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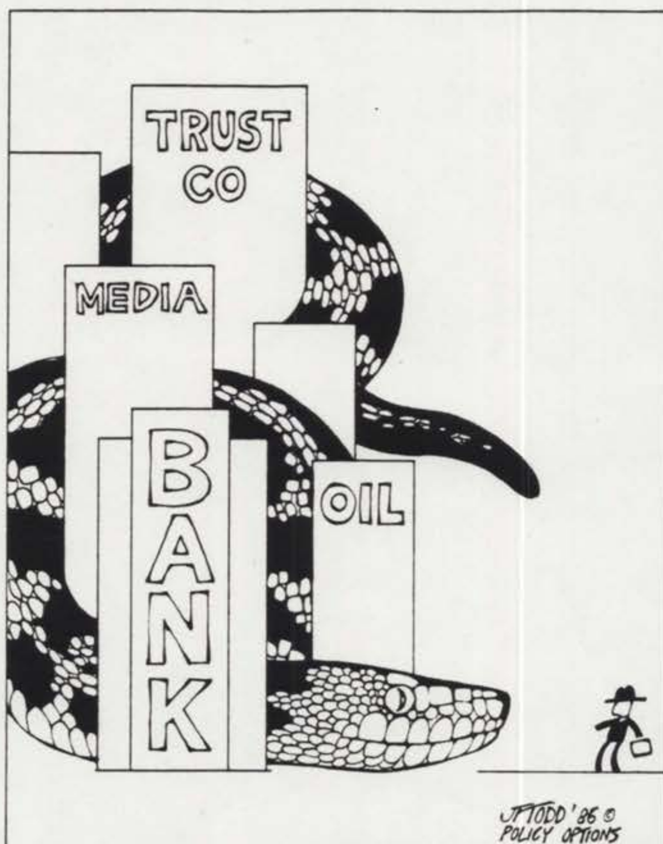
Léo B. LeBlanc • *Point Wolfe, N.B.* • 1980 • Oil on canvas • 55.8 × 71 cm • New Brunswick
Photo: George Georgakakos

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



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

Cartoon: Todd

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

the close cooperation of the government in facilitating the deal unacceptably blurred the line between business and politics.

technology growth sectors—our political leaders must take urgent steps to check this rise in concentration.

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.

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