

Fifth Lecture

Dominant Capital and Differential Accumulation (I)**Differential Accumulation**

- Profit maximization?
- “Beating the average”
- Differential accumulation and redistribution
- Capital in general vs. hierarchy of capitalists
- Dominant capital
- From the qualities of power to the quantities of accumulation
- Differential capitalization

Regimes of differential accumulation

- 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?

Identity politics:

“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, George. 1948. *Nineteen Eighty-Four*. London and Toronto: Secker & Warburg and S. J. Reginald Saunders & Co. Ltd., p. 211

Capitalization and Differential Capitalization

$$\text{capitalization} \equiv \frac{\text{earnings}}{\text{risk} \times \text{normal rate of return}}$$

$$C \equiv \frac{E}{R \times NRR}$$

$$\text{differential capitalization} \equiv \frac{\text{differential earnings}}{\text{differential risk}}$$

$$DC \equiv \frac{DE}{DR} \equiv \frac{E_{DK} / E_A}{R_{DK} / R_A}$$

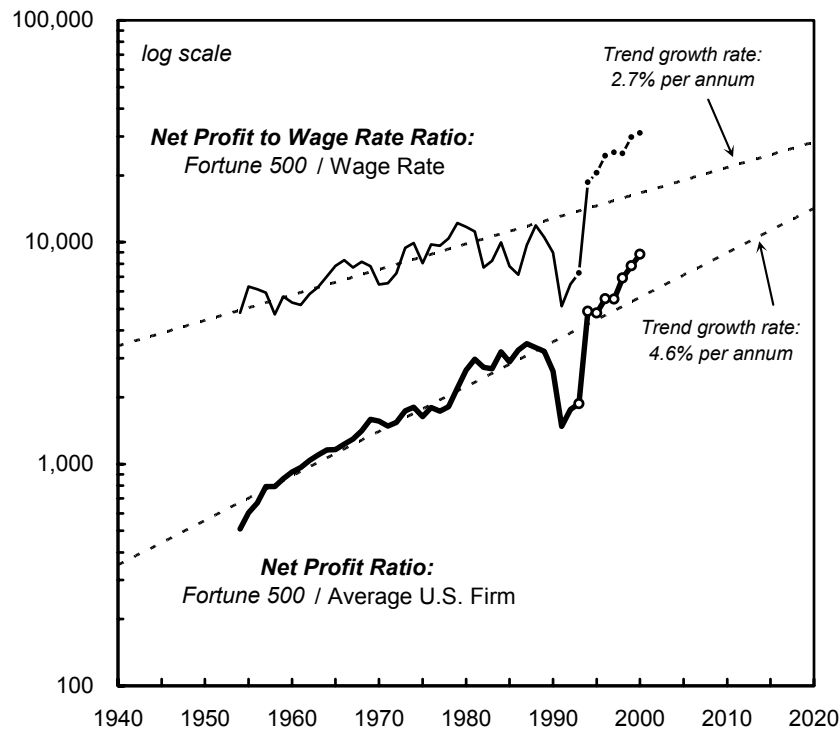


FIGURE 1 Differential Accumulation in the United States

NOTE: Net profit for the average U.S. firm is total after tax profit divided by the number of corporate tax return. The annual wage rate is based on total private average hourly earnings. Until 1993, the Fortune 500 list included only industrial corporations (firms deriving at least half their sales revenues from manufacturing and/or mining). In 1994, the list was expanded to include all corporations. For 1992-3, data for Fortune 500 companies are reported without SFAS 106 special charges.

SOURCE: *Fortune*; U.S. Internal Revenue Service; U.S. Department of Commerce through Global Insight (series codes: ZA for profit after tax without IVA and CCADJ; AHHEAP for total private average hourly earnings).

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

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

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

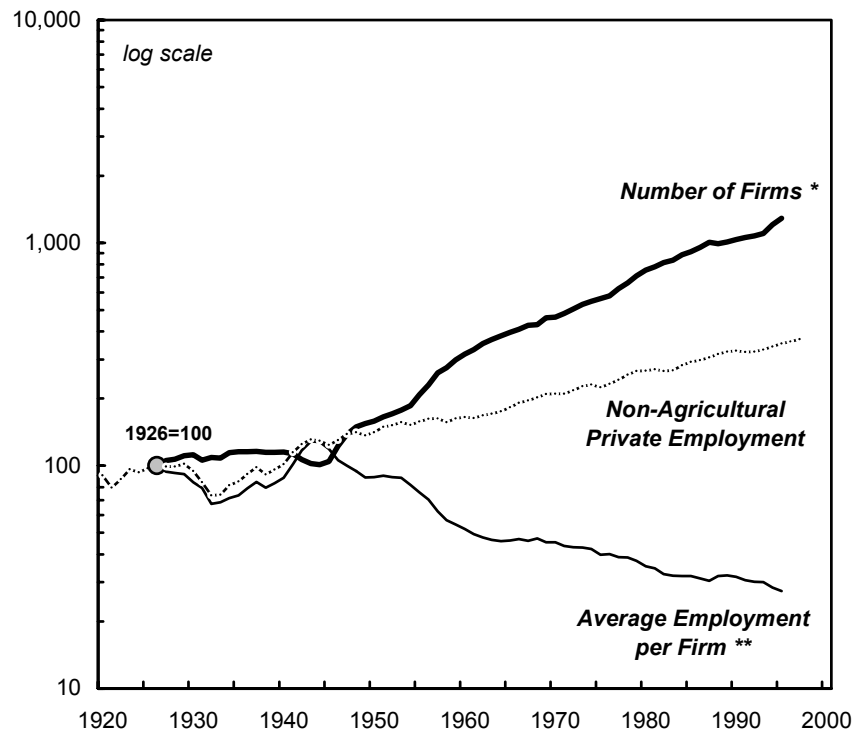


FIGURE 2 U.S. Employment, Firms and Firm Size

* Corporations only.

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

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

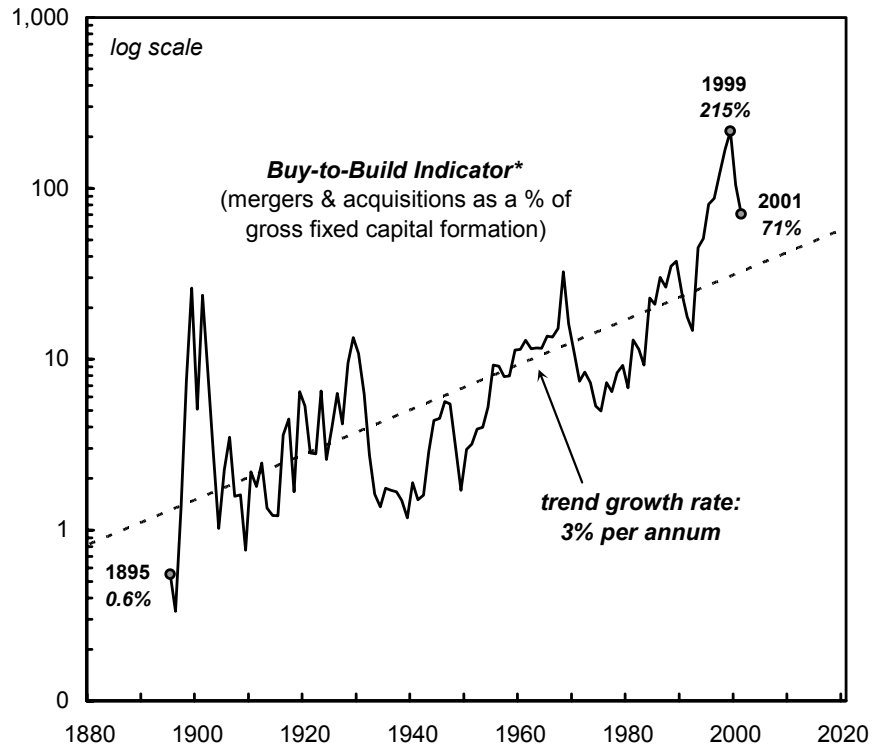


FIGURE 3 U.S. Accumulation: Internal vs. External Breadth

* Based on splicing of separate series.

SOURCE: See Data Appendix

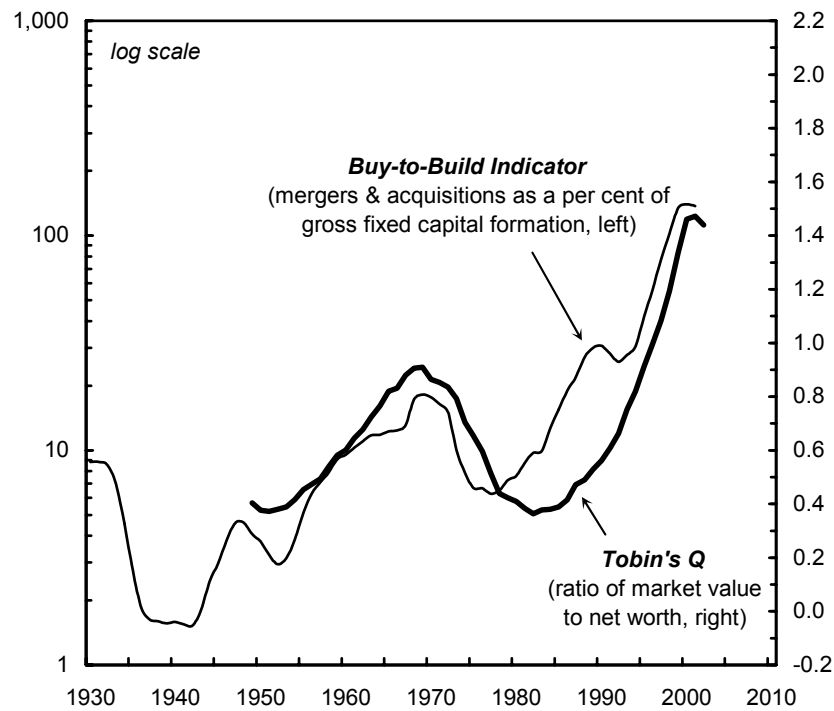


FIGURE 4 Tobin's Q?

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.

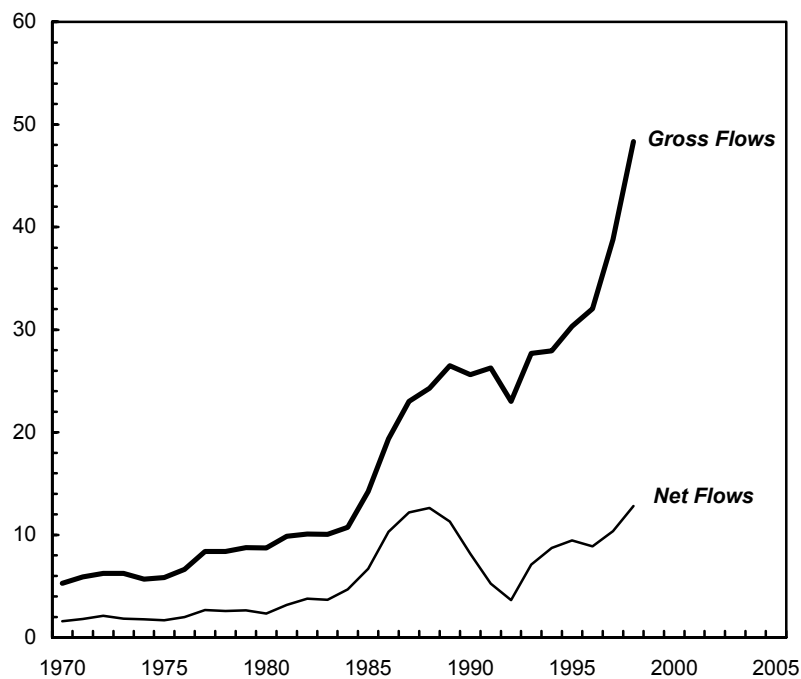


FIGURE 5 G7 Private Investment Flows (% of gross fixed capital formation)

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

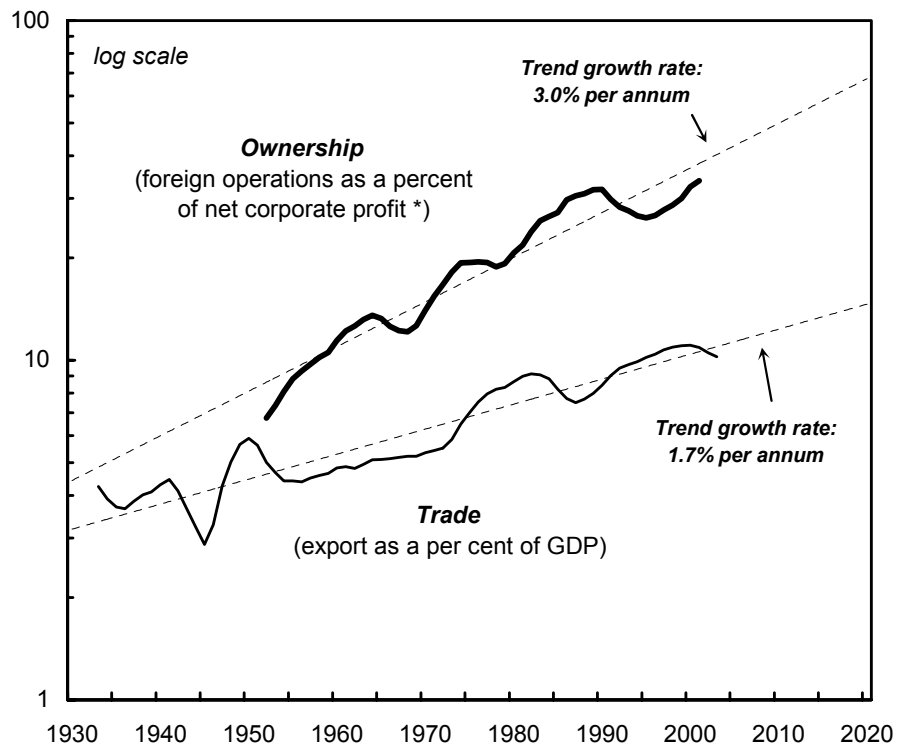


FIGURE 6 The Globalization of U.S. Business: Ownership vs. Trade

* 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).