (London & New York, Routledge, 2009), Figure 15.5, p 355 (http://bnarchives.yorku.ca/259/). Original data are from the IMF's International Financial Statistics through Global Insight (series codes: LAF for the $U.S. exchange rate; L93E&C for gross fixed capital formation); IMF's Balance of Payment Statistics through Global Insight (series codes: B4505 for direct investment abroad; B4555Z for direct investment in the reporting country; B4602 for portfolio investment abroad; B4652Z for portfolio investment in the reporting country); Global Insight International Database (series codes RX@UZ for Euro/$U.S. exchange rate; IFIX@EURO for fixed capital formation from 1998 for EU countries).

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

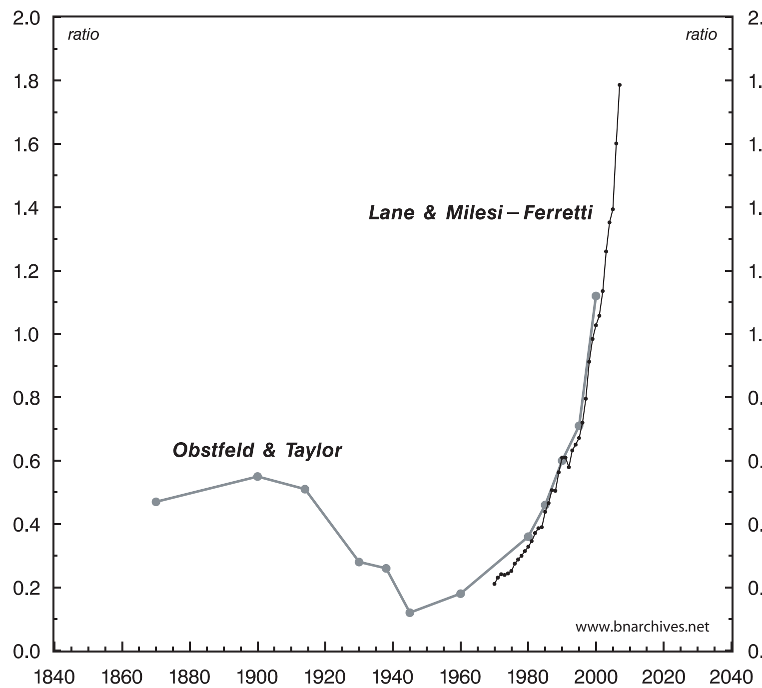


FIGURE 5 Ratio of Global Gross Foreign Assets to Global GDP

NOTE: Gross foreign assets consist of cash, loans, bonds and equities owned by non-residents. Both gross foreign assets and GDP are estimates based on a changing sample of countries. The Obstfeld & Taylor series (thick line) uses a sample that gradually grows from 4 countries in 1870, to 7 in 1900, to 26 in 1980, to 63 in 2000. The Lane & Milesi-Ferretti series (thin line) uses a sample that gradually grows from 101 countries in 1970, to 177 in 2000, to 178 in 2007.

SOURCE: Shimshon Bichler and Jonathan Nitzan, Imperialism and Financialism: A Story of a Nexus (2010), Figure 1, p. 13 (http://bnarchives.yorku.ca/294/). Thick line (1870-2000): Maurice Obstfeld and Alan. M. Taylor, *Global Capital Markets: Integration, Crisis and Growth* (Cambridge: Cambridge University Press, 2004), pp. 52-53, Table 2-1. Thin line (1970-2007): Philip Lane and Gian Maria Milesi-Ferretti, 'The External Wealth of Nations Mark II: Revised and Extended Estimates of Foreign Assets and Liabilities, 1970-2004', *Journal of International Economics*, 2007, No. 73, pp. 223-250 (with data updated to 2007 by the authors). Downloaded on August 8, 2009, from http://www.imf.org/external/pubs/ft/wp/2006/data/wp0669.zip.

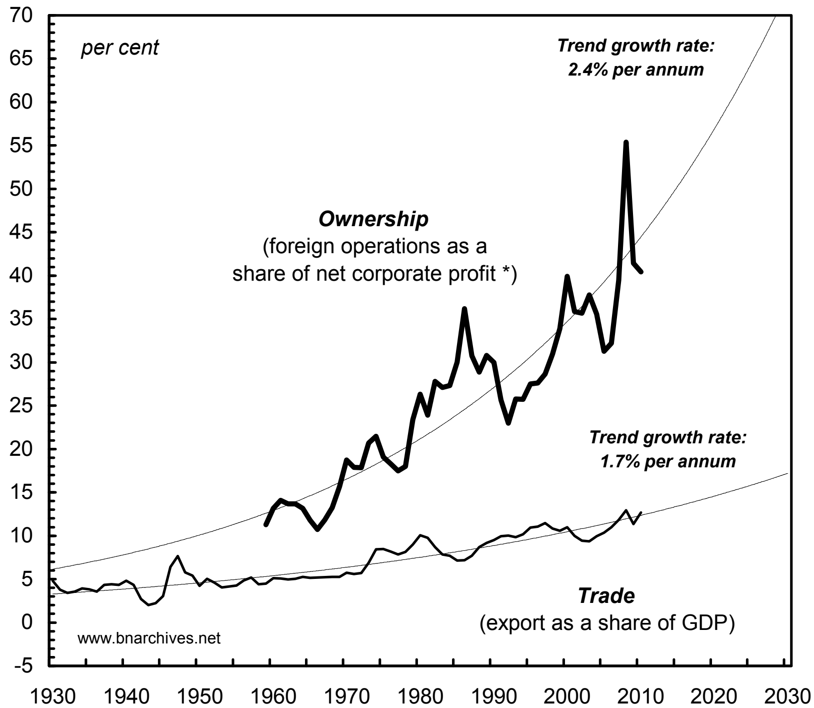


FIGURE 6 The Globalization of U.S. Business: Ownership vs. Trade

* 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. Bureau of Economic Analysis through Global Insight (series codes: GAARP till 1998 and ZBECONRWRCT from 1999 for after tax corporate profit receipts from the rest of the world; ZA for after tax corporate profit; X for export; GDP for GDP). Last data points: 2010.