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good and Cuny might well be the first to accept them; but at the same time, the author could well argue that, while we may rail at structural imbalances and economic inequalities, there are people after earthquakes who do not have a roof over their heads, who, after floods, lack any shelter at all. Whatever the failings inherent in the relief process, the immediate needs of victims means that one in many instances must accept the constraints of the 'dominant view' and work with what is made available.

Certainly, faced with the mounting numbers of afflicted peoples, one dare not base relief responses upon fixed philosophical positions. Even Hewitt, while pleading for a fundamental change in perspectives, accepts that a balance, for all too practical reasons, has to be struck between traditional approaches and new awareness.

This same message emanates from the excellent work by Wijkman and Timberlake, *Natural Disasters: Acts of God or Acts of Man?* Like Cuny, Wijkman and Timberlake do not probe the global perspectives which underpin Hewitt's analysis, but instead focus upon the causes of disasters in the developing world and the types of practical approaches to relief which the present relief network should take.

Despite this practical admixture of dialogue and technical fixes, the book's originality stems in many respects from the weight of statistical evidence which it brings to bear on our understanding of disasters. For example, part of the dominant view's assumptions about disasters is that disasters occur in cycles, like biblical lean years and years of plenty. However, the material which the two authors so usefully discuss show clearly that this 'happy assumption' is a fool's paradise. Vulnerability as well as disasters are on the increase. The trends indicate that since the 1960s, disaster phenomena and numbers of afflicted have increased unabated. Whether the vulnerabilities of increasing numbers are exposed by drought. floods, earthquakes, tsunamis or cyclones, they all show the hand of human intervention.

Systematically, through each category of supposedly 'natural disasters', the authors pinpoint how human beings have so disrupted or destroyed their environments that disasters are but a 'natural consequence' of human activity. Those who have the least to say about the ways the environment should be used are, of course, the ones to suffer most. Once again, poverty appears as the handmaid of vulnerability, and one need only look at the authors' statistical compilations to see that consistent pattern, too.

The purpose of *Natural Disasters* is to emphasise that human beings can intervene in disasters before impacts take their toll on human life. Under the heading of 'prevention is better than cure', the work suggests procedures for early warning, for flood control systems, for stockpiling and, ultimately, for strengthening the dialogue between the relief community and the afflicted. Yet, as Hewitt has made only too apparent, even the concept of 'prevention' leaves many questions unanswered. How deeply into the fundamental structures responsible for disasters dare one delve to ensure 'prevention'? Will the structures of disaster-prone states tolerate the political and economic consequences of prevention? Will the international system accept similar consequences?

Wijkman and Timberlake do not address these issues, but these issues indeed must be addressed. The one thing that the three books under review have clearly demonstrated is that global vulnerability is being intensified as a result of the ways that humankind lives its normal existence. It seems only too apparent that the world can no longer blame uncontrollable and remote forces for the often fatal wounds which are called disasters, and no longer can one continue to assume that the instruments which indeed cause these wounds will readily serve to heal them.

RANDOLPH C KENT
University of Surrey

The global political economy

The New International Economic Order: An Overview
P N Agarwala
Oxford: Pergamon. 1983, 349pp $35.00

Cooperation for Development: Strategies for the 1980s
Edited by Ervin Laszlo
Dublin: Tycooly International. 1984. 104pp £5.95

Some Key Issues for the World Periphery: Selected Essays
M S Wionczek
Oxford: Pergamon. 1982. 432pp £42.00

Economic Relationships among States
Evan Luard
London: Macmillan. 1984. 328pp £25.00

Many observers increasingly believe that the North–South dialogue has irreversibly stalled. In part, this is due to the overwhelming prominence of East–West security issues and the revival of the Cold War since the early 1980s. But even more importantly, the North–South framework is widely recognised as having little relevance to current international political realities, notably the increasing heterogeneity among states in both the North and the South, and the increasing influence of private actors such as the multinational banks. In future, any movement beyond the so-called North–South stalemate or any progress towards a New International Economic Order (NIEO) will require totally new approaches to the reform of both the structure and operations of the world economy.

Several recent publications certainly confirm the dismal balance sheet of achievements in the North–South dialogue to date. The first publication, *The New International Economic Order: An Overview* by P N Agarwala, is the last in a series of books that were written in the period 1976–80 on almost every conceivable aspect of the New International Economic Order. This volume sets out in summary, and unfortunately rather disjointed and difficult style, the findings and conclusions of the proceding fifteen volumes. These volumes consisted of, respectively, nine overview and functional studies on various critical aspects of the NIEO, notably financial issues, international trade and industrialisation, social and cultural issues, and food and agriculture; and six geographic studies that examine the NIEO from the point of view of Eastern Europe, Western Europe, United States and Canada, Asia, Africa, the Middle East, and Latin America.

The common theme to all the studies was 'the assessment of the importance of the NIEO in contemporary economic and world affairs . . .', and the demonstration that the NIEO was 'neither a passing pressure of the poor countries on the rich nor merely a demand for more aid or assistance.' According to the Project Director, Ervin Laszlo, the project sought to illuminate the range and complexity of the issues, to clarify certain individual items and to provide a sense of the vastness and significance of the NIEO as a whole.

The fifteen volumes, as reflected in their summaries, no doubt achieve this objective. One is impressed by the obvious acuity of analysis, the comprehensive catalogue of the fundamental structural problems in the world economy and the obstacles to any new international economic order. Unfortunately, because so much information is compressed into so little space, the reader is literally overwhelmed and is left both frustrated and distinctly pessimistic about the prospects for changes in the world economy. For example, the chapters are replete with broad statements such as the following: '[We now require] a revision of the rules of the game in international trade in raw materials and manufactured goods, international technology trade, international flows of both public and private capital and the international monetary system, in addition to the international control of natural resources which are potentially available in the seabed and in space.'

The reader is constantly reminded that despite the awesome agenda, negligible progress has been made to date on such key initiatives as the UNCTAD Integrated Programme for Commodities supported by the much vaunted but inoperative Common Fund; the Convention on the Law of the Sea that was supposed to establish an unprecedented supranational authority to supervise the exploration of the 'common heritage of mankind'; the SDR-aid link that would promote a more equitable distribution of financial resources; and the international code of conduct for technology transfers that was intended to bring a measure of control to bear on the operations of transnational corporations in developing countries. Even more problematic, of course, is the economic crisis in the developed countries that has led to increasing prctectionism and the foreclosure of export markets for developing countries, thereby depressing the export earnings that are absolutely critical to servicing the mountains of foreign debt accumulated by a number of developing countries since the late 1970s.

What can be done to climb out of this mire? It is difficult to find any inspiring solutions in the Agarwala book, although excellent suggestions are sprinkled liberally throughout: focus on South–South cooperation to enhance collective bargaining power; build up regional capital markets to facilitate trade and investment; appeal to moderate developed countries such as Japan, Canada, and Australia to reverse the palpable decline in concessional transfers, and so forth. But, the reader simply cannot find the forest for the trees. What is clear, however, is that as long as the distribution of financial and economic power remains with the richer states of the North, there is little prospect of any major change in the key decisionmaking process of international institutions that would permit more equitable participation by developing countries in the world economy. Accordingly, any progress will continue to be of an *ad hoc* nature such as improvements in resource transfers in certain functional areas such as trade, finance, technology and industrialisation.

Inspiration to break out of the North–South stalemate can, however, be found in the second publication, *Cooperation for Development: Strategies for the 1980s*, edited by Ervin Laszlo. The book consists of several brief and very readable papers that were presented at the Kuwait meeting of the Club of Rome in October 1983. All the contributions are outstanding examples of clarity, realism and forward thinking on the part of an interesting selection of participants (from Ibrahim Shihata, the Director-General of the OPEC Fund for International Development to Saburo Ohita of the International University of Japan), and a summary of the twenty principal conclusions and recommendations are set out succinctly in a useful seven-page summary at the end. The broad thrust of these conclusions is as follows. All nation states (and we must still accept the state as the basic building-block of the international system) are interested in the maintenance of a stable world order. Serious global problems clearly cannot be solved by the independent action of single governments, and the interdependence—economic, political, social, and cultural—is a permanent feature of international relations. The petroleum crisis is the most obvious demonstration of the vulnerability of all states to external political events.

To simply acknowledge the reality of global interdependence and mutual dependence is of course not enough; it must be effectively managed to the mutual benefit of all states. But properly to manage this interdependence, we must break away from the obsolete North–South approach to the NIEO and focus on building up the self-reliance and resilience of appropriate regional units within the global system. More specifically, the utility of global approaches to world economic problems is significantly diminished in light of the heterogeneity of states at many different levels of development. And the naive belief in the mid-1970s that the newly rich oil exporters would throw their weight into the balance and tip the scales in favour of a monolithic block of countries is now discredited. Instead, the hundred-odd countries that now form part of the Group of 77 (G77) are of such a diverse nature that, even with the additional economic clout of the oil exporters and the newly industrialising countries (NICs), few coherent or meaningful positions can be formulated in any of the existing international forums such as UNCTAD and the UN General Assembly.

A new strategy to achieve the NIEO is called for—one that transcends the North–South paradigm and seeks to harness the new centres of both public and private economic power for well-defined, more realistic *regional* goals. Laszlo and others persuasively argue that South–South self-reliance is a 'key intermediate position between an unrealistic and undesirable de-coupling of the fledgling economies of the South from the industrialized economies of the North on the one hand, and sinking further into the tight embrace of asymmetrical North–South interdependence on the other.' Developing countries must establish regional groups that will reflect real complementarities such as in patterns of agricultural and industrial production, in trade, in utilisation of labour and managerial capabilities and in sharing of adapted technology. The groups should include members at different stages of development and, in particular, at least one industrialised country, such as Australia and Japan in a Southeast Asia and Western Pacific group, and Canada, Mexico and Brazil in a Latin American group. This will particularly facilitate essential financial reforms such as the creation of regional capital markets, and the encouragement of intra-regional, non-concessional financial transfers through innovative mechanisms such as loan guarantees.

By focusing on these smaller more manageable groups of states, the calculation and distribution of the costs and benefits of cooperation and specific assistance schemes in all spheres of activity will be easier. This then should permit a much greater degree of regional integration and cooperation than has yet been achieved through such laudable but hitherto relatively unsuccessful attempts at South–South cooperation as the 1981 Caracas Action Programme, the 1980 Lagos Plan of Action for Africa and the 1977 Cairo Charter for Cooperation.

Of course, even with this greater emphasis on regional integration, there is still scope for global initiatives in appropriate areas, such as the provocative suggestion of Saburo Ohita of Japan for a Global Infrastructure Fund (GIF) to spur the world economy out of its present stagnation through expenditures of some $500 billion over twenty years (less than one year's annual expenditures on military armaments) on long-term mega projects such as a second Panama Canal, the greening of the Sahara desert, and massive hydro and irrigation projects in the Indian subcontinent, Africa and Latin America. Similarly, global institutions such as the UN would continue to play an important role in maintaining world security, balancing the activities of the regions, and providing mechanisms to deal with truly global problems such as the world climate, environmental quality, monetary policies, international credit, and the exploration of the oceans. Finally, despite the evident heterogeneity among developing states, the G77 would continue to operate as the key umbrella group and should establish a secretariat comparable to that of the OECD to provide some overall coherence to the various strategies of groups of developing countries.

The advantages of increased South–South self-reliance, and the need for cooperation that cuts across the North–South divide is a theme picked up in the third publication, *Some Key Issues for the World Periphery*. This consists of a series of essays largely written in the 1960s and 1970s by a leading expert in economic underdevelopment, Miguel Wionczek. Unfortunately, like the overview of the NIEO by P N Agarwala, this book is an overwhelming compilation of facts, figures, theories, and recommendations on the whole gamut of issues on the North–South agenda: international trade and investment, economic cooperation among developing countries, food production and rural development, industrialisation and technology transfer, transfer of financial resources, transnational corporations, etc. Accordingly, it is not particularly useful in the prescriptive sense, but rather serves only as an interesting, albeit eclectic, series of observations from a writer who has been closely involved in all facets of the development process as an academic, policy adviser, and hands-on negotiator. Nevertheless, the essays are well organised into three categories relating to the national (Mexican), regional (Latin American) and global perspectives. And it is certainly not impossible to cull several informative conclusions from the material. For example, at the national level, Wionczek stresses the need to recognise both the interrelationship between scientific and technological effort and the patterns and pace of economic and social growth, as well as the critical link between local research and development activities and the educational and productive systems. The far-reaching Mexican Science and Technology Plan and the National Council on Science and Technology (CONACYT) are assessed as possible examples for other developing countries.

At the regional level, Wionczek decries the dissappointing record of regional economic and trade integration in Latin America, notably through the Central American Common Market (CACM), the Latin American Free Trade Area (LAFTA), and the Andean Common Market. The author highlights the obvious difficulty in a regional approach to foreign private investment which, to be successful, necessarily requires a harmonisation of a whole range of policies dealing with joint ventures, tariff exemptions, investment incentives, patent and industrial property legislation, control of the access of foreign subsidiaries to local public and private financial resources for financing local investment costs, the design of registers for foreign enterprises and the controls on payments for technology transfer and technical assistance. Unfortunately, no set of countries has yet demonstrated the necessary political will to undertake such extensive cooperation despite the obvious benefits that would accrue.

Finally, at the global level, Wionczek underscores the irrelevance of the bipolar North–South perspective on the economic order. He argues that we now face a four-corner game with the active participation of new sources of lendable funds (oil surplus countries) and of the great private financial intermediaries. Wionczek is particularly critical of certain NIEO global negotiating initiatives, notably the Conference on International Economic Cooperation (CIEC) in 1976–7, and the August 1979 UN Conference on Science and Technology (UNCST). He refers to the 'intellectual sterility' of the UNCST, and castigates both the G77 and the international bureaucrats for scuppering any real progress. In his view, 'the G77 obviously avoided any new confrontation with industrial countries because of its weakness, division and limited political and technical competence.' Although he then goes on to recommend a secretariat for G77, he notes that this will only be useful if it is accompanied by an improved performance of the international public system, especially the secretariats at the United Nations.

As in the first two publications, Wionczek concludes that the common front of the developing country is crumbling due to pronounced disparities in the size and development level of the members of the G77, the impact of the present world economic crises upon individual developing countries, as well as the emergence of many more actors, such as China, the transnational corporations (including, or course, the powerful multinational banks) and a proliferation of United Nations and non-United Nations agencies. Global initiatives such as international codes of conduct and global negotiations will therefore have little impact on progress towards a new international economic order. The failure of the October 1981 summit at Cancún, Mexico, is yet another case in point. Efforts would be much better focused at the regional level.

The fourth publication, *Economic Relationships Among States*, written by Evan Luard, is distinct from the other three. Although it also addresses the future of the international economic system, Luard presents the reader with an intellectually stimulating historical study of the economic dimension of the behaviour of nations from the fourteenth century to the present day, and seeks to outline the role that economic relations have played in establishing a particular kind of political and social order among states in the six eras since 1300. Although the book is organised into five separate chronological essays focused respectively on doctrines, the role of interest groups, motives, means, and the economic consequences of economic relations (new forms of economic dependence and domination), the reader can discern one particularly prominent theme throughout: the determinative role played by the dominant domestic interest groups in influencing the doctrine in each era that inspired both domestic and international economic policy. For example, in the Industrial Revolution-Adam Smith era, the merchants and manufacturers ensured that their interests in freer trade were promoted. Similarly, in the twentieth century inter-war period, strong central governments became the most significant forces, pursuing Keynesian policies at the national level and attempting to manage international trade to support domestic objectives via strict controls on imports and other exchanges.

Since World War II, the large international companies have become dominant and exercise huge leverage in terms of foreign exchange earnings, employment and control of technology. Luard argues that the doctrines that prevail today reflect the interest of these companies in the liberalisation of exchanges between states, a multilateral non-discriminatory trading system, convertibility of currencies, and strict conditionality in return for credit. In light of the rise in influence of non-state actors, together with the marked reduction in the capacity of the richer states, notably the US, to impose their will on the international economy, what are the implications for progress towards a New International Economic Order? Luard sets out three possible outcomes: the world breaks up into a set of autarchic regional economies consisting of both rich and poor states with considerable barriers between regions; the rich and poor states increasingly decouple and focus, for example, on intra-North and intra-South trade and investment;

the world market becomes increasingly unified due to the operations of transitional corporations, in which rich countries focus on capital-intensive production of high technology goods in which they specialise, and import labour-intensive, low-technology goods from poorer countries. Luard suggests that the third scenario is closer to current reality given the present dominance of the transnational corporations and banks.

In turning to a possible prescription for the future, Luard makes the traditional call for a new international economic system with a greater degree of regulation by international bodies such as the IMF, a World Development Fund (such as proposed in the Brandt Report), an effective international resources commission and the implementation of a system of international taxation. Yet this prescription is clearly inadequate. The key to progress, as Luard himself notes, is to persuade the dominant private and public interests that it is in their own long-term economic and financial interest to ensure a more equitable distribution of wealth. And although in recent years both the multinational banks and indeed the US have recognised the value of the IMF in regulating the enormous debt burdens of many developing countries and in preventing a catastrophic collapse of the international financial system, the outlook for progress towards regulations at the international level is clearly not good.

It is indeed unfortunate that Luard did not go on to address more explicitly the potential for breaking out of the global North–South mindset and for finding constructive, practical alternatives to negotiations and regulation on a global scale. It is clear that more concerned efforts to cut across the North–South divide at the regional level with particular emphasis on links between poorer countries and a wide range of middle powers such as Japan, Canada, Australia, Spain, Italy, India, Mexico and Brazil, together with explicit attempts to influence public opinion in developed countries, (the potential for which has been highlighted by the electrifying effect of media coverage of the famine in Ethiopia), hold much greater prospect for concrete progress towards a new, more equitable and yet more stable and orderly international economic system.

DEBORAH COYNE

Business Council on National Issues, Ottawa

The emerging global society

The Expansion of International Society
Edited by Hedley Bull and Adam Watson
Oxford: Clarendon Press. 1984. 479pp £25

An air of complaint is often attached to the observation that the contemporary society of states is European in origin and—some assert—in nature. It is implied that there is something unjust or improper in the fact that a majority of that society's members are by any standard non-European, yet find themselves part of a collectivity which has grown out of the activities of that continent and is perhaps still imbued with European characteristics. The numerous states of the Third World, it is suggested, are, internationally speaking, strangers in a foreign land. From this premise it is but a short step to the belief—which is hinted at quite frequently but hardly ever spelt out—that Third World states are labouring under a significant handicap by participating in a set-up which is not of their own making. Some of the disadvantages they suffer, the elusive argument goes, are a reflection of the fact that they are ill at ease in their foreign dealings on account of the international society being structured in a way which goes against their particular grain.

Certainly, there can be no question that the present international society has resulted from the enlargement of one which was originally based in Europe. This process is detailed in the first half of the book under discussion, which has been very carefully edited by the late Hedley Bull and Adam Watson, and contains a large number of scholarly essays by expert hands. It first describes how the society of states which grew up in Europe from about 1500 established its ascendancy over the rest of the globe during the next four hundred years, and goes on to show how some non-European states were brought into membership: states from the Americas to the west, the Ottoman Empire on Europe's south-easterly margins, and China and Japan in what was to Europe the 'Far East'. There is also a discussion of how some tentative initial steps were made in the same direction in some other parts

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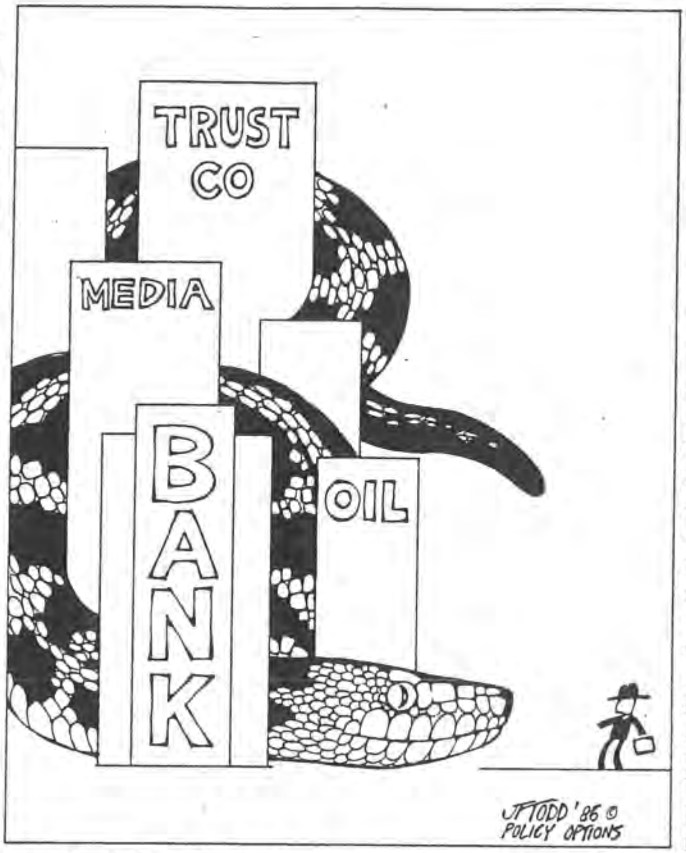
Cover Art • Private collection
Léo B. LeBlanc • *Point Wolfe, N.B.* • 1980 • Oil on canvas • 55.8 × 71 cm • New Brunswick
Photo: George Georgakakos

By Deborah Coyne

Corporate Over-Concentration

The great and growing concentration of Canada's corporate structure requires control by competition policy, legal reforms and tax measures



Cartoon: Todd

Is corporate power in Canada now beyond political control? Is Canada becoming an economic oligarchy, whose economy will eventually be controlled by six or seven family dynasties? What are the consequences of such concentrated pools of wealth for our industrial structure, the level of innovation, the competitive business environment, the range of employment and investment opportunities available to Canadians and, most importantly, our democratic political system?

These concerns cannot be dismissed as socialist rhetoric. Rather they reflect the views of keen observers of the Canadian business and political scene from both within and outside Canada, ranging from the current chairman of the Ontario Securities Commission, in a contribution to the Macdonald Royal Commission, to a well-known commentator, Bill Javetski, in the American publication *Business Week*.

The level of corporate concentration in Canada has been under scrutiny for many years, but particularly since the late 1970s when a Royal Commission was established to study the issue. In its report, the Bryce Commission concluded rather lamely that, while concentration in many key industries was high, it was not dangerously so and did not merit any particular policy action. It also decided that while there had been an increase in conglomerate corporations, the diversification had not been harmful.

Needless to say, the Bryce Report did not eliminate the widespread concern over corporate concentration. Most recently, the Macdonald Royal Commission commented on the continuing rising levels of aggregate concentration in Canada especially since 1975, as measured by the share of corporate assets controlled by the largest 25, 50 or 100 enterprises. It also noted that concentration, as measured by the percentage of shipments accounted for by the four largest enterprises (including government enterprises), increased in most of the major sectors between 1975 and 1980, notably retail trade (5.1 percentage increase), transportation and communications and utilities (7.8 percent), finance (4.4 percent) and services (7.6 percent). With specific reference to the manufacturing sector, 82 percent of all manufactured products, taking each product separately (4,080 products out of 167 industries) were manufactured by four or less firms.

According to the Commission, individual Canadian industries tend to be more highly concentrated than their counterparts in the United States, and nearly four-fifths of economic activity in the U.S. (expressed in terms of GNP) is essentially competitive compared to only two-fifths of the economic activity in Canada.

But while the Macdonald Commission documented the rising levels of concentration reasonably well and indeed acknowledged that the degree of corporate concentration may be harmful, its prescriptions for reform fall far short of what is required. On the whole, the Commission restricted itself to repeating the rather anodyne Bryce Report conclusions, and to the further observation that increases in producer concentration may be justified by the need for firms to rationalize in the face of stiff international competition.

Trade liberalization and reduced regulation of price, output and entry into certain industries were then put forward as the two most important means of promoting competition and, presumably, minimizing any potential dangers of concentration. Brief reference was also made to the possibility of the occasional political decision to prohibit mergers involving major conglomerates, as a safeguard of the last resort.

Unfortunately, the superficial analysis in the Macdonald Report has once again inhibited proper consideration of the more fundamental issues relating to the increasing concentration of economic activity in Canada. For example, is there really any persuasive evidence to support the traditional argument that greater producer concentration is needed to achieve sufficient economies of scale, which in turn are necessary to enhance efficiency and competitiveness? Did the wave of mergers and rationalizations that occurred during the 1981-1982 downturn do much to improve our economic competitiveness or increase employment? Or is "merger mania" simply a manifestation of what Robert Reich has called "paper entrepreneurialism," and are not mergers prompted more by the lure of short term financial rewards (for example, the target company's cash flow or tax losses) than by a desire to improve the long term returns from actually making products or supplying services?

The time is long overdue for an adequate analysis of these issues. But more importantly, the time is long overdue for action, and the longer we shrink from taking effective remedial steps, the more difficult it will be to reverse the trend to increased concentration and to contain its deleterious effects.

In the meantime, the evidence continues to pile up. In late 1984, for example, the following startling statistics were reported: Close to 80 percent of the companies listed in the Toronto Stock Exchange 300 index were controlled by a single family and/or group. And almost 50 percent of the value of these companies was controlled by only nine families, notably the Thomsons of Hudson's Bay Company and *Globe & Mail* fame, the two branches of the Bronfman family, Paul Desmarais of Power Corporation, the Reichmann brothers, Conrad Black, and George Weston.

More recently, in 1985 it has been estimated that just 15 conglomerates control some $120 billion in financial assets. This is double the level of four years ago and represents one-fifth of the country's total asset base.

With specific reference to the banking and financial services industry, the stability of which has been rocked recently by the collapse of the Canadian Commercial and Northland banks, some 60 percent of all of our financial assets are held by five financial service conglomerates and the six large banks. More importantly, several of the financial service conglomerates are each owned by one of the major family dynasties, and the largest is now controlled by Genstar Corporation (a Vancouver based building materials and real estate group) following the mega merger of Canada Permanent Ltd. and Canada Trustco in December 1985.

This situation of closely held ownership is dangerously open to self-dealing and conflicts of interest. How can the shareholders of a trust company or the general public be certain that the financial institution will impartially examine all requests for financing when the same people control both the institution and the customer? Is there not a very real danger that such self-dealing will mean that the country's resources are going to the wrong places?

Similar concerns arise in respect of even the widely-held big banks. They too are inevitably influenced by their major conglomerate customers by reason of extensive interlocking directorships. Some 231 bank directors held 306 other directorships in dominant firms—25 percent of all such directorships. Jack Gallagher's Dome Petroleum encountered apparently few problems in 1982 in obtaining $1.2 billion from the Canadian Imperial Bank of Commerce, on whose board Gallagher sat as a director, to help finance an ill-timed $4 billion takeover that soured and ultimately required a government—that is, taxpayer—bail out.

Perhaps the most troublesome aspect of the indisputable trend toward greater concentrations of wealth and economic activity, however, is the gradual but inexorable expansion of huge conglomerates: that is, the accumulation of unrelated corporate holdings in a variety of markets, both domestic and overseas, in the hands of a few individuals or family empires.

Illustrations of the extent of these empires are easy to find. The Thomson family holdings, for example, include a very large number of newspapers and the recently enlarged retailer, the Hudson's Bay Company. The value of all Thomson-controlled companies in 1984 was some $3.8 billion, with a market value of $2.3 billion. Edward and Peter Bronfman's holdings include controlling interests in the mining sector (Noranda), a brewery (Labatts) and a financial holding company (Trilon Financial Corporation). And the Reichmann brothers recently added Gulf Canada Ltd. to their extensive real estate, liquor and lumber holdings.

Whether or not we realize it, these huge conglomerates dominate our daily lives—from our newspaper in the morning, to the office where we work, to the department stores where we shop and to the liquor and beer we drink. Although the Hudson's Bay Company-Simpsons mega merger in 1979 may have passed unnoticed by most of us who frequent one or both stores, the elimination of a major source of competition in the retail market and the expansion of wealth in the hands of Lord Thomson have extremely significant implications for our present and future economic and social welfare.

But what exactly is the problem, and wherein lies the danger?

First, there is the impact on employment opportunities. Of course these conglomerates employ thousands of Canadians but they also lay off thousands of workers as they consolidate and "down-size" in the face of a poor economic climate. As more and more of their competitors are eliminated, there are fewer and fewer job opportunities for Canadians outside the gigantic corporate web.

This has led some to conclude that the labour market is gradually splitting into two classes: one group of employees reasonably comfortably protected under the big corporate umbrella, while another group remains vulnerable, weak, employed or unemployed, struggling to survive in the smaller business sector.

Second, there is the impact of the conglomerates on the investment opportunities for both Canadians and non-Canadians. Few investors want to put money into an innovative business with the expectation that they will be gobbled up by an insatiable corporate giant. Furthermore, the pressure of such concentrated corporate power frequently stifles competitive forces and restricts the market available for aggressive investment strategies.

Finally, there is the element of enormous political power that is linked to such concentrations of wealth. Few governments have proved resistant to the suggestions, advice, requests and so forth of companies that control such great proportions of our nation's wealth, labour force and investment, whether on matters of tax reform, energy policy, foreign investment or deficit-reduction.

Yet despite all the foregoing implications of conglomerate expansion, the Canadian public seems strangely quiescent. In part this may be due to our unseemly reverence of corporate power embodied in the likes of Conrad Black and Paul Reichmann. In part, it is also due to our exposure to the media's sympathetic business-oriented approach to issues: something which is itself an inescapable consequence of the extremely high concentration of corporate control of our newspapers and electronic media, concentration levels that are almost unparalleled in other western democracies.

Some informed observers, John Kenneth Galbraith among them, believe that little can be done to halt the runaway growth of conglomerates. As profits are accumulated, they must be reinvested and the rational chief executive officer will more often than not choose to expand into unrelated, new and challenging areas.

Take for example, the Reichmanns' $2.8 billion takeover of Gulf Canada Ltd., which extended their empire well beyond its core real-estate base. This was the largest private transaction in Canadian history, assisted with a special tax exemption, kindness of the Canadian taxpayer, that has been estimated at anywhere between $400 million and $1 billion.

What has this done for the Canadian employee, the Canadian investor, the Canadian consumer? Admittedly it does have the effect of Canadianizing a large chunk of the energy sector. But at what price? As part of the deal, Gulf sold off its service outlets to PetroCanada, with a resultant loss of some 2000 jobs following the consolidation with PetroCanada stations. Further, the Gulf Canada deal concentrated the oil business even more, reducing the number of major refiners and marketers from five to four. And the close cooperation of the government in facilitating the deal unacceptably blurred the line between business and politics.

In a recent *Financial Post* interview after being selected as business newsmaker of the year, Paul Reichmann firmly denied that he is anxious to become any bigger or wants more control. But in answering why the Reichmanns undertook yet another mega investment, he replied "There is a sense of challenge, the challenge of doing something meaningful. In the end, though, it is an addiction."

It is this addiction that is leading inexorably to sprawling conglomerates that must now be seriously addressed as a pressing public policy issue. Unless we are willing to abdicate the public interest in the pursuit of a constructive industrial strategy—one that will ensure that, as we rapidly shift from a predominantly resource based economy, we are able to generate a new economic dynamism especially in the new high technology growth sectors—our political leaders must take urgent steps to check this rise in concentration.

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In doing so, they must also firmly break out of the traditional tripartite focus on big business, big labour and government, and recognize that it is no longer, if it ever was, justifiable to believe that the country's biggest corporate players will necessarily do better than our small businesses and entrepreneurs at sparking economic growth and reducing unemployment.

A strategic approach involving firm initiatives on a number of fronts is now required in order to meet effectively the threat of ever increasing concentration of economic activity and wealth in Canada. The primary role of the government is, of course, the establishment of a framework within which the economy should operate, while reserving direct intervention for critical areas of support or breakdown. But at this moment we clearly lack sensible framework policies in key areas such as competition policy, industrial policy, science and technology, and foreign investment.

First, we must take firm steps to revamp our competition laws and to facilitate reviews of mergers that may adversely impact on the public interest. The recent proposal by the federal government to establish a competition tribunal for such merger reviews is a small step in the right direction. However, the tribunal ought to be much more private sector oriented, perhaps along the lines of the British Monopolies and Mergers Commission that involves no judicial element and merely advises the relevant Minister, rather than be chaired by a Federal Court judge and potentially dominated by judges, as proposed in the draft legislation.

In addition, the jurisdiction of the tribunal should be extended to all mergers involving, for example, combined assets of at least $100 million. And the onus must be firmly placed on the merging parties to justify why the transaction is in the public interest, whether in terms of expanded output and employment or of the need for a larger domestic base to facilitate competitiveness in international markets.

In this connection, it is noteworthy that many of the larger Canadian companies, with the notable exceptions of Alcan Aluminum Ltd. and Bell Canada Enterprises, have had a less than stellar international competitive performance notwithstanding the putative advantages of economies of scale. The jury is clearly still out on this issue.

The jurisdiction of the competition tribunal should also include reviews of proposed takeovers of foreign companies by Canadian companies above the minimum threshold level, in much the same way that the British Mergers and Monopolies Commission has authority to review the British Telecom purchase of Mitel Corporation.

In this way, we may gain a greater insight into and perhaps influence over the billions of Canadian dollars that are invested outside our borders every year. Indeed it is estimated that the flow into the United States jumped from $11.4 billion in 1983 to $14 billion in 1984 and continues to rise steadily.

Other initiatives relating to competition policy include the establishment of ceilings for ownership measured in terms of market shares or on a sector by sector basis. In the United States, for example, there is an automatic investigation of any four companies having 60 percent of any market.

In addition, these competition policy initiatives should be linked to reforms to our foreign investment rules. Parallel ceilings could be placed on foreign ownership in the key sectors, and strong consideration should be given to the Science Council suggestion that foreign takeovers of any company that has received more than $100,000 in federal assistance over the previous five years, by way of grants, loans, subsidies and so forth for research and development, should be subject to review notwithstanding the new threshold level established under the Investment Canada Act.

Most importantly perhaps, the foreign investment review mechanism should be integrated with the operations of the competition bureau and tribunal to ensure coordination and more streamlined reporting requirements.

A second area for specific government action relates to the financial services sector and the reduction of levels of concentrated ownership and the associated opportunities for abuse of corporate power. This should involve the imposition of strict ownership rules for trust companies similar to the limit for any single shareholder now imposed on the banks. Such a step will of course necessitate the appropriate divestiture of the existing controlling interests over a certain period of time.

There should also be a ban on self dealing on the part of all financial institutions, and all non-arm's length transactions should be prohibited in any instance where the true market value cannot be objectively ascertained by independent means.

With specific reference to banks, although they are widely-held, stricter rules are required in respect of their corporate governance in order to ensure that the largest customers do not represent a dominant influence on the boards of directors, and that there is equal access to credit for all businesses and entrepreneurs regardless of size. In Britain, for example, the banks' biggest customers cannot sit on bank boards. This stands in stark contrast to the extensive interlocks between the five major Canadian banks and other dominant firms.

A third area for particular initiatives relates to the concentration of ownership in our media, especially the newspaper industry. Already two government-initiated studies—one prepared by the Special Senate Committee on Mass Media (1970), the other by the Kent Royal Commission on Newspapers—have warned Canadians of the dangers of the increasing concentration of the press, and have advised remedial measures.

Most Canadian communities have only one newspaper. Two huge newspaper chains, Thomson and Southam, control some 58 percent of the total English language circulation. In New Brunswick, Irving Limited controls 90.6 percent of the daily circulation. Finally, Power Corporation controls at least 25 percent of the French language circulation in Quebec, and its takeover in September 1985 of Télémetropole Inc., which includes most of Quebec's TVA private network, has raised additional concerns about cross-media ownership. In this connection, it is disturbing that in May 1985 the federal government annulled a 1982 directive to the CRTC designed to limit such cross-media ownership in the same region.

This overwhelming presence of powerful corporate interests does not necessarily entail overt or even covert censorship by the owners or publishers. But insofar as media coverage is frequently sympathetic to, or reflective of, the concerns of business, this inevitably strengthens the influence of business in the public policy process, and weakens the fully informed debate so essential to the effective functioning of a liberal democracy.

It is clearly time to review the proposals of both the Davey Report and the Kent Report, and to take action. Otherwise we risk a situation in which the revolution in information technology that is now taking place will come to be dominated by, and ever more entrenched in, the same groups, to the detriment of the social and political fabric of our society.

Corporation law reform is yet another means of addressing the problems of corporate concentration. To begin with, enhanced protections for minority shareholders whose interests are too often forgotten or ignored in the course of mergers involving major corporate players are clearly required. And measures must be taken to contain the deleterious effects of so-called "paper entrepreneurialism" that does so little to contribute to either economic growth or employment. In this connection, the New York legislature has recently passed a law that requires corporate raiders who buy more than 20 percent of a company's stock to wait five years before merging with the target company or selling off its assets.

Other possible approaches include amendments to our tax laws to eliminate built-in incentives to merger activity. Provisions for the deduction of interest on loans to finance takeovers should be removed, and consolidated tax filings for corporate conglomerates should be required in order to prevent interrelated companies from avoiding taxes by passing tax credits from one corporation to another.

Our company laws must also be amended in respect of the rules governing the composition of boards of directors in order to gradually dissolve the network of interlocking directorships and to ensure that a broader perspective is brought to bear on corporate decisions.

Furthermore, the need to expand the range of experience on boards of directors applies equally to the public sector. More specifically, governments must improve the range of government appointments to boards of crown corporations, regulatory agencies, research councils, universities, hospitals, granting bodies and cultural, community and charitable organizations.

Finally, consideration should be given to initiatives that are consciously aimed at broadening the ownership base of existing conglomerates and encouraging entrepreneurship. We could, for example, spur greater employee ownership of enterprises through tax-sheltered buy-back schemes such as those tried out in Sweden. This might be particularly useful as part of the divestiture recommended for the financial services and media sectors. We could also take steps to nurture the venture capital market and expand investment opportunities in Canada. This might help to stem the flow of the some $14 billion in Canadian investment south of the border, including 40 percent of Canadian venture capital.

Clearly, firm, positive government action is urgently required if we are to succeed in checking the inexorable expansion of concentrated pools of wealth in our economy, especially the conglomerate variety. Both the government and the general public have yet to fully appreciate the nature of this power and its implications for political influence as well as for the opportunities open to Canadians whether in terms of employment or investment. It is time to establish a strategic domestic agenda and to act decisively. Failure to do so could have irreparable long term consequences for the social and economic fabric of this country. ▭

Deborah Coyne is Executive Director of the Task Force on the insurance industry in Ontario. Educated at Queen's, Osgoode Hall Law School and Oxford, she has practised law in Toronto, has been an associate of the Business Council on National Issues, and has written on the monetary and financial aspects of North-South relations.