There are two ways of conquering a foreign nation. One is to gain control of its people by force of arms. The other is to gain control of its economy by financial means

- John Foster Dulles, Former U.S. Secretary of State

How the multinational corporation hurts Canada

By Bob Roth

Three years ago a group of eight economists led by Professor Melville Watkins set out to determine the impact of the multinational corporation on Canadian society. They came up with a provocative report — a report that has been gathering dust on some obscure Ottawa shelf ever since.

We have forgotten that the Watkins report — endorsed unanimously by its authors — gave us 10 to 15 years to alter a trend that threatens to destroy the very existence of the Canadian state. The danger they warned us of was the increasing presence and power in Canada of the U.S. multinational corporation.

Yet today, years afterwards, when we should be at stage two, working towards an alternative to domination by U.S. corporations, we find we are still debating the primary issue. The time-worn questions have persisted: What exactly is a multinational corporation? How does it function? So what if 60 per cent of our manufacturing industry is foreign controlled, how does that hurt Canada? Don't we need U.S. capital?

Perhaps these questions have not been answered for many us of. Perhaps we were content to leave it to the "experts" in Ottawa to define the problem more clearly and find solutions. They have not.

In fact we have not come far since 1967. Since that time hundreds of Canadian companies have succumbed to the onslaught of U.S. takeovers. How can we, as Canadians and as York students, halt this devastation of our economic and political sovereignty? The first step — a step that should have been taken years ago — is to obtain a working knowledge of our historical experience, our present situation and our possible alternatives.

The following series, of which this article is the first part, is being written in the hope that it will in some small way contribute to that understanding.

Colonial History

Historically we have always been the hinterland of some imperial metropolis. In the past Britain and France were the imperial centers of power with Canada supplying resources such as lumber, fish and fur to keep the empire functioning. Today the center of power lies directly below our border. About one-third of goods produced in Canada are exported to the United States. These commodities are mostly resource-based such as nickel, pulp and paper, iron ore, lead, and others.

In addition, foreign corporations, predominately American, control major sectors of our economy, manufacturing, mining and smelting, petroleum and natural gas.

The insatiable desire of the United States to control the resources not only of Canada but of the entire world becomes a frightening reality when one realizes that the United States, with 6 per cent of the world's population, consumes 50-60 per cent of the world's consumable resources.

Jack Behram, a leading economist, has indicated that multinational corporations, largely American, will control one-third of the total output of the non-communist world by 1986.

WE'VE GOT A VISITOR

Planned Free Enterprise

Perhaps the most dangerous aspect of the multinational corporation is that it has virtually eliminated risk, competition and many other so-called "free enterprise" safeguards that allegedly protect the consumer.

To secure high and growing profits and reduce risk the corporations engage in long range planning and in effect completely reverse the supply and demand theory. The corporations take the initiative in deciding what to produce and then engage in huge advertising campaigns designed to convince the consumer that he really needs new improved Flash toothpaste because only it has the new ingredient XKE-5.

As Galbraith puts it, the corporation "reaches forward to control the markets that it presumes to serve and beyond, to bend the consumer to its needs, and in so doing it deeply influences his values and beliefs."

This attempt by U.S. corporations to influence Canadian "values and beliefs" is the source of the present conflict in our universities between Canadian nationalists and their continentalist opponents.

The Americanization of our universities is a natural development of the Americanization of our economy. They have our bodies. Now, they want our minds. In the words of economist Kari Levitt:

". . .the profitability of the parent corporation is assisted by every influence which eliminates cultural resistance to the consumption patterns of the metropolis (United States). The corporation thus has a vested interest in the destruction of cultural differences and homogenization of the way of life, the world over."

For the large corporations money is not a problem. In 1957, a year of recession, not one of the hundred largest companies failed to make a profit. The problem, which they are earnestly trying to solve, is a shortage of completely conditioned consumers.

As an executive of Proctor and Gamble Company admitted: "Our problem is not access to capital and I believe this is true of most American companies. Our problem is the development of ideas that will justify the investment of capital."

Corporate Liberalism

Just as Christianity accompanied and justified the old colonialism, Levitt says,

"the new colonialism of American expansion is carried by the ideology of materialism, liberalism and anti-nationalism. By means of those values it seeks to disarm the resistance of national communities to alien consumption patterns, and the presence of alien power. . ."

What a coincidence that the anti-nationalist, destroy-the-nation-state line now coming out of our universities fits so snugly with the aims of the giant U.S. corporations. This connection is clearly exemplified by a remark made to the U.S. Chamber of Commerce by an American Under-Secretary for State, George Ball:

"The multinational corporation is ahead of, and in conflict with existing political organizations represented by the nation states. Major obstacles to the multinational corporation are evident in Western Europe and Canada, and a good part of the developing world."

Clearly, the American attempt to break down the Canadian state is succeeding. Our business class has become assimilated to the point where it is now the greatest apologist for the U.S. multinational corporation.

Branch Plant Mythology

An example of this absorption into the American system is the case of Proctor and Gamble where Canadians have served as general managers of branch plants in France, Morocco, Mexico and Britain. A Proctor and Gamble policy statement proudly proclaims: "The important thing is that in the total organization they were neither helped nor hampered by their nationality."

Why have the Canadian people until recently tolerated this absorption? Quite simply we have been sold a false bill of goods by our own assimilated economic and political elite. We have been fed myths concerning our great need for U.S. capital and "good ol' American know-how."

Levitt's research has disproved many of these myths. On our need for U.S. capital she writes:

". . .over the period 1957 to 1964 U.S. direct investment in manufacturing, mining and petroleum secured 73 per cent of their funds from retained earnings and depreciation reserves, a further 12 per cent from Canadian banks and other intermediaries and only 15 per cent in the form of new funds from the United States. Furthermore, throughout the period payout of dividends, interest, royalties and management fees exceeded the inflow of new capital."

In other words 85 per cent of the funds available to U.S. subsidiaries in Canada was obtained in Canada and the outflow of profits to the U.S. was greater than the inflow of new capital. In essence Canada is a net exporter of capital.

As for our lack of American "know how" the Proctor and Gamble example is proof enough that Canadians can handle responsible jobs.

Some apologists for the multinational corporation argue that without U.S. investment we would not have advanced as far technologically. On the contrary, it is this very dependence on U.S. technology that has hindered the development of Canadian technology.

Canadian expenditures on research and development for example are smaller in relation to its Gross National Product (1.1%) than that of most countries of Western Europe and very much smaller than expenditures in the United Kingdom (2.3%) or the United States (3.4%).

This situation is created because over half the research in the United States is done by industry. Hence branch-plants in Canada do little research rather relying on their parent for technoligcal innovations.

Allegiance to the U.S.

Clearly the main obstacle to the viability of the Canadian economy is the branch plant's subservience to its parent. The branch plant does not owe its allegiance to Canada, the Canadian people or for that matter to itself. It is the chosen instrument of a foreign organization. Consequently the branch plant's role is not to make a profit, necessarily, for itself but rather contribute to the profitability of the unit as a whole.

This results in a process called "verticle integration" whereby a multinational corporation through its subsidiaries controls both the source of the raw material and the market. This of course virtually eliminates any market controls that might exist in a laissez faire situation and the corporation is able to fix prices fairly arbitrarily.

A good example of this verticle integration is that of U.S. steel interests. As one U.S. steel producer with iron ore mining operations in Canada explained:

"As you no doubt realize, the only subsidiary functions which we have in Canada are related to iron ore operations. We do not construe this operation as an independent function but rather as one of several essential functions of an integrated steel manufacturer."

Hence, the parent can fix the price for its raw material, iron ore, and in turn the subsidiary has a guaranteed market in the parent.

Implicit in this however is that Canadian resources are being sold at under-valued prices since the parent often finds it more efficient to collect the profit at its end of the verticle integration process than have bits and pieces of profit scattered all up and down the line. This means that in theory the branch plant can run on a break-even scale or even a loss, since its function is not to make a profit but rather to supply the raw material. The parent can then make the profit by charging exhorbitant prices for the finished product.

This means that not only are Canadian resources being sold at below their potential market value but taxes that could be levied on increased branch plant profits are not materializing.

Consumer Plants

In the case of the manufacturing sector of the Canadian economy branch plants play a different role. They essentially become instruments whereby U.S. styled goods can be sold in the Canadian market at tariff protected prices and at the same time provide the parent with a market for machinery it produces for the subsidiary. An executive of Joy Manufacturing Company explained his firm's operation this way:

"the surprising volume of exports to our foreign subsidiaries results first from the sale from parent factories of critical components for machines made abroad and, second from Joy International's constant pressure on each subsidiary to import new Joy products brought out by the parent company."

To give a hypothetical example of how this operation might work, let us suppose a parent company sells $2 million worth of machines to its subsidiary in Canada. The subsidiary would then sell $2 million worth of U.S. type goods on the Canadian market to cover its costs and break even. The result: The multinational corporation has made $2 million through sales on the Canadian market but because the subsidiary itself did not make a profit it can beg for and possibly receive, tax concessions, loans and other finanacial assistance from the Canadian government — or should we say, the Canadian taxpayer.

This theoretical example is not unrelated to actual everyday experience. In an article on the multinational corporation Business Week magazine said:

"The goal in the multinational corporation is the greatest good for the whole unit, even if the interests of a single part of the unit must suffer. One large manufacturer, for example, penalizes some of its overseas subsidiaries for the good of the total corporation by forcing them to pay more than necessary for parts they import from the parent and from other subsidiaries."

Now we can see the overall picture: The goods imported by the hinterland country (Canada) are overpriced, the goods exported are underpriced. One need not be an economist to understand the harm this does to one's balance of payments. Also to be considered is the loss of tax revenue to the hinterland country that occurs because full profits are not allowed to accrue in the subsidiary.

This kind of parent subsidiary relationship is quite common in Canada as has been pointed out by C.W. Gonick, a member of the Manitoba legislature and of the NDP's Waffle movement:

"Data compiled for 266 of the larger foreign-owned companies in 1964 and 1965 indicated that these firms alone account for about one-third of both Canadian exports and imports. If all subsidiaries and foreign affiliates were included, the proportion would be even greater. A study comparing the import propensities of non-resident owned firms and resident-owned firms has shown that foreign-owned firms are more import-oriented, less inclined to use local suppliers. Moreover, 70 per cent of all purchases are from parent companies (about 50 per cent of all sales of subsidiaries are to parent companies)."

Canada Underdeveloped

It is also interesting to note that the nature of Canada's export trade resembles more that of an underdeveloped country than an industrial one. A study of 13 industrialized countries of the Western world, for instance, showed that end-products accounted for 60 per cent of exports. For Canada the ratio is 19 per cent.

Although this situation is incompatible with the building of a strong diversified economy, it is most compatible with the American craving for raw materials and natural resources.

One of the most devastating aspects of the multinational corporation's intra-company trade is that it cannot be controlled by market forces. Consequently efforts by the Canadian government to control inflation or correct balance of payments problems are ineffective.

Thus, as Gonick points out, "devaluation of the Canadian dollar in the early 1960's, for example, did not affect these (intra-company) imports. They actually increased by 17 per cent in 1963, whereas total Canadian imports rose by only 7 per cent."

Another problem created by our branch-plant economy is the creation of too many product lines at high unit cost. Because U.S. corporations in Canada can use the advertising spill-over of their parents, and since the parent has already absorbed most overhead costs related to product differentiation and promotion, it becomes profitable for the foreign companies to assemble or sell a large range of their products in Canada. This creates what is called the "miniature replica" effect.

The resultant inefficiency to Canada of this effect is exemplified by the case of the refrigerator industry. It has been estimated that the Canadian national market of 400,000 refrigerators per annum would be efficiently served by two plants. In fact, we have nine, seven of them American and these subsidiaries almost duplicate in number the plants producing refrigerators for the much larger U.S. market.

Raw Materials for War Machine

Why our political elite has tolerated this kind of destruction to the viability of our economy can only be answered properly in another article, but why the United States has warped us in such a fashion is obvious.

In the 1930's the United States was virtually self-sufficient in iron ore. Now it must import about one-quarter of its needs. The U.S. was also self-sufficient in lead. Now over half of its supplies are imported.

The need for raw materials to keep the American industrial-war machine functioning has become crucial and Canada, unlike any other U.S. colony, is both near and politically secure. The flow of Canadian oil supplies to the United States, for instance, would be much easier to maintain in time of war than would the flow of Middle East or even Latin American supplies.

On the other side of the coin is the necessity of export markets for U.S. goods. This should not be underestimated since exports to foreign subsidiaries usually bring a higher rate of return than do domestic sales. This is because most of the overhead costs have already been born by domestic production. As Gonick explains:

"For example, a study of a U.S. Steel company shows that the break-even point is 40 per cent of capacity. At 100 per cent of productive capacity the rate of profit is 13 per cent. But it is the last 15 per cent of the corporation's output that accounts for 35 per cent of its profits. Since exports by the typical giant American corporation account for anywhere between 5 and 20 per cent of its total output, these can be of crucial importance for the overall profitability of the corporation."

These latter aspects of U.S. domination — the fact that they need us, our resources and our markets — should not be overlooked. There is much talk from continentalists about the so-called severe economic repercussions that would result in Canada's throwing off the colonial yoke.

But we too are working from a strong bargaining position in this continental poker match. If, in addition, we allied ourselves with the struggles of other U.S. dominated countries we would hold a set of aces.

And there is still time left to win. That is if we can stop the Pierre Trudeaus and Joe Greens from throwing in our hand before the game is over.

(next week: historical examples of U.S. domination)

Sources for this article include, Canada: Economic Dependence and Political Disintegration, by Kari Levitt; Close the 49th Parallel Etc., edited by Ian Lumsden; From Gordon to Watkins to You, by Dave Godfrey with Mel Watkins; various magazine and newspaper articles.

THIRSTY OR HUNGRY?