KARI LEVITT AND THE LONG DETOUR OF CANADIAN POLITICAL ECONOMY

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Introduction: The Return of a Classic  When Kari Levitt first published *Silent Surrender: The Multinational Corporation in Canada*, it quickly became a defining text in the nationalist movement that was to dominate the English Canadian Left from the late 1960s until the demise of the Left-wing Waffle movement in 1973. Mel Watkins, in his foreword to the 2002 reissue, makes it clear that he hopes it can become as important for the current generation of the Canadian Left, asserting that “the continuing resonance and relevance of this book, thirty years on and counting, is remarkable. Call it a Canadian classic.”

Watkins argues that Levitt's book “contributed to a political environment that culminated in a veritable wave of economic nationalist policies by the federal [Liberal] government in the decade of the 70s” (p. xii). The economic nationalist policies carried out by, in particular, the Trudeau Liberals were, for Watkins, only possible as a product of the Left nationalist movement that preceded them. Economic nationalism, in this view, was wrenched out of a reluctant capitalist Liberal Party that soon reverted to form once the Left nationalist wave had subsided, and opened the door to “the deregulation and privatization (sic) of Canadian governments in the 80s and 90s” (pp. xii-xiii).

Watkins then uses two terms to describe Canada. The one will not surprise many on the Left. Canada is, he argues, “the richest dependent developed industrialized country” in the world. This characterization of Canada as a “rich dependency” is nearly hegemonic on the Canadian Left. But Watkins, never one to shy away from controversy, doesn’t stop there. He asserts that Levitt’s analysis and the political economy school it engendered have proven that Canada is “the most neo-colonial country in the world” (p. xiii).
This is a remarkable claim. Canada is an established member of the G8, the club of the seven largest western industrialized countries, plus Russia. The policies of the G8 have been implemented increasingly under the auspices of various “trade” and investment agreements and organizations, one of the key such being the World Trade Organization (WTO). The WTO is dominated by the Quadrilateral (or Quad) group of countries—the world’s leading centers of international trade. The Quad is comprised of Japan, the European Union, the United States — and Canada. Canada, the neocolony, is hard to reconcile with Canada the active participant in the G8 and the WTO.

This article focuses on the much weaker claim of Levitt’s: that Canada should be seen as a rich underdeveloped country. One criteria for assessing the cogency of a political and economic theory is its ability to anticipate future trends. No theory can be expected to get everything right, but what is remarkable is the extent to which the predictions in Levitt’s work have been entirely wrong. Levitt’s underdevelopment approach to understanding the Canadian economy—and the related but much more extreme “neo-colonial” approach of Watkins—are part of the long detour of Canadian political economy, which has had political economists for almost 40 years trying to square the circle: explain the actions of a G8/Quad member country as being in the same category as the world’s underdeveloped neocolonies.

Future Imperfect  Let us start with the central claim, that of US control of the Canadian economy. This is absolutely crucial to Levitt’s thesis. She develops an argument that Canada’s economy has become a hinterland for US multinationals, and that hinterland status has been enforced through inexorably rising levels of US control of the Canadian economy. Watkins himself, in the introduction, has to acknowledge that there are some problems with this claim, saying “we now know that the level of foreign ownership relative to Canadian ownership actually began falling in the 1970s.” However, he says, with the implementation of the free trade agreements in the 1990s, this was reversed. “Levels of foreign ownership in Canada relative to domestic ownership stopped falling and began rising again” (p. xiii). Given that the vast majority of foreign control of the Canadian economy is US control, the key question is the history of US control of the economy. Chart 1 plots the rise and fall of US control of the
Canadian economy, by share of assets and share of operating revenue, from 1965 to 2002.
US control of economic assets within the Canadian economy peaks at just over 17.5% in 1968. From that point, its share falls steadily until 1991 to just over 10%. Watkins is right, it does begin to increase through the 1990s, but only to around 13%, and in 1998 it begins to decrease again. There is a one-year spike upwards in 2001, but in 2002 the decline returns. An even sharper pattern emerges with respect to US control of operating revenue within the Canadian economy. Here the peak is reached in 1971 at just under 27.5%. By 1990, this has fallen steeply to around 16%, recovering to just over 22% by 1998, and then turning down again until in 2002 it stood at 18.9%.

US corporations do control a sizeable minority of the assets and revenue produced within the Canadian economy, but nowhere near a majority. By any measure, assets and revenue within the Canadian economy are, in their majority — a substantial majority—owned and controlled by Canadians. In terms of assets, from 1988 to 2002, the figure rarely dipped below 80 percent. In terms of revenue, during the same period it fluctuated between 70 and 75 percent.6

Here the figures are presented from 1965 until 2002. An earlier presentation of this data was made before 2000, 2001, and 2002 figures were available.7 Mel Hurtig challenged my interpretation of those statistics. While acknowledging that US control began to decline in the 1970s, he, like Watkins, attributed that to the effective policy efforts of Canadian nationalists, in particular the Trudeau-era implementation of the Foreign Investment Review Agency (FIRA). Again parallelling Watkins, he argued that levels of foreign ownership began to increase in the 1990s when FIRA was abandoned and Canada signed onto the Free Trade Agreement (FTA) with the United States. The decline of foreign ownership levels in 1998 and 1999 was an aberration, he maintained, and when the figures for 2000 and 2001 were available, we would be able to see that foreign control of the Canadian economy was again “rapidly increasing.”8 Hurtig, I argued, was placing “far too much emphasis on the economic impacts of various federal policy initiatives. The changing structure of the Canadian economy is being shaped by forces much more powerful than the Canadian state.”9 Now with figures for the first years of the Twenty-first Century, we see no increase in
US control when measured by assets, and a steady decline when measured in terms of revenue. We certainly do not see “rapidly increasing” foreign ownership of the Canadian economy.

But even if there had been a return to increasing levels of foreign ownership in 2000 (or in subsequent years), that is not the decisive factor. The Left nationalist dependency paradigm was wrong in the 1960s, when levels of US control of the economy were dramatically increasing. Left nationalism assumed that foreign ownership in an advanced capitalist economy like Canada’s was at least partially analogous in its effects to foreign ownership of the economies of Third World countries. This has clearly not been the case. The Canadian Left nationalist political economy tradition was narrowly fixated on the issue of foreign ownership, and this blinded it to the key dynamics driving the Canadian economy.

This is not the end of the matter, however. Watkins and Levitt and many others in the Canadian political economy tradition argue that the key to understanding the dynamics of foreign — in particular US — control is not to focus on the economy as a whole, but to narrow the focus to the critical manufacturing sector. If foreign control dominates here in the heart of the capitalist economy, then that will set the pace for the economy as a whole:

Once the most dynamic sectors of our economy have been lost, once most of the saving and investment is taking place in the hands of foreign capitalists, then the best prediction is a steady drift towards increasing foreign control of the Canadian economy with the only certain upper limit being 100 per cent (p. xvii).

This was originally printed in 1970 and reprinted without comment in the 2002 edition of Levitt’s work. But do the facts support the argument?

An early series for tracking foreign control of the Canadian economy by sector contains information up to the year 1987. The trend is similar to the overall US control trends outlined in Chart 1. US control of Canadian manufacturing rises to a peak in 1969 at 45.39%, plateaus at or near that level through the early 1970s, and then steadily retreats until in 1987 it is at just 34.91%. New statistics covering the years 1999 to 2002 have now
been released. By those figures, US control of manufacturing assets in Canada stood at 31% in 1999 and rose slightly to 32.6% in 2002. But measured as a percent of operating revenue, US control of manufacturing fell from 37.8% in 1999 to 34% in 2002, and measured as a percent of profits, it fell from 38.4% to 30.8%, completely in line with the trend for the economy as a whole, and completely out of line with what Watkins argued would be the case.

In short, there has not been a “steady drift towards increasing foreign control of the Canadian economy” as a consequence of high levels of US control in the manufacturing sector. There is certainly no evidence of a slide towards “100 percent” foreign control of the Canadian economy. In fact, a stronger case can be made that there is a long-term tendency, well entrenched now for more than 30 years, of increasing Canadian capitalist control of the economy.

Levitt herself does not predict an inexorable increase in US control of the Canadian economy, although it is implicit in her analysis. Her key predictions fall into two related categories. One concerns the expected trajectory of the United States, the other that of Canada. Roughly speaking, she anticipates a continued and uninterrupted rise in the economic preeminence of the United States on a world scale, and a parallel decline for Canada, with Canada facing a future of dependence on raw material exports, a truncated manufacturing sector, and ultimately declining living standards. Let us look at these in turn.

On the future of the United States, she is unequivocal. “It has been estimated that the overseas expansion of US corporations will result in the American control of 75 per cent of the non-communist world’s output by the year 2000, if not sooner” (p. 37) Or again: “the output of American industry and its foreign affiliates accounted for some 55 per cent of total non-communist world production in the mid-sixties. As American multinational corporations are growing roughly at twice the rate of domestic ones, the share of total world production under American control is expected to rise to 64 per cent by 1980 and 80 percent by 1990” (p. 92). Her emphasis is on the overwhelming domination of the US in the world economy, made in such a way as to underline that multinational capitalism was essentially
American multinational capitalism. “American business enterprise enjoys an evident advantage in the new commercial and industrial mercantilism which is reflected in the fact that two hundred of the largest multinational corporations in the world operate out of the United States, but only some twenty to thirty out of other countries” (p. 93).

But this outline of the future of the world economy, and America’s place in it, is very far removed from what has actually happened. Richard B. Du Boff has outlined the evidence for this in succinct fashion: “In 1950 the United States supplied half the world’s gross product, against 21 percent at present. Sixty percent of the world’s manufacturing production in 1950 came from the United States, 25 percent at present.” Now 21 percent and 25 percent still represent big chunks of the world economy, but the important point is that they are declining chunks.

This is reflected in the declining share of the world’s largest corporations that are controlled from within the borders of the United States. This has been evident for some time. In 1982, Barry Bluestone and Bennett Harrison clearly documented this decline:

In 1959, according to a study of twelve manufacturing industries and international commercial banking, the United States was “home” for 111 out of the world’s 156 largest multinational corporations: a share of 71 percent. By 1976 only 68 out of the largest 156 (43 percent) were American based.

This decline continued unabated until 1995, when just 27 percent of the world’s top 200 publicly traded corporations (according to figures published in Fortune 500) were based in the US. From 1996 until 2001, there was an apparent reversal of this trend. US control of top 200 corporations went to 31 percent, 35 percent, 37 percent, and by 2001 a seemingly remarkable 45 percent. It looked as if the US, in just a few years, had recouped all the ground lost in the 1970s, 1980s, and early 1990s. But this was more apparent than real. The US economy in the 1990s was the beneficiary of a massive flight of foreign capital from centres of turbulence elsewhere. As the “safe haven” in the world economy, it saw tens of billions pour into its stock and currency markets following the collapse of the Japanese stock
market in the early 1990s, the sudden depression in Mexico in the mid-1990s, and the crisis of the East Asian “tigers” in the late 1990s. The extraordinary inflation of American stock prices — a “bubble” of unprecedented proportions — gave US corporations a very real but very temporary advantage over their competitors elsewhere. Second, the real story was not renewed US dominance among the world’s top corporations, but the spectacular decline of corporations based in Japan. That country’s share of top 200 corporations plunged from 32 percent in 1994 to just 16 percent in 2001 and 14 percent in 2003. Both these factors came to an end with the stock market crash of 2000. By 2002, the slide in US control of the top 200 corporations had resumed, falling to 42 percent in that year and 39 percent in 2003. More ominously for the US was the rise of corporations in Europe, who by 2003 had corporations within their borders representing 40 percent of the top 200 corporations in the world, slightly ahead of the US.14

Levitt’s analysis cannot account for these developments. Transfixed by the power of the US economy, with a focus limited to the momentary expression of that power in terms of its relation with one country — Canada — she argues that the US would continue its preeminence. She certainly did not foresee the emergence of significant competition from Europe. There is no doubt, she argued, that “the identity of interest and the single-focus decision-making involved in the American corporation was a superior device to its European counterpart, the business arrangement or cartel” (p. 81).

If that is the case, how have European-based multinationals made up such substantial ground in their competition with their US counterparts? Again, Levitt’s analysis cannot account for the dynamic changes that have taken place in the world system since she wrote. In 1982, Bluestone and Harrison summarized those dynamics very clearly: “The United States emerged from the Second World War with the only major functioning army, with more than half of all the usable productive capacity in the world, and as the banker and creditor to both former allies and former enemies,”15 they argue. But maintaining its military dominance had negative consequences for America’s relative international competitive position:

In the years just after World War II, the major surviving European and
Japanese corporations, as well as newly formed ones, were preoccupied with rebuilding their domestic capacities. The Allied proscription against German and Japanese remilitarization after the war contributed significantly to this reconstruction by effectively forcing those two countries to plow back virtually all of their domestic savings into research, development, and new plant and equipment for the production of marketable commodities.

For a while, this left a substantially clear field for American firms in the postwar global economy. Not until the 1960s could foreign corporations afford to undertake major, direct overseas investments again. But when they did begin to compete internationally, it was from a modern, tightly-managed capital base, under conditions of relative domestic political stability and backed by a wide consensus about the desirability of active government indicative planning.16

This is very clear, and is the second half of the theory of the “Permanent Arms Economy.” The first half of the PAE analysis was developed by theorists such as Michael Kidron and Tony Cliff.17 High levels of arms spending characterized the postwar period. This “Permanent Arms Economy,” (PAE) Kidron argued, had the effect of stabilizing the world economy for a generation. The tendency towards crises of overproduction built into the capitalist system could be offset if two conditions prevailed: first, that there was a pressure to divert investment towards arms production for the state, so that, second, the state — as the purchaser of massive quantities of armaments — could act as the ultimate “consumer of last” resort that overproduction-prone capitalism had always needed. But that “stabilization” was only possible as long as the United States remained overwhelmingly dominant. Bluestone and Harrison are highlighting the paradox built into the PAE. These high levels were carried unevenly — overwhelmingly concentrated in the two great Cold War rivals, the US and the USSR. Those advanced capitalist countries that had relatively lower levels of arms spending had higher rates of growth in the “civilian” sides of their economy, and over time — particularly in the case of Japan and Germany, but true also in a more limited extent for Canada — were able to considerably close the competitive gap between themselves and the United States.

Levitt’s method is highly impressionistic and predicts not relative US
decline, but steadily increasing US dominance. Her predictions are completely at odds with developments in the generation since she wrote. The United States has today to cope with a world of multiple rivals. It is not the economic hegemon to the same extent that it was in the 1940s and 1950s.

This mistake on the trajectory of US capitalism dovetails with her mistake on the trajectory of Canadian capitalism. She cites the high levels of US control of Canadian manufacturing, and predicts that its consequences will be dire. Growing Foreign Direct Investment means that “in general the host country acquires a market for its raw materials and becomes a market for the manufactured goods of the investing country ... Canada has acquired markets for its industrial raw materials and has become a market for manufactured goods produced by American corporations located both here and in the United States” (p. 60). Or again: “[t]he share of crudely processed materials in exports has not diminished significantly” (p. 119). Or again: foreign ownership has skewed Canada’s trade profile towards a “high proportion of primary or crudely processed materials in Canada’s exports and the correspondingly high proportion of finished manufactures in her imports” (p. 127).

But is this profile of Canada’s trade correct? The latter certainly is — Canada has a very high proportion of finished manufactures in its imports. From 1971 until 2002, finished manufactures rarely fell below 60 percent of all imported goods and, on occasion, approached 70 percent. But the picture of Canada’s export trade painted by Levitt is completely wrong. Chart 2 shows this clearly.

Through the 1970s, primary semi-manufactured and fully manufactured exports vied with each other for an equal share of Canada’s exports, each accounting for roughly one-third of Canada’s export trade. But by the early 1980s, this picture definitively changed. Fully manufactured exports comprised a greater and greater proportion of Canada’s export trade, regularly comprising 50 percent of all exports. Primary product exports fell to around 20 percent and semi-manufactured to around 25 percent. Canada, in other words, has not developed as a hinterland economy, reliant on imports for its manufactured goods in exchange for raw materials.
There is actually more to the story than is revealed in this graph. Numerous defenders of Left nationalist political economy deal with the phenomenon of Canada’s enormous growth in fully manufactured exports by conceptually eliminating an entire category. Auto exports, it has been argued on several occasions, should be excluded from a consideration of Canada’s trade profile, as they by and large constitute intrafirm transfers. Elsewhere I have surveyed this literature and argued that the exclusion of automobile production from a profile of the Canadian economy is illegitimate. However for argument’s sake, if automobile exports are removed from the statistics, some interesting insights can be made. Chart 3 reconstructs the trade profile outlined in Chart 2, but excludes all categories of automobile and truck exports (including parts) from both the numerator and the denominator. (In other words, to make a fair comparison, if automobile exports are not counted as part of Canada’s finished manufacture export profile, they must also be excluded from figures for total exports.) The results are worth a story in themselves.

In the early 1970s, at the very peak of the influence of Left-nationalist political economy, excluding automobile and related exports does generate a picture of Canadian export trade that is radically different from the argument being presented here. Excluding automobile and truck exports results in fully manufactured exports comprising less than 20 percent of total exports throughout the 1970s. Primary product exports range between 40 and 50 percent of total exports for the same period, vying with semi-manufactured products as the dominant component of Canadian export trade. There is, in other words, an empirical picture that might justify an argument that portrays Canada as a “hewer of wood and a drawer of water.”

But such a view misses the dynamic of the Canadian economy, which is also captured in this chart. There is, in other words, empirical data and then there is empiricism. Through the 1980s and the 1990s, even when automobile and truck exports are excluded, Canada’s export profile steadily changes, with fully manufactured goods increasing noticeably as a proportion of overall trade — doubling in less than 20 years from around 20 percent to around 40 percent of overall exports — while for the most part, primary product exports’ share decreases. There might be an empirical case
in the early 1970s to argue that Canada has the trade structure of a dependency. But that can only be done if a blind eye is arbitrarily turned to some pretty large empirical facts (i.e., the millions of tons of automobiles produced for export in Oshawa, Windsor, and elsewhere). And this empirical generalization completely misses the central dynamic of the Canadian economy, which is the same as the central dynamic of all advanced capitalist economies, a tendency over time for exports to include fewer and fewer primary products and more and more manufactured goods. In other words, even if automobile trade is excluded from Canadian export statistics, the case being made in this article is not in any way altered.

There is another matter to consider. Percentage of export trade figures obscure the fact that, for a small nation, Canada is an exporting giant. Canada exports enormous quantities of goods in every export category. Reworking export figures to be shown as a percentage of Gross Domestic Product reveals that, by any standard, Canada’s export of finished manufactured goods is impressive and in no way indicates truncated development. Chart 4 displays finished manufactured exports from Canada and the United States in two ways. When all figures are included, from 1998 to 2002 Canada’s exports of finished manufactured products represent in excess of 16 percent of GDP, more than four times the equivalent figures for the United States. Subtracting automobile exports does change this somewhat because Canada exports automobile products at a rate considerably greater than the United States. But even when these figures are excluded, Canada’s nonauto finished manufacture exports fluctuate between 8 and 10 percent of GDP, almost three times the rate of equivalent figures in the United States.

Levitt’s predictions — not predictions peripheral to her theoretical framework, but predictions centrally embedded in it — have in every respect turned out to be wrong. This in itself is not a refutation of her theoretical framework and her approach. It is what would be called in a court of law “circumstantial evidence.” But to quote Thoreau, “some circumstantial evidence is very strong, as when you find a trout in the milk.”

The Uses and Abuses of FDI Perhaps Levitt’s most central claim, and
Chart 4: Finished manufactured export as percent of GDP, Canada and the US, 1998-2002.
certainly the lynchpin around which Left nationalist political economy in Canada built its school, concerns the central role of Foreign Direct Investment (FDI) in structuring the Canadian economy. Her claims about FDI are large and sweeping.

First, she distinguishes between two different types of foreign investment: portfolio and direct. Portfolio investment is, in essence, passive. It refers to the sale of bonds or debentures or noncontrolling equity stock. It involves Canadian corporations incurring debt obligations. Once those debts are paid off, however, control of the firm in which the investment has taken place remains in Canadian hands. And there is no obstacle to paying off these debts other than Canadian capitalists’ ability to pay. No transfer of ownership is necessarily implied (although certainly possible if the debtor reneges on its obligations). Foreign Direct Investment, on the other hand, involves the establishment of “subsidiaries and branch plants controlled by externally based parent corporations.” The distinction between these two forms of investment, she argues, “is crucial. In the former case control remains with the borrower; in the latter it rests unequivocally with the lender” (pp. 58-9).

There is an echo here in Levitt of some aspects of classical Marxist political economy as it developed in the early years of the Twentieth Century. Lenin, Trotsky, Bukharin, and Luxemburg in particular understood that the key to imperialism was economics. The world was (and is) divided into a hierarchy of nations, with the vast majority being impoverished and undeveloped, a small minority hosting the most advanced industries and the richest capitalists. One of the key features of these handfuls of rich nations was what Lenin called the “export of capital.”

Because of its competitive, unplanned nature, capitalism involves a constant tendency towards overproduction. Mature capitalisms, therefore, face a constant problem of finding new markets for investment. There is a drive to “export capital” abroad; in modern language, to use profits made at home to invest in new productive capacity abroad. Levitt is simply using a more current expression — Foreign Direct Investment — but she is referring to the same phenomenon — export of capital — identified by an earlier generation, and without question it has been a key hallmark of imperialism.
In the Nineteenth Century, it was Britain that exported massive amounts of capital as the world’s dominant imperialist power. And in the Twentieth Century all the great imperialist powers — the United States, France, Germany, and Britain — expanded their reach abroad through Foreign Direct Investment, the export of capital. Lenin argued that the classical profile of imperialism was a rich country spreading its investments to poor “Third World” countries, in exchange for cheap labour and cheap raw materials.

But the similarity between Levitt’s analysis and the earlier Marxists ends there. The form is the same, but the content is quite different. She clearly illustrates that Canada had always been a net importer of capital. This accelerated through the 1950s and 1960s as massive amounts of mostly American investment flooded the country. A higher and higher percentage of industry in Canada became controlled by American business.

But there was more to the content of the classical Marxist analysis than simply the export of capital. It is worth looking in detail at exactly what Lenin said about the export of capital as it fit into an understanding of imperialism:

As long as capitalism remains what it is, surplus capital will be utilized not for the purpose of raising the standard of living of the masses in a given country, for this would mean a decline in profits for the capitalists, but for the purpose of increasing profits by exporting capital abroad to the backward countries. In these backward countries profits are usually high, for capital is scarce, the price of land is relatively low, wages are low, raw materials are cheap.24

Perhaps Canada fit this profile in the Seventeenth and Eighteenth Centuries, in the era of the great “staple” industries analyzed by Harold Innis. But Canada does not today, and did not in the 1960s when Levitt wrote her analysis, fit this profile in any way. It is not a low-wage economy like China (where much factory labour is done for just 40 cents an hour). Canada’s wages are roughly comparable to those in the United States and Europe — the most advanced sections of the world economy — and have been for some time.25 It was not accurate in the 1970s and is not accurate today to
summarize Canada’s interaction with the world economy as primarily comprising the acceptance of foreign capital in exchange for raw materials. Raw material exports as a percentage of Canadian trade have been declining for close to a century. Primary industries as a percentage of GDP have been declining even faster.\textsuperscript{26} The Foreign Direct Investment into Canada that Levitt made central to her analysis was not a sign of imperialist domination, but simply an indicator of Canada’s growing integration into a wider continental economy.

One key indicator of this was the fact that, while massive amounts of foreign capital flowed into Canada, Canadian capitalists at the same time exported significant amounts of capital abroad. They too were playing the Foreign Direct Investment game. When Foreign Direct Investment into Canada is subtracted from Canadian Direct Investment Abroad, the result is Canada’s “Net” Foreign Direct Investment.\textsuperscript{27} Chart 5 plots this from 1926 until 2003, and the results are fascinating.

Through the 1920s, 1930s, and 1940s, while Canada was in transition from being in Britain’s sphere of influence to America’s, the picture was fairly constant. Canada had a negative position of Net Foreign Direct Investment of around $25 billion a year (all figures have been converted into 2003 dollars); that is, Foreign Direct Investment into Canada exceeded Canadian Direct Investment Abroad by around $25 billion a year. With the economic boom of the 1950s and 1960s, this picture changed dramatically. The negative figures grew rapidly, until by the early 1970s something like $100 billion more per year was flowing into Canada than Canada was investing abroad.

But from the early 1970s on there was a steady reversal of the trend, Canada’s negative position growing smaller and smaller. By 1997, Canada was exporting more capital abroad than it was importing, and in the years since, Canada’s export of capital abroad has literally jumped off the page. In 1997, Net FDI just exceeded $25 billion. In 1998, 1999, and 2000 it was either above or just below $40 billion. In 2001, it jumped to $60 billion; in 2002, to above $80 billion, returning to the $40 billion mark in 2003. Canada now has the classic profile of an imperialist power — it exports larger and larger amounts of capital out of the country every year.
Chart 5: Net Foreign Direct Investment, Canada, 1926-2003 (billions of 2003 dollars)
Jim Laxer, in a critique of an earlier presentation of this argument, recognized this trend, but challenged my conclusions. In essence, he argued that the export of capital that became evident in the late 1990s was the result of capital accumulation in Canada that had been foreign controlled, and thus was a sign of Canadian dependency just as much as the earlier decades of importing capital had been a sign of Canadian dependency. In other words, much of the Canadian direct investment abroad should actually be seen as direct investment by foreign-owned branch plants and doesn’t really qualify as export of capital in the classic sense. Three points have to be made in response. First, while certainly some of the direct investment abroad is by branch plants, if there has been a steadily declining proportion of the Canadian economy under foreign control, then presumably the proportion of “branch-plant” direct investment abroad is also declining. Second, given that Canadian capitalists do have substantial holdings abroad, especially in the United States, the same point would have to be made for direct investment into Canada: that not all of it represents increasing foreign control, but portions of it are reinvestment by Canadian capitalists in their home economy. And third, and most centrally, this misses the point about the importance of the export of capital. It signals the fact of a highly developed capitalist power with a surplus of productive capacity in its home market reaching out to find new opportunities abroad.

Michael Marth of Statistics Canada authored an interesting study of cross-border mergers and acquisitions between 1997 and 2002, the same time period identified here as pivotal in a discussion of FDI and the Canadian economy. His conclusions are clear. “Canadian firms acquired foreign companies at a faster pace than foreign firms were acquiring companies in Canada. Between 1997 and 2002, Canadian firms acquired 447 foreign companies … while foreign companies acquired 345 Canadian companies.”

The mistake of Laxer, Levitt, and much of the 1960s’ Canadian Left was to see just one side of the picture. They saw an influx of Foreign Direct Investment into Canada and concluded that this put Canada into the category of other countries — in Central America, the Caribbean, Asia and elsewhere — that were on the receiving end of imperialism.

But Canada, unlike the countries of Central America for instance, was
already an advanced capitalist country with a population divided into capitalists and workers, with large-scale industry well-established, and with a small and dwindling proportion of the workforce engaged in agriculture and raw material extraction. Foreign Direct Investment, then, had a very different impact on Canada than it did on the poorer countries of the world system.

This is a crucial point. Central to the development of capitalist economies is what Marx called “accumulation and reproduction on an expanded scale.” This is a crucial point. Central to the development of capitalist economies is what Marx called “accumulation and reproduction on an expanded scale.” Looked at from another angle, this involves the establishment of a home market. Imperialism can have the effect of slowing down or retarding this process (considered either as preventing accumulation on an expanded scale, or slowing down the creation of a home market). Without question, for instance, this is what happened in what is now Quebec as a result of British conquest in 1759. FDI as an expression of modern imperialism has been identified by many theorists as a principal mechanism for this blocking of capitalist development, expressed most sharply in the expression “development of underdevelopment.” But this has not been a feature of Canadian development. The succinct and brilliant analysis of H. Clare Pentland shows definitively that by 1870, Canada had developed a small but viable home market economy. FDI in Canada in the Twentieth Century entered into a capitalist economy already engaged in the process of accumulation and reproduction on an expanded scale. Glen Williams identified this clearly more than 20 years ago. He argues that because of Canada’s “large and integrated internal market, foreign investment has historically produced more positive than negative effects on economic growth as opportunities have existed for the reinvestment of profit in new sectors of the economy.”

There is a further matter that must be raised when discussing FDI in the context of Canadian political economy. When the same criteria are applied to an analysis of the United States, an astonishing picture emerges. The experience there has been the mirror opposite of Canada’s, as Chart 6 indicates.

The United States was once the world’s leading exporter of capital. From 1960 through 1982, its Net Foreign Direct Investment was positive in 17 years and negative only six times, at times positive at a rate that was equivalent to five percent of GDP. But since 1983, it has been negative in every
Chart 6: Net Foreign Direct Investment, and Net International Investment Position, US, 1926-2002 (percent of GDP)\textsuperscript{36}
single year. In other words, since 1983 the US has been a net importer of capital. This begins to have an impact on the more complicated calculation of America’s net international investment position, the cumulative value of US assets abroad less the cumulative value of foreign-owned assets in the US. From 1986 on, that figure (represented by the bars in the chart, scaled to the left hand column, with figures from 1976 to 2003) has been negative, and is rapidly growing. As of 2001, it represented close to 20 percent GDP. By 2003 it had increased to more than 22 percent of GDP.

A superficial reading of these statistics could lead to the absurd conclusion that the United States is in the process of becoming someone’s dependency. This would be, of course, wrong. What it does highlight is the way in which the whole debate about dependency in terms of Foreign Direct Investment figures is misplaced when it comes to dealing with advanced capitalist economies like the United States and Canada. These figures indicate something. They certainly indicate the growing interconnectedness of economies at the top of the world system and they do reflect relative levels of competitiveness. But they must not be confused with Foreign Direct Investment between First World and Third World countries, the export of capital that, Lenin argued, was the chain of gold that enslaved those countries to the imperialist heartland. The FDI relationship between Canada and the rest of the world is many things, but it is certainly not that — except, of course, to the extent that Canada’s FDI enslaves sections of the Third World.

**Conclusion: The Value of Theory** The second chapter of Levitt’s book is misleadingly entitled “The Old Mercantilism and the New.” Its central idea has nothing to do with mercantilism, but rather with her view as to the source of economic growth and development. She accepts the argument of Joseph Schumpeter that “development” should be “defined exclusively in terms of endogenous entrepreneurial initiative and innovation” (p. 25). The chapter, then, unfolds as a hymn of praise to the economic virtues of innovation. Here in plain view are the flawed theoretical roots of her political economy, something that Leo Panitch, in a classic issue of *Studies in Political Economy*, began to examine. A brief survey of the argument in this crucial chapter of her book can go a long way towards establishing the outlines of
an alternative.

In a “dependent” relationship, she argues, innovation is inevitably stunted in the dependent society and becomes centred almost exclusively in the metropolis. “When the emphasis is placed on endogenous entrepreneurial initiative, metropolitan economies are seen as sources of development (active); hinterland economies as places of production (passive)” (p. 26). In Canada's case, this has seen the “Canadian entrepreneurs of yesterday” become transformed into “the coupon clippers and hired vice-presidents of branch plants today” pp. 39-40).

Interwoven into this analysis is a very particular view of the source of profit. “Profit” according to Levitt “is the result of innovation and the origin of the accumulation of wealth” (p. 28). So without entrepreneurs, there will be a tendency towards economic decline.

But when Levitt tries to apply this analysis, the confusions begin to multiply. Based on her view that development is bound up with entrepreneurship, and that entrepreneurship migrates towards the centres of ownership and control (that is, towards the United States and away from Canada), Levitt argues that “Present-day Canada may be described as the world’s richest underdeveloped country” (p. 25, emphasis added).

Levitt was a scholar who studied the Caribbean. She knew very well that there had to be some empirical manifestation of underdevelopment. In the Caribbean, the argument about dependency/underdevelopment was bound up with an explanation of that region’s gross economic inequalities and terrible, gut-wrenching poverty. But the reality in Canada is very different. And if there is no economic (in the sense of poverty and standard of living) consequence to the “underdevelopment” analysis of Canada, it will severely weaken her case. So underdevelopment is defined as the underdevelopment of entrepreneurship, rooted in “the branch-plant nature of Canada's economy” which “is likely in the not-so-long run to involve a serious loss in the material quality of living” (p. 33). Canada is not poor — yet. But its underdevelopment of Canadian entrepreneurship will lead to poverty in the future.

The trouble is, some forty years on, this “serious loss in the material quality of living” has yet to happen. That is not to say that there has been
no decline in living standards. A wages offensive opened up in the early 1970s and saw wage levels steadily decline into the 1990s. An attack on the social wage through the 1980s and 1990s had a severe impact on the living standards of Canadian working people. But this experience was shared with workers in the United States, Europe, and elsewhere in the advanced capitalist universe. Living standards declined, not because of dependency but because of capitalist crisis. And that decline — in the United States, Canada, Europe, or Japan — still left living standards far above those in the real centres of underdevelopment located in that section of the planet commonly called the “Third World.”

This article has documented Levitt’s (mistaken) claim that the United States was on a trajectory to massively expand its hegemonic position in the world economy. Here too, a large part of the error is linked to her analysis of the role of entrepreneurship. “[W]hat gives the United States the capacity to compete in world markets despite its high wages is its ability to produce a steady flow of new products” (p. 28). And this ability, she argues, is rooted in its decisive lead in “entrepreneurship.”

But is it really true that US corporations dominate the world economy because of their marvellously innovative entrepreneurship? What of the vast literature on the development of monopoly capitalism and its overt and covert suppression of innovation? We are a car-dependent society, not because the automobile is an inherently superior form of transportation, but because the big car companies made it their business to buy up and mothball streetcar companies throughout the United States in the key decades when car dependence was an open question. We use oil as our principle energy source because, as Anthony Sampson has ably shown, the oil industry has for a century operated as a cartel to suppress competition and innovation. We have massive nuclear facilities in place throughout North America and Europe as a spinoff from the military-driven development of the nuclear bomb. Microsoft dominates the world’s computer systems because Bill Gates stole and borrowed other people’s innovations, and used his marketing and then monopoly power to enforce his computer systems on the entire world. The reality of modern capitalism is of big, bureaucratic monopolistic firms using market domination, brute force, bribery, and intimidation to expand
their influence and protect their profits. This has been the reality of capitalism for a very long time. Levitt’s work, with its hymns of praise to the creative power of the entrepreneur, reads like a libertarian utopia.

Levitt is caught in the contradictory logic of a very wrong economic theory. Schumpeter’s argument that “price is determined without regard to the cost of production” is of a piece with Twentieth-Century “subjectivist” value theorists who arose to challenge Karl Marx and the other representatives of classical political economy. From this comes the subjectivist notion that profit is related to something as ephemeral as entrepreneurship. Levitt’s gloss on Schumpeter is subjectivist in the extreme: “profit derives from the deliberate introduction of innovation by the entrepreneur. Profit is thus created by his ‘will and action’” (p. 27). But Marx’s objective theory of value and the source of profit has stood the test of time much better than the anti-Marxist subjectivist critics. Levitt is quite right to argue that “Marx’s capitalist … makes profit from exploiting labour.” Had she built her economics on this foundation, she would have been on much firmer ground.

Cy Gonick has outlined Marx’s theory succinctly. Profits, he argues, “derive from the extra time (surplus labour) workers spend on the job after they have produced enough goods to cover the value of their wages. Surplus value is the extra value workers produce beyond what is necessary to cover the value of their wages.” Pull on that thread and you uncover the real dynamics of modern capitalism. Pull on that thread and you can soon see how two generations of diverting surplus into the wasteland of arms production had the effect over time of worsening the relative position of the United States in the world economy, and how not engaging in such massive waste allowed Canada relatively to improve its position, vis-à-vis the United States.

That is where a renewed Canadian political economy has to begin, with a focus on class relations inside Canada rather than economic relations between Canada and the United States. Such a research agenda would have to:

1. Reassert — as Panitch did in his earlier critique of Levitt — the centrality of class as the key analytic concept in any political economy approach;
2. Answer historical questions about the development of a home market in Canada. Here Stanley Ryerson and H. Clare Pentland have created a very rich initial framework;

3. Carefully examine critical policy choices of the Canadian state — the Avro Arrow, the Defence Production Sharing Arrangements, FTA, NAFTA, FTAA, etc. — and show how they are consistent with the assertion of an independent capitalist class in the Canadian state;

4. Rethink theories of imperialism to incorporate a notion of Canada’s role as an imperialist state both economically (in terms of its investments in the Caribbean, Indonesia, and elsewhere), politically (in terms of its relationship to both Quebec and First Nations) and militarily (most recently in Haiti and Afghanistan). Steve Moore and Debi Wells in the 1970s, William Carroll in the 1980s, and William Burgess in recent years have all made important contributions to such a project, and

5. Situate all of this in a view of the trends inside the world economy that can, finally, escape the depressing strait-jacket where everything is ultimately reduced to being a function of the US empire.

Watkins sees Levitt’s work as precursor to today’s antiglobalization literature. It is, in part. Levitt was passionately concerned with the growing powers of the multinational corporations, and was determined to understand this development in order to develop a plan of action to combat it. But her analysis — only tackling American and not Canadian multinationals — made her work partial and incapable of anticipating developments in either the global or the Canadian economies.

A journey began in the 1960s. A new generation of radical scholars, among them Kari Levitt, committed themselves to developing an understanding of Canada’s place in the world economy, and did so not as simple commentators, but as theorists aspiring to an engagement with the real world social struggles which could build a new Left. That journey reached a cul-de-sac in large measure because of the refusal, over and over and over again, to place Canada alongside its G8 comrades as one of the world’s leading capitalist powers. As a new generation of scholars takes up the task of fusing analysis with activism, a first step on the way out of the Canadian
political economy cul-de-sac is to return to Marx and apply his method rigorously to the Canadian political economic reality of the Twenty-first Century.

Notes

1. This is a revised version of a paper by the same name presented as part of the panel “Canadian Nationalism and Industrial Policy,” 2004 meetings of the Canadian Political Science Association, University of Manitoba, Winnipeg, Manitoba. Thanks to the panel participants, and in particular to Cy Gonick, who in his role as discussant made many useful and insightful remarks. This article should be seen as a continuation of the themes developed in the discussion launched by Canadian Dimension on the merits of a “campaign for Canadian sovereignty” in the summer of 2002 (see http://www.canadiandimension.mb.ca/v36/v36_4fs.htm, a response by myself http://www.canadiandimension.mb.ca/v37/v37_2pk.htm, followed by a rejoinder by the CD editors http://www.canadiandimension.mb.ca/v37/v37_2cd.htm). These themes were picked up and developed in a more extensive form in a paper I presented in 2003 at the meetings of the CPSA (“After Left Nationalism: The Future of Canadian Political Economy,” part of the panel “Future of the Left in a Neo-Liberal Era,” annual meeting of the Canadian Political Science Association, Dalhousie University, Halifax, Nova Scotia (May 2003), since updated and published in Marxism I (2004)), which became the object of a debate on the website http://www.vivelecanada.ca with contributions from Waffle veterans Robin Matthews and Jim Laxer, as well as well known nationalist Mel Hurtig.


4. Thanks to Byron Sheldrick, University of Winnipeg, for underlining the significance of this point, while acting as discussant for my paper “After Left Nationalism.”


6. Calculations from CANSIM.


11. Based on CANSIM II, Table Number 1790004. Comparisons with the earlier measurements have to be somewhat qualified. Here, the statistics measure assets, while the earlier data measured capital employed.


14. *Fortune 500, The 2002 Global 500* (22 July 2002), and *The 2003 Global 500* http://www.fortune.com. There are many different ways of measuring the size of corporations. In the *Business Week’s Global 1000* (http://bwnt.businessweek.com/global_1000/2003/) for instance, US dominance seems to be still immeasurable. Of the top 1000 companies, US-based ones have a market value of almost $9.5 trillion, 50 percent more than Japan ($1.3 trillion) and Europe ($5 trillion) combined. However, it is important to remember that market value is based on the stock market, and the US stock market remains wildly overvalued. (For some of the reasons behind this, see my “Contradictions of the American War Economy” paper presented to Annual General Meeting, Socialist Studies, Halifax, June 2003.) It is much more fruitful to compare corporations on the basis of sales and assets. When this is done, the same picture emerges as with our other figures — a US and Europe that are on an even footing. The US top 1000 corporations had $5.5 trillion in sales, just slightly more than those in Europe ($5.1 trillion) and more than twice that of Japanese top 1000 corporations ($2.1 trillion). Assets are the real story. Here, the European corporations have a clear lead with assets valued at $26.3 trillion, followed by the US at $19 trillion and Japan at $7 trillion. Canada, just as a footnote, has top 1000 corporations with assets of $1.7 trillion, not quite on par with the US relative to the size of the two economies, but not all that far behind either. See Paul Kellogg, “Contradictions of the American Empire” in *Marxism 3 (2005): War, Resistance, Revolution*, pp. 3-15.

15. Bluestone and Harrison, p. 112.


18. My calculations, based on Statistics Canada, CANSIM II Table 2280001, “Merchandise Imports and Exports, by Major Groups and Principal Trading Areas for All Countries.”

19. Compiled from Statistics Canada, CANSIM II Table 2280001, “Merchandise Imports and Exports, by Major Groups and Principal Trading Areas for All Countries.”


21. Compiled from Statistics Canada, CANSIM II Table 2280001.


26. See Kellogg, “After Left Nationalism.”

27. This should really be labelled “net direct investment.” I have chosen to call it net “foreign” direct investment because FDI as a term has played such a central role in the Canadian political economy literature.


32. This subject demands a more extended analysis at a later time. In brief: British conquest had the effect of “freezing in place” the seigneurial system inherited from New France. Not until 1854 was it abolished, creating a century-long period of stagnation (and sometimes outright economic and social decline) in what is today Quebec. See R. Cole Harris and John Warkentin, *Canada Before Confederation* (Toronto: Oxford University Press, 1974), especially Chapter 3, “Quebec in the Century after Conquest,” pp. 65-109.

33. For a contemporary summary of the argument, see Sing Chew and Robert Dememark, (eds.), *The Underdevelopment of Development: Essays in Honour of Andre Gunder Frank* (Thousand Oaks, Sage Publications: 1996). Again, this is a point that deserves exhaustive treatment in its own right. Frank’s thesis has certainly been profoundly important in outlining the development of many “peripheral” economies in the world system. But in the Twenty-first Century we are witnessing once “dependent” societies like China, India and Brazil establishing viable home markets, and very aggressively moving into the world economy on the basis of a regime of expanded accumulation and reproduction. The implications for the world economy are only just being appreciated.

34. H. Clare Pentland, *Labour and Capital: Canada 1650-1860* (Toronto: James Lorimer & Company, 1981), pp. 130-1. “Canada of 1870 was a small and rather immature specimen of an industrial country. Nevertheless, Canada’s economic integration; its diminished dependence on a single export, or a single market, and on foreign trade in general; the versatility of a labour force shifting from extensive to intensive forms of production; the bustle and variety of activities of its expanding cities; all these distinguish the 1870 economy from its staple-producing predecessor of a half-century before.” This too-little studied book is of central importance to a proper conceptualization of Canadian political economy.


40. Panitch, “Dependency and Class.”


43. Something I attempted to do in Paul Kellogg, *Arms and the Nation: The Impact of ‘Military Parasitism’ on Canada’s Place in the World Economy* PhD dissertation (Kingston: Queen’s University, 1991) and Kellogg, “From Caribcan to FTAA: Canada, Restructuring and Global Trade,” Paper presented to the 2001 meetings of the Canadian Political Science Association, Laval University, Quebec City.

