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REPORT
OF THE
ROYAL COMMISSION
ON
PRICE SPREADS

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ROYAL COMMISSION ON PRICE SPREADS

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ROYAL COMMISSION ON PRICE SPREADS
1916

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SUMMARY OF RECOMMENDATIONS

CHAPTER III

CONCENTRATION AND THE CORPORATE SYSTEM OF BUSINESS

1. Amendments to the Dominion Companies Act:—

1. Abolition of shares of no-par value

or

A requirement that the *full* consideration received for no-par shares be credited to the capital account.

2. All premiums from the sale of par stock should be placed in the capital or non-distributable account.
3. All increases in surplus or reserves which result from an increase in asset values (as a consequence of write-ups, appraisals, etc.) should be regarded as capital surplus, i.e., incapable of having dividends charged against them.
4. Companies should be incorporated only for activities which they intend seriously to pursue at the time of incorporation. They should be prevented from engaging in activities not directly related to those for which they were incorporated, unless they have previously secured,
 - a. approval of the shareholders, and
 - b. supplementary letters patent.
5. A company's annual statement, together with the auditor's report should be required to be published in the daily press and in *The Canada Gazette*, in such a way as to ensure the widest publicity.
6. The company should be also required to file such statements with a public authority more specifically with the Securities Board recommended below.
7. The responsibility for this publicity should be placed on the Board of Directors of the Company, who should file with the Securities Board, satisfactory proof that this obligation had been carried out. Suitable penalties should be provided for non-compliance with these provisions.
8. Annual statements should be given in more detail than at present and should include information under the following headings:—
 - a. Fixed and intangible assets to be given in more detail than at present;
 - b. Investments and securities—nature, and market value.
 - c. Inventories—so as to show raw materials in process of manufacture.
 - d. Accounts and Notes Receivable—in such a form as to make a distinction between current and overdue and doubtful accounts.
 - e. Executive salaries and bonuses—so as to show the number of executives and the total amount paid.
 - f. The amount, if any, by which fixed assets (including goodwill and other intangibles), have been written up.
9. The prospectus provisions of the present Act should be altered to place upon a company and its directors the responsibility for representations made on any offering for general public subscription, whether made on behalf of the company or not. If this change cannot be made through the Companies Act, it should be made a criminal offence to offer for public subscription, securities of a company with federal incorporation, if those securities have not been subjected to the prospectus obligations of the Dominion Companies Act.
10. Every prospectus should be required to state in clear detail all commissions, fees, and other remuneration received by promoters, underwriters or middlemen.
11. Whenever shares are allocated otherwise than through an offer to the public, a statement in lieu of prospectus should, as formerly, be filed. It should also be published in the press and in the *Canada Gazette* in such a way as to ensure the widest publicity.
12. The classes of shares that may henceforth be offered to the public should be limited to *common* and *preferred* without any subdivisions.
13. All shares offered, both common and preferred, should bear equal voting rights.
14. Management shares should be prohibited.
15. When the management of a company have become aware of the serious impairment of the capital of that company, they should be required forthwith to inform the directors of that fact, who shall be under obligation immediately to call a meeting of shareholders and put the above situation before them.

16. The first permanent directors of a company should be held responsible for all business transacted by the provisional directors.
17. Directors should be prohibited from speculating in the shares of their companies. They should be required to disclose annually to their shareholders the extent to which they have directly or indirectly purchased or sold their company's shares during the year.

2. Provisions to Prevent "Stock-Watering":—

1. It should be made illegal for directors, promoters, etc., to issue fully paid-up shares unless the company receives for these shares, adequate consideration in cash, property, or services. The Courts should investigate the adequacy of such consideration, when such adequacy is involved in any litigation. If the Courts decide that inadequate consideration was given, then liability for the balance of the consideration unpaid should attach to the directors concerned, if it is shown that,
 - a. such directors had knowledge of the inadequacy of the consideration, or
 - b. failed to take reasonable steps to ascertain the adequacy of the consideration.
2. A Securities Board should be set up, functioning as a section of the proposed Federal Trade and Industry Commission. Its functions would be:—
 - a. To review and investigate the proposed capital structure of all companies incorporated under the Dominion Act and desiring to issue stock to the public.
 - b. To pass on all such issues of bonds or stock after careful investigation.
 - c. To scrutinize the advertising and publicity material accompanying such issues.
 - d. The Board should have no power formally to approve; merely to reject.
 - e. No company or investment house whose proposed issue of shares has been under review, and not rejected, should be permitted to make any reference to that fact in its advertising literature.
3. Appraisal companies should be made liable in damages to anyone suffering loss through the purchase of stock, to which purchase any such appraisal has contributed, if it can be shown that such appraisal was untrue in any material part, and that it was issued or published by the Appraisal Company,
 - a. without honest belief in its accuracy, or
 - b. without such company first having taken all reasonable means to verify the accuracy of the facts or opinions contained in the appraisal.
4. Mining companies might be exempted from those specific recommendations concerning inadequacy of consideration, with the directors being liable for any inadequacy found, since such companies are by nature highly speculative.
5. The whole trend of law should be towards putting the managers and directors in a trustee capacity, with respect to all security holders.

CHAPTER IV

INDUSTRY

Recommendations covering this Chapter will be found under "General Recommendations," Chapter IX. Such questions as: Competitive practices in the tobacco industry; territorial price discrimination in the fertilizer industry; discriminatory discounts in the rubber footwear industry; surplus capacity and unfair competition in the milling and baking industries; proposals for industrial self-government in the furniture industry, would all fall within the purview of the proposed Federal Trade and Industry Commission.

CHAPTER V

LABOUR AND WAGES

The major recommendations of this chapter are better administration of the labour laws now on both provincial and Dominion statute books, miscellaneous improvements in this legislation, a few types of new legislation, and more con-

tinuous study of, investigation into and publicity for the whole range of problems covered by the title of this chapter. In detail they are as follows:—

1. More complete organization of industry into employers' and trade associations. More adequate general statistical work and more intensive research into personnel problems. Collective bargaining by trade unions and associations.
2. More complete organization of workers into trade unions. More adequate recognition of trade unions by governments and employers.
3. More adequate appropriations, larger and better staffs for labour law administration, both Dominion and provincial.
4. Improved provincial minimum wage laws with
 1. enforcement and inspection,
 2. increased penalties for violation,
 3. minimum wage boards, having the power to order restitution of any deficiency in wage payment,
 4. no general exemptions to firms for any reason,
 5. no "80 per cent clause,"
 6. no "averaging,"
 7. rigorous definition of "inexperienced workers," and definite restriction of the proportion of them to the total force in any factory,
 8. a careful reconsideration of regional differentials, if any, in the legal minimum wage set,
 9. minimum wage laws for men, and
 10. non-partisan administrative personnel.
5. Hours of labour laws.
 1. Administered by the minimum wage or other appropriate authority, which should determine both the hours for which the minimum wage is payable and the maximum hours which may legally be worked.
 2. Maximum hours of labour for men.
 3. Reduction in the standard hours of labour which should certainly not exceed 44 hours per week as a maximum.
 4. Flexibility in the administration of such laws permitting long hours when necessary, with time-and-a-half and double-time for overtime.
6. Employment Records.

Legal requirement that every employer keep, in either French or English, a complete set of employment records.
7. The extension of collective labour agreements by law, provided:
 1. that there must be no impairment of the right to strike,
 2. that the agreement is genuinely representative of the recognized interests of a majority of the workers in the industry,
 3. that the law be not used as a method of crystallizing low wage rates, and
 4. that the law must protect the public interest against the possible danger of monopolistic combination of employers and workers.
8. Amendment to the Criminal Code to make certain undesirable industrial relations practices indictable offences.
9. Amendment of the Fair Wages and Eight Hour Day Act, 1930.
 1. to cover all Dominion contracts, direct or indirect,
 2. to authorize the Department of Labour to determine and define "fair wages and conditions" in the occupations and industries affected, and
 3. to restrict the bidding on public contracts to a "white list" of eligible bidders.
10. Industrial disputes investigation.

The I. D. I. A. or the Inquiries Act should be amended, if necessary, and utilized to bring within the scope of public investigation a wider range of industries, but without restriction of the right to strike.

11. More and better labour statistics.
12. Division of Research, Standards and Services.

The creation in the federal Department of Labour of an entirely new division under thoroughly competent supervision, adequately staffed and financed, for the following purposes:—

1. General research into industrial relations.
 2. The provision of information, advice, and service to provincial departments of labour, employers and workers.
 3. The drafting of model labour statutes with explanatory memoranda for legislative committees, etc.
 4. The planning and management of Dominion-Provincial Conferences on matters such as International Labour Conventions, or uniform provincial labour laws.
13. National regulation of employment conditions preferably by Dominion legislation, if feasible, or, alternatively by inter-provincial co-operation.
1. Thorough exploration of the constitutional possibility of the enactment of Dominion labour legislation.
 2. If such legislation is now precluded by insuperable constitutional obstacles, the necessary amendment of the B. N. A. Act.
 3. The creation of an unpaid, permanent, representative, rotating, and non-partisan, Advisory Council to the Dominion Minister of Labour, for the following purposes:
 - a. To work out the general principles and procedure of effecting the necessary readjustments after the Dominion legislation is enacted.
 - b. To plan for decentralized but uniformly efficient administration, through provincial Departments of Labour, if possible.
 - c. Regardless of the enactment of Dominion labour legislation, generally to encourage and promote public understanding of the problems of labour relations, legislation and administration.
 - d. And for such other purposes as the Governor in Council or Minister may determine.
 4. Pending the settlement of the constitutional question of Dominion or provincial competence, annual convocation of a Dominion-Provincial Labour Conference to consider:
 - a. Methods of harmonizing provincial labour legislation.
 - b. The implementing of International Labour Draft Conventions.

The agenda for such Dominion-Provincial Labour Conferences and all memoranda should be drafted and circulated by the proposed Division of Service and Standards of the Dominion Department of Labour.

CHAPTER VI

PRIMARY PRODUCER

1. The Fruit and Vegetable Grower:

1. The extension to all canning plants and to all produce of the experimental inspection service began in 1934 and designed to check deliveries of fruit and vegetables for quality, grading and weight. This should remove complaints of arbitrary and excessive "dockage."

2. The Live Stock Producer:

1. Direct shipments of live stock to packers' yards to be subject to the same rules of weighing, grading, publication of prices, deliveries, sales, competition and supervision as shipments are to the public stock yards.
2. Regulations to be passed to permit producers, where they so desire, to sell stock by auction, on the public stock yards.
3. Live stock Commission agents' charges should be based on a lower specific charge plus a commission reckoned on the value of the live stock sold.
4. All commission agents to be licensed and their responsibilities clearly defined by the Dominion Government.
5. All truckers to be licensed and bonded, and to use standard bills of lading. Truckers to be prohibited from selling stock themselves.
6. The sale of hogs by fixed differentials to be discontinued with the exception of the premium on selects and each grade of hogs to be sold separately at whatever price it will bring.

7. Grading of hogs on the rail to be introduced and developed where producers desire it and conditions make it possible; grading of live hogs by Department of Agriculture officials to be continued.
 8. Cattle to be graded and sold on grades. All live cattle to be graded before export to Great Britain.
 9. A percentage of cutter and canner beef to be removed from the meat trade and diverted to other uses, such as fertilizer or tannage.
Diseased, old, and thin stock to be kept off the fresh meat market entirely.
 10. Municipal and small abattoirs to be placed under the Health of Animals Branch, Department of Agriculture.
 11. Consumer grades for meats.
 12. "A" grade bacon for export to be composed of sides from select and bacon hogs only.
 13. Grading of bacon and hams for export to be done in Canada by qualified government inspectors.
 14. Reduction of freight rates on live stock for export.
 15. A Live Stock Board to be established under appropriate jurisdiction with the following duties:
 - a. The prompt dissemination of information to producers and the trade generally, in respect to production, marketing, stocks, and prices, both export and domestic;
 - b. Administrative jurisdiction in matters connected with all phases of live stock marketing and in connection with disputes between producers, processors, etc.;
 - c. Licensing and supervision of truckers, dealers and export packers; where necessary in co-operation with provincial authorities;
 - d. Adequate inspection of all marketing stages and action to correct abuses;
 - e. Co-operation with producers, processors and the trade generally, to ensure as far as possible a balance between production and available markets;
 - f. To encourage the organization of producers of live stock for regular and orderly marketing;
 - g. Improvement of quality of all live stock;
 - h. The formation of a uniform policy on external marketing, with a view not only to promoting new, but also retaining and developing, existing markets;
 - i. The stabilization of supplies, and the regulation of quality to each particular market;
 - j. The utilization of all available means to secure fair returns to the primary producers of good stock.
 16. The Live Stock Board to make a careful survey of the situation in the British market, with a view to:
 - a. Ascertaining to what extent Canadian Packers and the British Bacon Committee operate as a mutual body; and
 - b. To revise the grading of export bacon so as to insure the highest possible price for Canadian "selects" and "bacon" hogs; and
 - c. To secure such a system of distribution as will satisfactorily meet the requirements of the British trade, while at the same time insuring full and adequate protection to the producer of hogs in Canada.
3. Fisheries.
1. The present system of culling and weighing fish purchased from fishermen by the distributing companies, to be revised.
 2. Uniform zone freight and express rates for fish, from Atlantic Coast points.
 3. Adequate official and compulsory inspection for all fish, whether for export or domestic consumption.
 4. Trawler operations to be gradually discontinued by Government prohibition.
 5. Encouragement of the co-operative movement.
 6. Establishment of a Fisheries Control Board with the following duties:
 - a. To make every possible effort to raise the price to the fisherman.
 - b. The elimination of misrepresentation of varieties and grades of fish as now prevailing in the retail markets in Canada.
 - c. The establishment of a higher standard of quality of fish marketed in Canada by regulating the conditions under which fish, and especially fresh fish, may be handled.
 - d. The establishment of adequate inspection of grades as affecting products for the Canadian and export markets.
 - e. The elimination of consignment shipments.
 - f. The elimination of cut-throat competition and other unsound trade practices.
 - g. The direction of surplus production of fish through channels calculated to bring the most profitable financial return.
 - h. A thorough survey of conditions surrounding, as well as the disabilities retarding development of existing and potential export markets.

7. Local advisory committees to assist the Control Board: at least five, as follows:—
 1. On Fresh Fish.
 2. On Dried and Cured Fish.
 3. On the Herring Fisheries.
 4. On the Pickled Fish Industry.
 5. On Lobsters, Salmon, etc.
8. The Dominion Government should give early and favourable consideration to the establishment of a limited fund for the extension of credit to fishermen for the purchase, or repair of equipment, gear, etc..

4. General.

Official encouragement to primary producers to organize for co-operative marketing.

CHAPTER VII

RETAIL DISTRIBUTION

The practices and problems discussed in this chapter are those which would fall under the purview of the Federal Trade and Industry Commission. Our recommendations, therefore, in connection with distribution generally, will be found under the General Recommendations of Chapter IX.

Certain specific recommendations are, however, made in this chapter with respect to the Consumers' Co-operative Movement, as follows:—

1. Consideration of the possibility of federal legislation for the incorporation and regulation of consumers' co-operatives, enabling them to do business under the same conditions as any federally-incorporated company.
2. Prohibition of the use of the word "co-operative" in any trade mark or as part of any trade name except by a bona fide co-operative company, organized as such.

CHAPTER VIII

THE CONSUMER

1. Consumer Standards: Marking, Labelling, etc.

1. Extension of the functions of the National Research Council to include the preparation of consumer standards and specifications and the analysis and testing of consumer products.
2. Creation of a Consumer Commodity Standards Board, as a section of the Federal Trade and Industry Commission, with the following duties:—
 - a. The establishment of consumer standards. A list of suggested products for immediate attention is given.
 - b. Enforcement of such standards as might be established.
 - c. Publication of findings of non-conformity to standards set up, of harmful or injurious substances, or of excessive price spreads.
3. Authorization of the Research Council to analyze or test products on request, and at a charge to cover expenses. Such analyses or tests are for consumers alone and it should be provided that the results cannot be used for advertising or commercial purposes.
4. In order to prevent adulteration, the National Research Council should be instructed to compile a dictionary of trade names of products which shall be accepted in all commercial transactions in courts of law.
5. The registered name and place of business of the true manufacturer of a product should be required upon the product, whether it is sold under his brand or not.
6. A term "Canada Standard" should be adopted exclusively for products conforming to official standards as established.
7. All grade designations to be numerical, as Grade 1, Grade 2, etc. Exceptions, in favour of alphabetical grades, may be provided when necessary. No more than one grade should ever, under any conditions, be permitted above Grade 1 or Grade A, and this only for a very small percentage of the product.

8. Grade designations should be unmistakably set out on the product.
 9. In the case of products of which a knowledge of the ingredients or formula is necessary to their proper use, such should be shown.
2. Amendments to the Weights and Measures Act.
1. The principle of net weight should be modified to permit the inclusion of paper bags or wrappers in the weight of bulk goods sold over the counter and weighed by the merchant at the time of sale.
 2. The maximum weight to be permitted for paper bags or wrappers should be fixed by Order in Council in relation to the weight of the contents.
 3. In the case of any product liable to shrinkage through evaporation, the "net weight" should be interpreted as the anhydrous weight. Standards of moisture content for all commodities should be determined by the competent department of the Government, and published by Order in Council.
 4. The number of inspectors in the Weights and Measures Inspection Service should be increased.
 5. Penalties for breach of the Act should be more severe.
 6. Provision should be made for the standardization by Order in Council of the quantities in which any packaged commodity, whether a food product or not, may be sold.
 7. For food stuffs sold by weight or volume, packages and containers should be permitted only in the sizes presently authorized under the Meat and Canned Foods Act.
 8. Net weight should be clearly marked on all goods, whether food products or not, which are packaged in advance of sale by manufacturer, wholesaler, or retailer. The only exception should be bulk goods sold over the counter and weighed by the retailer in the presence of the customer.
 9. Certain exceptions, as outlined, should be permitted to the requirements suggested under 6, 7 and 8 above.
 10. The regulations proposed above should apply to all imported goods, with certain exceptions as specified.
3. False and Misleading Advertising.
1. Amendment of Sub-Section 2, Section 406 of the Criminal Code, by the deletion of the sentence "provided further that in any prosecution under this sub-section, the case may be dismissed if it be established to the satisfaction of the court upon proper evidence that the accused acted in good faith."
 2. Any statement or guarantee of performance, efficacy or length of life of any product, to be made an offence in itself unless based upon an adequate and proper test, such as a test by the National Research Council or other competent department of the Government.

CHAPTER IX

THE PROBLEM OF STATE CONTROL

GENERAL RECOMMENDATIONS

1. Federal Trade and Industry Commission.
 1. Structure:
 - a. To consist of five members appointed by the Governor in Council, as a semi-autonomous Board under the President of the Privy Council.
 - b. Its status both in its authority and in its relation to the responsible Minister and Parliament, to be similar to that of the Board of Railway Commissioners.
 2. Functions:
 - a. Administrative
 - (1) Rigorous administration of an amended Combines Investigation Act, for the purpose of retaining and restoring competition whenever possible.
 - (2) On instruction from the Governor in Council, to regulate monopoly, when competition cannot or should not be restored or enforced.
 - (3) On instruction from the Governor in Council, to sanction and supervise agreements for industrial self-government.
 - (4) To prohibit unfair competitive practices.
 - (a) Such practices should not be set out in detail in the Act setting up the Commission, but a general definition of unfairness should be included.

- (b) A definition for this purpose is suggested.
- (c) Certain practices such as discriminatory discounts, rebates and allowances, territorial price discrimination and predatory price-cutting, should be included within this definition.
- (d) The Commission should act by inquiry, hearings and where necessary, prohibitory orders.
- (e) An appeal from these orders to the Exchequer Court of Canada, should be permitted.
- (f) The Commission should be given adequate power, as outlined, for the enforcement of its orders.
- (g) In more serious cases, the Commission might prosecute directly under the Act for the offence of competing unfairly.
- (h) The results of its major findings should be published.
- (5) To supervise generally, or co-operate in the administration of existing laws relating to merchandising and business practices for which no other agency exists.
- (6) To administer new laws for the protection of the consumer.
- (7) To administer the regulation of new security issues for protection of the investor.
- (8) To co-operate with Chambers of Commerce and Boards of Trade in the development of commercial arbitration or the refereeing of business disputes.
- (9) To co-operate with other Government agencies, whether federal, provincial or municipal, in the solution of trade and industrial problems.

b. Advisory

- (1) To Government
 - (a) To recommend to the Governor in Council the recognition and regulation of monopoly in special situations where competition cannot be restored.
 - (b) If so requested by an industry, and after investigation, to recommend to the Governor in Council the granting of powers of "self-government" in special situations where competition seems undesirable.
 - (c) To recommend to the Governor in Council such regulatory measures as each such situation seems to require under (a) or (b).
- (2) To Industry

In co-operative trade practice conferences to advise industry and secure its advice about the elimination of unfair trade practices.

c. Investigation and Publicity

- (1) Full power to inquire into the organization and practices of any industry.
- (2) General economic investigation.
- (3) Full publicity to the results of any investigation.
- (4) Authority to require that firms or industries publish such information about prices or other matters as may be in the public interest.

2. Amendments to the Combines Investigation Act.

- 1. To facilitate the application of the Act to single unit monopolies, as well as to combinations in restraint of trade, a definition of monopoly is given which should be included in the Act.
- 2. Section 28 of the Act should be amended to ensure that reports of inquiries by the Registrar, when the inquiry has been such as a Commissioner would make, should be subjected to the same provisions in respect to publication as are Commissioner's reports.

3. Proposals for the Extension of the General Statistical Work of the Dominion Bureau of Statistics.

THE ROYAL COMMISSION

CANADA

GEORGE THE FIFTH, by the Grace of God of Great Britain, Ireland and the British Dominions beyond the Seas KING, Defender of the Faith, Emperor of India.

T. RINFRET,
Deputy Governor General,
(L.S.)

To all to whom these Presents shall come or whom the same may in anywise concern,

GREETING:

WHEREAS a Select Special Committee was appointed by resolution of the House of Commons passed on February 2, 1934, in the following terms:

"That a Select Special Committee of eleven members of the House be appointed to inquire into and investigate the causes of the large spread between the prices received for commodities by the producer thereof, and the price paid by the consumers therefor; and the system of distribution in Canada of farm and other natural products, as well as manufactured products, and, without restricting the generality of the foregoing, more particularly to inquire into and investigate;

"(a) the effect of mass buying by department and chain store organizations upon the regular retail trade of the country, as well as upon the business of manufacturers and producers;

"(b) the labour conditions prevailing in industries supplying the requirements of such department and chain store organizations, and the extent, if any, to which existing conditions have been brought about by the purchasing practices of such organizations, and the effect thereof upon the standard of living amongst those employed in such industries and organizations;

"(c) the relation between the flour milling industry and the bakeries of the country, and the effect of such relations upon the baking industry of Canada;

"(d) the methods and system prevailing in the marketing of live stock and animal products for domestic consumption and export, and the extent to which the present system affords or restricts opportunity for fair returns to producers.

"That the committee shall have power to send for persons, papers and records and the further power to request the appointment of a commission or commissioners under the Inquiries Act, to secure evidence to be presented to the committee by such commission or commissioners.

"That the committee shall report to the House from time to time its findings, together with the recommendations of such measures as in the opinion of the committee may be considered necessary to secure, as far as possible, fair and just practices in the distribution and marketing systems of Canada, with fair and just returns to producers, employees and employers, not inconsistent with the rights of consumers."

AND WHEREAS owing to the prorogation of Parliament the said Select Special Committee was unable to complete the said inquiry and recommended to the House of Commons that the investigations and inquiry be continued and completed and that for the purposes aforesaid the members of the said committee be appointed commissioners under the provisions of Part 1 of the Inquiries Act, Revised Statutes of Canada, 1927, Chapter 99.

AND WHEREAS pursuant to the provisions of the said the Inquiries Act His Excellency the Governor General in Council by Order, P.C. 1461, of the seventh

day of July in the year of Our Lord one thousand nine hundred and thirty-four, copy of which is hereto annexed, has authorized the appointment of Our Commissioners therein and hereinafter named to continue, complete and report on the inquiry into those matters mentioned in the aforesaid reference to the Select Special Committee of the House in respect of chain stores, agricultural implements, fish, flour mills and bakeries, canning of fruit and vegetables and to hear evidence of any person who may be affected by the matters heretofore considered by the said committee, and who may desire to be heard before Our said Commissioners.

Now KNOW YE that by and with the advice of Our Privy Council for Canada, We do by these presents nominate, constitute and appoint the Honourable H. H. Stevens, Thomas Bell, James Ilsley, Jean-Louis Baribeau, Oscar L. Boulanger, Alexander McKay Edwards, Samuel Factor, Donald MacBeth Kennedy (*Peace River*) William Walker Kennedy (*Winnipeg South Centre*), Mark Senn and Edward James Young, Members of the House of Commons, to be Our Commissioners to continue, complete and report on the inquiry into those matters mentioned in the aforesaid reference to the Select Special Committee of the House in respect of chain stores, agricultural implements, fish, flour mills and bakeries, canning of fruit and vegetables and to hear evidence of any person who may be affected by the matters heretofore considered by the said committee and who may desire to be heard before Our said commissioners.

TO HAVE, HOLD, EXERCISE AND ENJOY the said office place and trust unto the, said the Honourable H. H. Stevens, Thomas Bell, James Ilsley, Jean-Louis Baribeau, Oscar L. Boulanger, Alexander McKay Edwards, Samuel Factor, Donald MacBeth Kennedy, William Walker Kennedy, Mark Senn, and Edward James Young during Our pleasure.

And the said commissioners are hereby authorized to engage the services of counsel, secretary, accountants, technical advisers, reporters, clerks, stenographers and investigators to aid and assist the said commissioners in the inquiry, and to print the evidence, proceedings and documents received by the commission, and that the meetings of the said commission be held at the city of Ottawa at such places and at such times as they may consider expedient for the purposes of the inquiry; and that the commissioners shall hold such office without any salary, fees, wages, allowances, emolument or other profits of any kind attached thereto under the provisions of the Senate and House of Commons Act, Revised Statutes of Canada, 1927, Chapter 147, Section 11.

And We do hereby require and direct Our said commissioners to report to the Minister of Trade and Commerce at his office in the Department of Trade and Commerce the result of their investigation.

And We do further appoint the said the Honourable H. H. Stevens, M.P., to be chairman of Our said commission.

IN TESTIMONY WHEREOF We have caused these Our Letters to be made Patent and the Great Seal of Canada to be hereunto affixed.

WITNESS, Our Right Trusty and Well-beloved Counsellor the Honourable Thibaudeau Rinfret, one of the Judges of the Supreme Court of Canada and Deputy of Our Right Trusty and Right Well-beloved Cousin and Counsellor, Vere Brabazon, Earl of Bessborough, a Member of Our Most Honourable Privy Council, Knight Grand Cross of Our Most Distinguished Order of Saint Michael and Saint George, formerly Captain in Our Territorial Army, Governor General and Commander-in-Chief of Our Dominion of Canada.

At Our Government House, in Our City of Ottawa, this seventh day of July in the year of Our Lord one thousand nine hundred and thirty-four and in the twenty-fifth year of Our Reign.

By Command,

E. H. COLEMAN,
Under Secretary of State.

P. C. 1461

CERTIFIED to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by the Deputy of His Excellency the Governor General on the 7th of July, 1934.

The Committee of the Privy Council have had before them a report, dated 6th of July, 1934, from the Right Honourable Richard Bedford Bennett, the Prime Minister, submitting:—

That a Select Special Committee was appointed by Resolution of the House of Commons passed on February 2nd, 1934, in the following terms:—

“That a Select Special Committee of eleven members of the House be appointed to inquire into and investigate the causes of the large spread between the prices received for commodities by the producer thereof, and the price paid by the consumers therefor; and the system of distribution in Canada of farm and other natural products, as well as manufactured products, and, without restricting the generality of the foregoing, more particularly to inquire into and investigate:—

- “(a) the effect of mass buying by department and chain store organizations upon the regular retail trade of the country, as well as upon the business of manufacturers and producers;
- “(b) the labour conditions prevailing in industries supplying the requirements of such department and chain store organizations, and the extent, if any, to which existing conditions have been brought about by the purchasing practices of such organizations, and the effect thereof upon the standard of living amongst those employed in such industries and organizations;
- “(c) the relation between the flour milling industry and the bakeries of the country, and the effect of such relations upon the baking industry of Canada;
- “(d) the methods and system prevailing in the marketing of live stock and animal products for domestic consumption and export, and the extent to which the present system affords or restricts opportunity for fair returns to producers.

“That the committee shall have power to send for persons, papers, and records, and the further power to request the appointment of a commission or commissioners under the Inquiries Act, to secure evidence to be presented to the committee by such commission or commissioners.

“That the committee shall report to the House from time to time its findings, together with recommendations of such measures as in the opinion of the committee may be considered necessary to secure, as far as possible, fair and just practices in the distribution and marketing systems of Canada, with fair and just returns to producers, employees, and employers, not inconsistent with the rights of consumers.”

That pursuant to the said Resolution of the House of Commons referred to, the committee was in session on sixty separate days and heard and examined under oath various witnesses, and under the powers conferred upon it, appointed auditors and investigators to examine into matters pertinent;

That the committee on the 29th day of June, 1934, reported that the said inquiry had not yet been completed; that until the inquiry was completed the committee could not finally report to the House of Commons; that it would not be possible to bring the inquiry to completion before prorogation of Parlia-

ment to enable such report to be made; that, under the rules of Parliament, the powers of the said committee cease on prorogation and being fully seized of the necessity of completing the work undertaken, the committee recommended to the House of Commons that the investigations and inquiry be continued and completed and that for the purposes aforesaid the members of the said committee be appointed commissioners under the provisions of Part I of the Inquiries Act, Chapter 99 of the Revised Statutes of Canada (1927); and

That the report of the Select Special Committee above referred to was adopted by the House of Commons on the 30th day of June, 1934.

The Prime Minister, therefore, recommends:—

1. That the personnel of the Select Special Committee, aforesaid, namely,
Honourable H. H. Stevens, M.P., Chairman,
Thomas Bell, M.P.,
James Ilsley, M.P.,
Jean-Louis Baribeau, M.P.,
Oscar L. Boulanger, M.P.,
Alexander McKay Edwards, M.P.,
Samuel Factor, M.P.,
Donald MacBeth Kennedy, M.P., (*Peace River*),
William Walker Kennedy, M.P. (*Winnipeg South Centre*),
Mark Senn, M.P., and
Edward James Young, M.P.,

be appointed commissioners under the provisions of Part I of the Inquiries Act, Revised Statutes of Canada, 1927, Chapter 99, to continue, complete and report on the inquiry into those matters mentioned in the aforesaid reference to the Select Special Committee of the House in respect of chain stores, agricultural implements, fish, flour mills and bakeries, canning of fruit and vegetables, and to hear evidence of any person who may be affected by the matters heretofore considered by the said committee, and who may desire to be heard before the commissioners.

2. That the commissioners be authorized to engage the services of counsel, secretary, accountants, technical advisers, reporters, clerks, stenographers and investigators to aid and assist the said commissioners in the inquiry, and to print the evidence, proceedings and documents received by the commission, and that the meetings of the said commission be held at the City of Ottawa at such places and at such times as they may consider expedient for the purposes of the inquiry; and that the commissioners shall hold such office without any salary, fees, wages, allowances, emolument or other profits of any kind attached thereto under the provisions of the Senate and House of Commons Act, Revised Statutes of Canada, 1927, Chapter 147, Section 11; and that the commissioners report to the Minister of Trade and Commerce.

3. That the Honourable H. H. Stevens be appointed chairman of the said commission.

The committee concur in the foregoing recommendations and submit the same for approval.

E. J. LEMAIRE,
Clerk of the Privy Council.

P.C. 2743

CERTIFIED to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by His Excellency the Governor General on the 29th of October, 1934.

The Committee of the Privy Council, on the recommendation of the Right Honourable Richard Bedford Bennett, the Prime Minister, advise that William Walker Kennedy, Esq., K.C., M.P., be appointed chairman of the commission constituted under Part 1 of the Inquiries Act, by Order in Council P.C. 1461, July 7, 1934, to continue the inquiry into the spread of prices, etc., in the place of the Honourable H. H. Stevens, resigned.

E. J. LEMAIRE,
Clerk of the Privy Council.

P.C. 2946

CERTIFIED to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by His Excellency the Governor General on the 19th day of November, 1934.

The Committee of the Privy Council have had before them a report, dated November 17, 1934, from the Right Honourable the Prime Minister, stating that on the 7th day of July, 1934, Your Excellency, by Order in Council, P.C. 1461, appointed:

Honourable H. H. Stevens, M.P., Chairman,
Thomas Bell, M.P.,
James Ilsley, M.P.,
Jean-Louis Baribeau, M.P.,
Oscar L. Boulanger, M.P.,
Alexander McKay Edwards, M.P.,
Samuel Factor, M.P.,
Donald MacBeth Kennedy, M.P. (*Peace River*),
William Walker Kennedy, M.P. (*Winnipeg South Centre*),
Mark Senn, M.P., and
Edward James Young, M.P.,

commissioners under the provisions of Part I of the Inquiries Act, Revised Statutes of Canada, 1927, Chapter 99, for the purpose of continuing, completing and reporting on certain matters mentioned in a resolution passed by the House of Commons of Canada, on the 2nd day of February, 1934, which resolution is fully set forth in the aforesaid Order in Council.

That doubts have arisen as to whether the powers conferred by the said Order in Council are sufficiently explicit to enable the said commissioners to deal with all the matters referred to in the resolution of the House of Commons of Canada, of the 2nd day of February, 1934, aforesaid,

The Prime Minister recommends that the said commissioners named in Order in Council P.C. 1461 of the 7th day of July, 1934, and Order in Council P.C. 2743 of the 29th day of October, 1934, be authorized and empowered to continue, complete and report on all or any matters referred to in the aforesaid resolution passed by the House of Commons of Canada on the 2nd day of February, 1934.

That the said Order in Council, P.C. 1461 of the 7th day of July, 1934, except as varied by Order in Council, P.C. 2743, of the 29th day of October, 1934, and by this Order in Council, be confirmed.

The Committee concur in the foregoing recommendations and submit the same for approval.

E. J. LEMAIRE,
Clerk of the Privy Council.

OTTAWA, April 9, 1935.

The Hon. R. B. HANSON, K.C., M.P.
MINISTER OF TRADE AND COMMERCE,
OTTAWA, ONT.

SIR,—As Chairman of the Royal Commission on Price Spreads, appointed by Order in Council P.C. 1461 of July 7, 1934, I have the honour to report that we have concluded our inquiry in pursuance of the terms of reference contained in that and subsequent Orders in Council, and beg leave to submit thereon the attached report.

It should be noticed that Messrs. Boulanger, Factor and Ilsley have signed the report with reservations set forth in the accompanying addendum, and that Mr. Young has written a minority report which is also submitted herewith.

I have the honour to be, Sir,

Your obedient servant,

W. W. KENNEDY,
Chairman.

CHAPTER I

INTRODUCTORY

On the second day of February, 1934, the House of Commons passed the following Resolution:—

“That a Select Special Committee of eleven members of the House be appointed to inquire into, and investigate the causes of the large spread between the prices received for commodities by the producer thereof, and the price paid by the consumers therefor; and the system of distribution in Canada of farm and other natural products, as well as manufactured products, and, without restricting the generality of the foregoing, more particularly to inquire into and investigate,

“(a) the effect of mass buying by department and chain store organizations upon the regular retail trade of the country, as well as upon the business of manufacturers and producers;

“(b) the labour conditions prevailing in industries supplying the requirements of such department and chain store organizations, and the extent, if any, to which existing conditions have been brought about by the purchasing practices of such organizations, and the effect thereof upon the standard of living amongst those employed in such industries and organizations;

“(c) the relation between the flour milling industry and the bakeries of the country, and the effect of such relations upon the baking industry of Canada;

“(d) the methods and system prevailing in the marketing of live stock and animal products for domestic consumption and export, and the extent to which the present system affords or restricts opportunity for fair returns to producers.

“That the committee shall have power to send for persons, papers, and records, and the further power to request the appointment of a commission or commissioners under the Inquiries Act, to secure evidence to be presented to the committee by such commission or commissioners.”

Pursuant to the above Resolution, the House of Commons on the thirteenth day of February, 1934, appointed Messrs. Stevens, Baribeau, Bell (*St. John-Albert*), Boulanger, Edwards, Factor, Ilsley, Kennedy (*Peace River*), Kennedy (*Winnipeg, South Centre*), Senn, and Young to be members of the Select Special Committee above referred to.

On the 29th day of June, 1934, the Select Special Committee submitted the following report to the House of Commons:—

Pursuant to the Resolution of the House of Commons of February 2, 1934, above referred to, your committee has been in session on sixty separate days and has heard and examined under oath various witnesses, and under the powers conferred upon it, appointed auditors and investigators to examine into matters pertinent to the said Order of Reference and coming within its purview. Due to the voluminous character of the evidence and the limited time at the committee's disposal it has not been possible for the committee to complete the investigation and inquiry contemplated by the terms of the Resolution and to report thereon before prorogation.

Under the rules of Parliament, the powers of your committee cease on prorogation, and being fully seized of the necessity of completing the subject matter of the said Resolution, your committee begs to recommend:—

That the inquiry be continued;

That the members of this committee be appointed commissioners under the provisions of Part 1 of the Inquiries Act, Chapter 99 of the Revised Statutes of Canada (1927), to continue and complete their investigations and inquiry;

That the commissioners be authorized to engage the services of counsel, secretary, accountants, technical advisers, reporters, clerks, stenographers and investigators to aid and assist the said commissioners in the inquiry, and to print the evidence, proceedings and documents received by the commission;

That the records, exhibits and evidence received and taken by the said Special Committee be made available to the commission;

That the commissioners may hold meetings at such places and at such times as they may consider expedient for the purpose of the inquiry; and

That the commissioners report their findings to the Minister of Trade and Commerce.

A copy of the evidence and proceedings taken is submitted with this report.

H. H. STEVENS,
Chairman.

As a result of the recommendations contained in this report, which was adopted by the House on June 30, 1934, the personnel of the Select Special Committee were appointed, by Order in Council P.C. 1461, commissioners under the provisions of Part 1 of the Inquiries Act, Chapter 99 of the Revised Statutes of Canada (1927); with powers as set forth in the above Order in Council, as amended by Order in Council P.C. 2743 of October 29, 1934, and P.C. 2946 of November 19, 1934.

The Select Special Committee held sixty sessions, the first on February 22, 1934, and the last on June 22, 1934. The commission held sixty-five sessions, the first on October 30, 1934, and the last on February 1, 1935. All sessions were held in Ottawa.

During our sessions as a committee and commission,¹ 270 witnesses (the list of whom is attached to this report as Annex 1) appeared before us—private individuals, federal Government officials, and representatives of provincial Governments, public bodies, corporations, co-operative and trade associations. The verbatim evidence both of the committee and of the commission which, together with an index, is being submitted with this report, amounts to 8,277 printed pages.

In addition to verbal evidence, we received numerous petitions, written representations and communications of all kinds bearing on our inquiries. Many of these are to be found among the 440 exhibits which were filed with the commission. The list of documentary exhibits is attached as Annex II.

The wide nature of our terms of reference made any uniform method of investigation impossible. In some cases it was possible to conduct an exhaustive survey into the trade or industry under investigation by an examination of the records of the companies in question. In other cases, it was not practicable to follow this method. At times we had to rely almost entirely on verbal evidence

¹ Subsequently in the Report, "Commission" will include "Committee" unless the contrary is specifically stated.

supplemented by written communications. In many cases the evidence we received was supplemented by more general statistical and economic investigations conducted by our own staff.

Though our terms of reference were wide, considerations of time prevented us from acceding to many of the requests which were made to us for inquiry into certain specific matters. As our work progressed, we received an increasing number of such requests. These covered almost every phase of Canadian economic life. We were, for instance, asked to inquire into the following industries or occupations: mining, electric light and power, electrical supplies, pulp and paper, lumbering, oil and gasoline, oil burner manufacturing, broom and basket making, quarrying, railroading, automobile manufacturing, biscuit manufacturing, plumbing, manufacture of leather goods, printing and stationery, brewing, shoe repairing, painting and decorating, hair dressing, radio manufacturing, cleaning and dyeing, and trucking; the sale and distribution of coal, motion pictures, fruit, tea and coffee, jewellery; the operations of loan and finance companies, stock brokers, insurance companies, and the Bell Telephone Company; medical and dental fees, funeral costs, postal rates, express charges, conditions in domestic and agricultural service; labour and employment conditions in numerous individual establishments.

Though we were not able to accede to the above requests for investigations, we did examine conditions in the following trades or industries: agricultural implements, baking, canning, can manufacturing, clothing and needle trades, fertilizer manufacturing, fishing, flour milling, furniture manufacturing, live stock and meat packing, rubber goods, textiles (in all its branches), tobacco; as well as the field of retail distribution in all its phases. Special attention was given to the more specific problems mentioned in our terms of reference, with special emphasis on the condition of the wage-earner and the primary producer.

During the course of our hearings, every effort was made to ensure that any person, firm or corporation who might be affected in any way by the evidence that was taken, or investigation made, should be given full opportunity to come before us and give evidence.

Owing to the variety of the subjects investigated and the interests concerned—producer, manufacturer, distributor, wage-earner, and consumer—it was not easy to compile a report which would be of reasonable length and possess both unity and clarity. At first sight, indeed, it appeared that the separate and distinct problems which emerged in the evidence called for separate treatment and almost separate reports. On closer study, however, it became clear that many of the grievances complained of, and the problems disclosed, were manifestations of one fundamental and far-reaching social change, the concentration of economic power. This idea, therefore, runs through the whole of our report and gives it a certain unity which it might not otherwise possess.

In the immediately following chapter, we discuss the economic background in an attempt to explain the significance of this concentration, with special reference to the disappearance of what the economists call "simple" competition. This procedure is not only advisable in view of the importance of the subject, but it is also necessary in fairness to the individuals concerned; for it will appear that often the pressure of economic forces, rather than conscious purpose, is the principal cause of the unethical business practices disclosed.

We follow the discussion of the economic background and the concentration of economic power with an examination of various manifestations of this concentration which came before us in evidence.

In Chapter III, we refer to the concentration of corporate wealth as a factor in the conditions which bred many of the grievances complained of. In addition to its contribution to the general problem, this chapter deals with corporate practices and abuses during recent years and suggests certain remedies for them.

In Chapter IV, we discuss the industries investigated, with particular reference to the growth of large productive units and the power of these units to influence the condition of the wage-earner and the primary producer.

Chapter V follows naturally with a discussion of labour and wage conditions, while Chapter VI deals with the plight of the primary producer.

In Chapter VII, we discuss the development and effect of concentration in retail distribution. The growth of the large scale distributor is described, and particular reference is made to the effects of mass buying.

Chapter VIII is devoted to the consumer and we submit certain recommendations for his protection.

Chapter IX deals with the fundamentally important question of state intervention in business, with particular reference to the nature, methods, and complexities of such intervention. We outline briefly in this chapter recent experience with government regulation in various countries, including our own, and conclude with proposals of a general character, which we hope will be of assistance in solving some, at least, of the problems which were submitted to us.

To our Secretary, Mr. L. B. Pearson, our assistant secretaries, Messrs. J. M. Boyer and R. A. Cameron, and to the other members of our staff, who have discharged their arduous duties under no ordinary pressure, with unusual efficiency and devotion to duty, we are under a debt of gratitude which we find it impossible adequately to express. We must also record our appreciation of the generous co-operation we have received from many other officers of the Government.

CHAPTER II

THE ECONOMIC BACKGROUND

1. THE THEORETICAL BACKGROUND

Although particular industries and particular commodities are mentioned in our terms of reference they should not, or indeed, cannot be treated apart from our economic structure as a whole. The interdependence of industries in the national economy is as significant as the interdependence of nations in the international system. No survey, therefore, of the position of one industry or one branch of economic activity can usefully be made, nor can any change in the practice of that industry be wisely recommended, unless such survey or such change be considered from the point of view of its effect on the whole national economy. Action designed to benefit the agriculturalist of the west may be detrimental to the interests of the industrial worker of the east. An economic development which may seem to benefit Ontario may hurt Saskatchewan and thus ultimately may react injuriously on Ontario. A remedy designed to assist one group in society may injure some other group and thus react on the first group. It is vital, therefore, that in this report the parts should be surveyed and analyzed in relation to the whole.

The investigation which has been made is in large measure a product of the depression. Unfair trade practices and other abuses, while they exist in prosperity, are nevertheless thrown into bold and challenging relief by depression. It is then that they assume their most predatory and ruthless aspect. In good times the evils consequent upon unrestricted competition are more easily absorbed by business. In the general optimism of prosperity, their effects are softened in outline and seem neither destructive nor spectacular. Moreover, depression provides more opportunity for and greater temptation to indulge in unfair practices, because the very necessities of a shrinking volume of trade put the weak and unorganized in a less favourable bargaining position than ever in relation to the strong and the organized.

The depression has, furthermore, demonstrated that the strong and the organized are attaining an ever increasing position of dominance in our economic life; that economic power is becoming concentrated. With this concentration, old theories of economic control are proving inadequate.

1. COMPETITION AND MONOPOLY.

In the past, government, through anti-trust and combines legislation, has been concerned to maintain, rather than to control competition, which has been accepted as generally beneficial, congenial to the pioneer attitudes, and justified by economic argument. Competition seemed to promise a flexibility of prices which was most valuable and indeed necessary in an economy as variable as Canada's. It also seemed to promise a satisfactory stimulus to efficiency, and a reasonable guarantee of low prices to the consumer. The argument was carried further to show that competition tended to direct productive activity in such a way as to maximize the national income. But this argument was based on the assumption that competition was what was called free, or "simple." In earlier stages of capitalist development the actual economic world sufficiently approximated this condition to justify some optimism as to the beneficial effects of competitive freedom from control or interference. But now conditions have changed. Concentration in production and distribution, resulting from the development of the corporation and the large scale business unit, has made the actual competitive scene progressively less like the simple competition of the laissez-faire economists. In some cases the change has

been complete and the result has been monopoly. But more often the development has not proceeded quite so far, and there has arisen a condition which has long been discussed by economists under the name of "monopolistic or imperfect competition." Here it is recognized that the results of unregulated competition are frequently far from beneficial.

Fundamentally, the problems which confronted the Commission are those of a transitional economy in which simple competition still prevailed in some parts, monopoly had succeeded it in others and monopolistic or imperfect competition characterized the rest. It might be well, therefore, to define briefly these terms.

Simple competition may be said to exist in any market where there are many small producers offering a commodity for sale, and many buyers offering to purchase relatively small quantities of that commodity without any preference for the product of any particular seller. Under such conditions, as stated previously, no seller can affect the price by withholding a part of his supply from the market, since he controls only an insignificant part of the whole. On the other hand, no seller has any difficulty in selling his whole supply at the market price. No buyer exercises any hold over any seller, for there are always plenty of buyers at the market price. A definite market price is determined by the competitive conditions of supply and demand. An excellent example of this was found in the production and sale of wheat before the introduction of government and other controls. Price is very flexible and adjusts itself to conditions of supply and demand, and buyers and sellers adjust themselves to this prevailing price. All the arts of competitive salesmanship are therefore unnecessary. It is conditions of this sort which are often assumed in the defence of competition.

At the other extreme is the condition of monopoly, where one seller controls the whole supply of some commodity. The monopolist will find it to his advantage to limit the supply, securing a greater revenue by the sale of a part of his stock at a higher price than he could secure by reducing the price sufficiently to sell the whole of it. A similar condition, though less stable, is found where the number of sellers is small and they have agreed to act in unison. In either case, the public is hurt by high prices and restricted supply. Illustrations are found, for example, in the tin-plate and aluminium industries. So obvious is the injury, that the existence of monopoly or monopolistic agreement is likely to evoke interference of some sort by the government.

Not only may the number of sellers be reduced to one, or to so few that they can act as one, but the number of buyers may also be reduced. If there is only one buyer for the product of many small producers, for example, one local cannery, the producers are at the buyer's mercy, just as the monopolistic producer has the buyers at his mercy when the situation is reversed.

2. IMPERFECT COMPETITION.

Simple competition, however, can be destroyed without the immediate substitution of monopoly. Somewhere between the two there is "imperfect" competition. This condition, which is more characteristic of our present economy than complete monopoly, exists when the output of any one producer or purchaser is a significant proportion of the total supply marketed—that is, when one producer may affect the price by withholding his supply. In the actual business world, this condition ranges from two firms in an industry to the case where there are many firms but a few are predominantly large. There is also the very common condition where a producer of a commodity has some of the characteristics of a monopolist, with respect to his own brand. The development of brands, trade marks, and national advertising, has, indeed, made this last type the characteristic producer of the present.

Several basic consequences follow. First, price no longer automatically *adjusts itself* to supply and demand, and no longer reacts quickly to changed

economic conditions. The dominant producers fix the price they deem most profitable and attempt to adjust their production to sales at that determined price.

Second, where imperfect competition prevails, a definite market price is not precisely determined by supply and demand; price may be set anywhere within the limits of a "zone of indeterminateness," as the economists call it, in accordance with the relative bargaining power of the parties concerned. The wheat grower and buyer do not normally bargain—they accept or reject the going price. The market for many industrial products is, however, imperfectly competitive. One may therefore expect a condition of economic warfare in which victory will go to the strong rather than to the efficient. Nor will there be any reason to expect that such warfare will promote the general interests of society. Competition, if any, will often be cut-throat, and discrimination will be rife. One may even find that the eventual monopoly, which often follows when victory is assured to one party, will be preferable to this fierce and unrelenting competition. The necessity for regulation of monopoly is apparent and therefore it is comparatively easy to institute and operate machinery for such regulation. But the need for controlling monopolistic competition is not always admitted, and there is as yet little experience to guide those called on to exercise such control.

Third, under conditions of imperfect competition, unfair competitive practices develop. With simple competition, the producer has no alternative but to reduce his price in face of a shrinking market. On the other hand, with imperfect competition, the individual producer in industry may well find it more profitable to maintain his selling price even though this involves restriction of his output. There is, therefore, a strong disinclination to enter into any serious price competition because there is a strong sentiment against spoiling the market. But there is, at the same time, a strong urge to increase sales so as to make some use of idle plant, and reduce the heavy overhead costs typical of modern industry. This urge to increase sales without serious price reduction is often the explanation of the intensified competition which breeds unethical practices. It is the fierceness of the struggle, not any unusual depravity in the men concerned, which leads to the adoption of such practices. No one business man can afford to follow the dictates of his conscience and refuse to conform. If he did, he would be eliminated. The only way out is for all the members of a trade or industry to agree to ban certain unethical practices, or for the state to force them all to agree to such abandonment. Such an agreement, however, often will involve conflicting loyalties, loyalty to the particular group of producers and loyalty to society at large. If the agreement is mainly one not to compete, but rather to share the advantages of monopoly, other groups in society have nothing to gain. If, however, the agreement makes survival depend more on efficiency to serve the public and less on predatory strength, the public interest is served. Certainly, in any regulation of "unfair" competition the public interest must be paramount. The purpose of competition is to select those servants who can carry on social production most efficiently and any practice which hinders this purpose is undesirable and should be recognized as "unfair."

Many unfair practices take the form of price discrimination. This inevitably develops when there is considerable unused capacity. If a producer can attract new business at reduced prices while keeping all his former business at the old price, he can gain by the transaction as long as the new business pays anything more than the actual increase in costs which results from it; that is, beyond what the costs would have been if the added business had not been found. Thus occurs the paradox of profit-making sales "below cost," below, that is to say, the total cost which a conservative accounting system would allocate to those goods. Such discrimination is, of course, only possible where the market can be divided into distinct parts.

Where discrimination develops, serious problems arise, problems of justice to the individuals subject to discrimination and problems relating to the public interest. The serious nature of these problems was demonstrated during the period of cut-throat competition between American railroads in the two decades prior to the Interstate Commerce Commission Act of 1887. In the effort to secure traffic, secret rebates and special favours were so rampant that success in industry came to depend on ability to secure favours from the railroads. The railroads held in their hands the power to determine what firms should survive in any industry, what industry would expand, what region would prosper. Such power obviously could not be permitted to irresponsible private corporations as an incident of their own warfare. The Interstate Commerce Commission, therefore, was established in the United States in 1887 to regulate railway rates and especially to eliminate unreasonable discrimination.

Our evidence demonstrates that, in manufacturing and distribution, price discrimination has become very common. The reason is that the proportion of overhead costs is high and different markets are more or less distinct. Under these conditions, a manufacturer may sell the same commodity at two or more different prices. His branded product will be offered to his regular distributors at a price which covers all costs. But a sizeable proportion of his output, perhaps unbranded, or disguised under a special brand, may be marketed through other channels at a price less than sufficient to cover a fair share of overhead costs, in the belief, often mistaken, that these outlets constitute a market sufficiently separate not to affect the customary price for the product. Similarly, a department or chain store may sell certain goods at prices which do not include overhead, in the expectation that they may recover the loss on other goods.

Where discrimination of this sort exists, the competitive struggle does not necessarily result in the selection of the more efficient. Thus, an injury to the public accompanies the obvious injury to those who are not so lucky as to be the recipient of such favours. Some discrimination is admittedly desirable when sales in quantity involve real economies or when a buyer smooths the "load" by giving his orders to be made "off the peak," but there is also unreasonable discrimination which should be controlled.

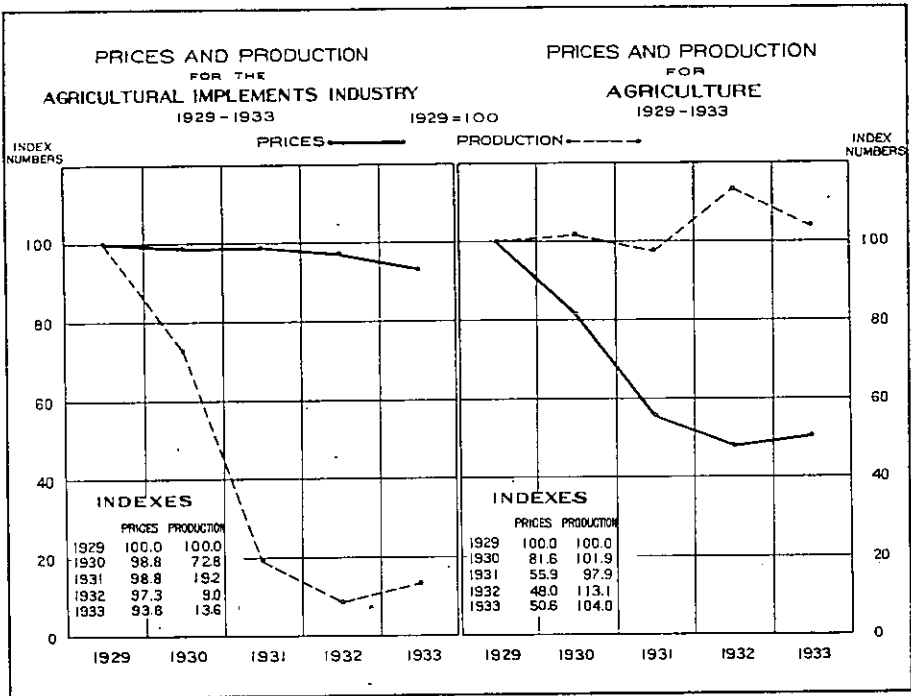
Fourth, under imperfect competition, the bargaining advantage of strong organized groups may lead to the exploitation of the weak and unorganized. Faced with losses as the revenue from sales decreases and the expenses of the competitive struggle increase, powerful corporations naturally seek to shift the burden of their losses on to others. This has brought into bold relief the inequality of economic strength when the giants of monopoly and imperfect competition meet in the market the pigmies of unorganized, small-scale, competitive enterprise. As long as simple competition predominated, one could expect that the price reached by buyers and sellers would be more or less fair, and, further, that it could not be altered without causing the cancellation of many contracts. In other words, bargaining was fair and equitable. But when the one mass buyer, or the few mass buyers, meet the many weak competing sellers, then there are possibilities of exploitation. In an effort to avoid such exploitation, workers have organized trade unions and governments have enacted minimum wage laws. But there are groups of self-employed primary and small secondary producers who remain subject to such exploitation.

It is not enough to say, as many contend, that these problems are the result of depression and will vanish with the depression. It may be true that when recovery is achieved, competition will become less predatory, discrimination less general, and exploitation less obvious. But it is equally true that, while unfair competition and unequal bargaining are intensified by depression, they will not be absent in prosperity, especially in a prosperity characterized by the increasing substitution of imperfect for free competition.

It is, furthermore, a tragic delusion that the solution for these economic problems can be left to automatic forces, because the conditions which once permitted the easy and equitable operation of such forces have ceased to exist. These conditions presupposed two things, first, an economic system composed of small independent units, no one of which counted in that system for more than an element in a statistical average; second, the free appearance and disappearance of these units and their free entry into and withdrawal from the market. With the growth of imperfect competition, however, these conditions no longer exist. Nor can we assume any longer that this monopolistic tendency is a merely incidental intrusion into a system predominantly and naturally competitive.

Fifth, all these circumstances unbalance modern economic society in the sense that not all of its parts adjust themselves at the same speed or in the same degree to any influence that makes itself felt at any one point. Necessary readjustments are therefore concentrated on the flexible sections of our economy, where their effect is intensified by the rigidity in other sections. When different parts of a glass tumbler expand or contract at different rates, the whole glass may be cracked. If the economic structure is in part flexible, and in part rigid, any strain may lead to complete collapse. The contrast between flexibility and rigidity is clearly illustrated in the following diagram:—

CHART 1



Source: Dominion Bureau of Statistics.

From 1929 to 1933, farm prices fell 50 per cent, but the production of farm crops actually increased 4 per cent. This is "simple competition" with flexible prices. On the other hand, the prices of agricultural machinery and implements were allowed to fall less than 7 per cent, but their production in number of physical units decreased as much as 91 per cent. This is "imperfect competition," or monopoly, with rigid prices.

In Canada, this contrast between flexibility (all those circumstances which facilitate readjustment) and rigidity (all those frictions which hamper a smooth readjustment to changed conditions) is particularly important. Special attention should therefore be paid to several distinctive features of the economic organization of Canada.

2. SPECIAL FEATURES OF CANADIAN ECONOMIC ORGANIZATION

1. DEPENDENCE ON EXPORTS

The first of these features, one which prosperity had tended to obscure, is the influence on our national prosperity of the prices of a relatively small number of raw materials (such as wheat, pulp and paper, etc.), produced primarily for export, and whose price is determined in a world market. The profitable operation of our transportation system, and, indeed, of much of our industrial structure, depends largely on the income derived from these exports. A decline in the price of western wheat often means the passing of an eastern dividend, or the increasing of a railway deficit. Indeed, a fall in the level of export prices makes necessary a wholesale readjustment of the economic structure of the country, involving cessation of construction, decline of industrial production, unemployment and general stagnation. Such a fall has taken place during the last four years. During the world depression, the total value of our exports shrank from \$1,364,000,000 in 1929 to \$474,000,000 in 1932. The national income in 1929 was probably in the neighbourhood of five billion dollars; it is therefore obvious that the shrinkage of the incomes of exporters by some \$900,000,000—even ignoring the change in the value of money—has been a disturbing factor of great importance. The disturbance, further, is cumulative, for reduced purchases involve unemployment and consequently further reduction of purchases. The average price of wheat, our most important export commodity, had fallen from \$1.51 per bushel in 1926 to \$0.60 in 1932, while the total value of the crop had fallen from \$442,221,000 in 1926 to \$129,105,000 in 1932. The wheat farmers in Western Canada, therefore, found themselves with drastically reduced incomes.

If domestic prices remained unchanged, or were kept up by governmental action, these wheat farmers would have to buy less; purchases of equipment would be reduced to a minimum in face of the unprofitable character of operations, purchases of personal goods would have to be reduced, purchases on credit would no longer be possible. The obvious result would be reduced turnover for retailers and a reduction in sales by manufacturers. To some extent this could be met immediately by a reduction of the sales forces in shops and of workers in factories; but overhead costs run on and unemployed sales clerks and factory workers buy even less than wheat farmers. Some losses might be avoided by lowering prices and trying to maintain the volume of sales. But losses there must be, for many items of cost cannot easily or quickly be adjusted. Further, if there are losses in considerable sections of eastern industry, as well as in western agriculture, the incentive to new construction disappears. The consequently reduced purchases of construction materials and of personal goods by the unemployed construction workers is one more phase of the repercussions of the price of wheat and other export products.

The farmer who produces for domestic consumption (and most of our agricultural production is consumed at home) is, however, in a somewhat different position. It is true that he is affected by the price of exported agricultural commodities, to the extent that the unemployed worker, or the worker whose wages have been reduced, cannot buy dairy, meat and other domestic agricultural products except at greatly reduced prices. It is true also that, if the domestic production has an export surplus, even a small one, that surplus, in a competitive market and in the absence of a domestic monopoly with dumping abroad, will determine in a general way the domestic price of the product.

But, even if the general level of such prices is determined by the export market, that does not exclude the possibility of limited control by domestic action. Often the agricultural producer (who, on the supply side, most completely illustrates the meaning of simple competition) must market his product through a few powerful corporations which, on the demand side, compete with one another, if at all, only imperfectly. The price, therefore, may fluctuate within the "zone of indeterminateness." The large corporations have the power to force price down to the lower limit of this zone. Social control by governmental authority or effective co-operation between the producers may force it to the upper limit.

It is not denied that the fall in export prices of agricultural products in recent years requires an adjustment downwards on the part of domestic prices, both industrial and agricultural. But, at the same time, it is clear that this necessity has been exploited, and the dislocations it was bound to cause have been intensified by the practices and policies of certain large corporations which, themselves sheltered in some degree from the economic hurricane, have taken advantage of the exposed and defenceless position of others.

There are two alternative routes to the necessary adjustment between industrial and agricultural prices. The first is by a rise in the latter. This, however, is not easily achieved. So far as domestically consumed goods are concerned, something can be done by the producers, with government sanction and support, organizing to prevent exploitation. A deliberate increase in the income of exporters is, however, if we assume stable exchange rates, limited by the operation of world forces, over which the Canadian Government can exercise little control.

The alternative readjustment is a domestic problem of permitting or stimulating a fall in the price of goods produced in sheltered industries. This fall has, indeed, been taking place during the last few years, but not evenly, or always equitably. Agricultural exporters, open to all the strains and stresses of world conditions, are defenceless in the face of a drastic decline in prices and, hence, in income, but the more powerful domestic manufacturers and traders have in many cases been able to offer an effective resistance to that decline.

An economic collapse may, like the rain, fall both on the just and the unjust, yet our evidence proves that there are some groups in our economic system who are able to escape the full force of the crash. Often the way of escape is at the expense of other groups less powerful and, therefore, less fortunate.

This struggle of particular groups to maintain their incomes has often resulted in the exaggeration of existing and the development of new unfair practices. In other words, the recession of industry, made inevitable by the falling back of agriculture, has shown signs of developing into a disorderly rout with all the chaos, confusion and evil practices that inevitably follow such a debacle.

2. INFLEXIBILITY IN THE CANADIAN ECONOMY.

The relative resistance of industry to this necessary readjustment has thrown into clear light the second distinctive feature of our Canadian economic structure—increasing inflexibility in many of its parts. As previously illustrated, the prices of agricultural commodities, generally produced under conditions of simple competition, are very flexible; the prices of most manufactured goods, often produced under conditions of imperfect competition, are relatively rigid. This rigidity, which characterizes the price policies of large-scale manufacturers everywhere, is accentuated in Canada by several special factors in our economic structure.

One of these is the distribution of our natural resources. Often a richly endowed area may be technically capable of only one use. For example, in some wheat-producing areas, it is practically impossible to grow anything else. Certain other areas have only mineral and pulp resources and industrial develop-

ment must proceed along these lines or not at all. In such regions, there is no alternative use and no smooth readjustment to changed conditions. Further, the Canadian climate makes necessary in some lines, e.g. canals, a great capital equipment capable of carrying a peak load within a short season but completely idle for a considerable part of the year. The size of the country and the wide distribution of its population, in some cases separated by hundreds of miles of uninhabited territory, make necessary an extensive railway system. Despite technological efficiency, such a system must operate under conditions which tend to make rates high and rigid. These cases are all illustrative of physical and geographic factors which contribute to the inflexibility of the Canadian economy.

Besides these factors, there are many others not quite so peculiar to Canada as the above, but to us quite as important. Corporate and private debts, as contractual obligations, are inflexible and tend to make interest charges, except where bankruptcy intervenes, rigid. Certain contractual expenses of government and the costs of indispensable governmental functions, can be adjusted only with difficulty and make tax rates rigid. The growing burden of overhead charges, entailed by large-scale production, makes many costs rigid. Other causes of rigidity—immobility of labour and capital, tariffs, corporate policy, and the difficulties of large-scale management—can only be mentioned.

It is clear, therefore, that the Canadian economy, with a variable income from exports and certain unusually rigid costs, with extreme flexibility in some parts of its structure and great rigidity elsewhere, is in an unhappy position when rapid economic adjustments must be made. The real problem of a depression in Canada—or indeed anywhere—is how adjustment is to be made to the reduction in income, and how all groups are to share equitably in this necessary readjustment. To the extent that these economic rigidities allow some groups to resist this readjustment, the burden of it is placed unfairly on the other and unsheltered groups.

One feature of our economic rigidity should perhaps be given special mention here because it would appear to be undoubtedly a root cause of many of the evils uncovered. We refer to the growth of the corporation which has not only permitted the development of the large-scale organization of business, but largely determined the lines along which that development should proceed. In agriculture, thousands of producers must, as we have seen, sell their produce for whatever price they can get—that is, in the absence of "pooling" or other control, the price moves low enough to clear the market or move the crop. No one producer is so large that the withholding of his supply from the market will appreciably alter the price. In such a market, prices change much more rapidly than the volume of production. In large-scale corporate manufacturing, however, owing to conventional ideas of cost and prices, the tendency is for prices to change more slowly, and the volume of production more rapidly. The producer whose supply is usually an appreciable part of the total may prefer to produce less, and maintain the price rather than spoil the market by giving consumers a taste of lower prices and new ideas as to what the price should be.

The net result of this combination of flexibility and rigidity is that unregulated competition no longer guarantees efficiency and maximum production at fair prices. Competition degenerates sometimes into economic warfare where victory may go to the strong, rather than to the efficient. Forces of economic readjustment are often not self-correcting, but cumulative in their efforts. Orderly readjustments develop into disorderly crises.

It is this situation that explains the undoubted abuses and inequities that have been evidenced before us. It is on the basis of this analysis that we shall recommend proposals for deliberate social control of certain business activities and practices.

CHAPTER III

CONCENTRATION AND THE CORPORATE SYSTEM OF BUSINESS

I. INTRODUCTION

The evidence before us has shown conclusively, and at times graphically, the part played by the corporate form of business in Canada's economic life.

It has shown that a few great corporations are predominant in the industries that have been investigated; also that this power, all the more dangerous because it is impersonal, can be wielded in such a way that competition within the industry is blocked, the welfare of the producer disregarded, and the interests of the investor ignored.

As the hearings into various forms of economic activity were carried on, it has been difficult not to be impressed by the fact that the corporate form of business, not only often gives freedom from legal liability, but also facilitates the evasion of moral responsibility for inequitable and uneconomic practices. Therefore, it is essential that any investigation into business practices should concern itself with the growth and significance to the national economy of a form of business activity which has harboured behind its imposing facade so much that needs cleansing.

This Chapter therefore attempts:

(1) To trace the development of the corporation, to examine the relationship of ownership to control resulting from this development, and finally to see if the growth of the large corporation is proceeding faster than business generally, thereby leading to that concentration of economic power which is largely responsible for the disappearance of free competition and which has an important bearing on the growth of unfair trading practices.

(2) To analyse consolidations and refinancing operations in Canada. To analyse the extent to which these operations have been dictated by economically unsound or unethical considerations. This leads to an examination of corporate practices and abuses with illustrations taken from investigations made by us.

(3) To suggest remedial action for the above abuses.

2. THE CORPORATION IN CANADIAN BUSINESS

1. THE NATURE OF THE CORPORATION.

A corporation may be regarded as a group of individuals empowered by law to act as a single person and endowed by law with a capacity for succession. It can sue and be sued in the corporate name, can own property, and incur obligations. Its members have limited liability. Its capital is divided into freely transferable shares. The personnel of a corporation may change from time to time, but the corporation itself can continue indefinitely. As Sir Edward Coke put it centuries ago: "A corporation is invisible, immortal, has no soul, neither is it subject to the imbecilities or death of the natural body."

These are the most important characteristics given to the corporation by law. Their effect is that in law the corporation has the status of a person, and thus possesses a legal existence and recognition aside from that of its owners—the shareholders.

Although the corporation has conferred on it by statute the rights of limited liabilities of shareholders, this privilege was always available to owners by contract; in other words, any contract of a concern could validly limit the

shareholders' financial responsibility. But even so, it is a considerable privilege to have this position generalized in statute law.

2. THE ORIGIN AND GROWTH OF THE CORPORATION IN CANADA.

The limited company evolving from earlier and more primitive times, is directly descended from the earliest type of joint stock company—the chartered company of the 17th century, in England. In its modern form the corporation is really the child of the industrial revolution which made the development of a new form of business organization a necessity. As early as 1834 an Act of the British Parliament gave the common law company, by letters patent, the privilege of suing and being sued as an entity, and from this beginning, the present day limited company has emerged by a succession of legislative steps.

As the common law of England was the law of Canada, the early situation in Canada—except where modified by statute—was similar to that in England. The first general companies legislation in the United Province of Canada was passed in 1849, and applied to joint stock companies organized for the purpose of constructing roads and bridges. This was the beginning of a number of general acts for the incorporation of companies with "local" objects. In the course of the century, incorporation also became available for industrial undertakings.

In 1864 a general Act was passed which first provided for incorporation by letters patent issued under seal of the Governor in Council. With the federation of the provinces, the constitutional division of powers gave both the provinces and the new Dominion Government, authority to incorporate companies. The Act of 1864 was re-enacted as a law of the Dominion of Canada. It has been revised on a number of subsequent occasions, most recently in 1934.

It would seem that in its earlier stages, the company law of Canada was influenced mainly by similar legislation in the United States, that later it became more indigenous, and still later has tended to follow English models.

Despite the early cases of chartered companies the corporate form of business enterprise did not become a popular one in this country for many years. The explanation of this is doubtless to be found, in part, in the fact that the business enterprises of earlier days could in the main, obtain sufficient capital with the existing forms of individual ownership and partnerships. With the development of large-scale manufacturing and the consequent changes in the technique of production, which in turn necessitated larger aggregations of capital, the collective form of organization became of more significance as a form of business enterprise.

But even with this change and a substantial growth in numbers, the corporation did not become the exceedingly popular form of organization, which it now is, until almost the end of the 19th century. In fact, by far its greatest expansion has occurred in the 20th century.

3. OWNERSHIP AND CONTROL OF CORPORATIONS.

The corporation has allowed the development of multiple ownership—that is, an indefinite number of people may own the corporation (and thus its assets) through the minute subdivision of ownership shares. This development has brought about a distinction between ownership and control.

Under simple conditions, ownership implies the control of the thing owned. The development of the corporation, however, with its multiple shareholders, has made it possible for an individual to own without controlling, and to control without owning.

At the present time, under the corporate device, ownership means a legal title to assets which cannot be controlled by the individual, though he may, of course, exercise such control over the property by combining with other share-

holders to form a majority of the voting stock. But, if the shareholder does not join the majority group, his title to ownership merely gives him the right to share *pro rata* in the profits and losses of the enterprise. The actual distribution of the proceeds depends upon the decision of the directors who legally control the business. Thus, more and more the real position of the holder of ownership shares—common stock—becomes that of a security holder who is almost divorced from the control of the property nominally owned, and whose main interest is in the allocation of earnings made to him by those in control of the business.

This division of functions which is characteristic of the modern corporation has had far-reaching consequences, as the evidence before us has shown. It means that control over the instruments and physical assets of production and distribution is passing from the property owner to centralized managerial groups. Those who direct the modern corporation are, more often than not, the owners of only a negligible portion of the company's stock. It follows that the returns from profitable management of the corporation affect them directly only to a relatively minor degree; on the other hand, the stockholder to whom the profits accrue has less and less to do with the direction of the corporation. The bearing of this separation of ownership from control on the whole concept of property and on the place of the profit motive in economic life is of very great significance.

It is this separation which has made the emergence of the typical modern corporation possible. In order to finance these enormous enterprises, it has been found necessary to draw the supply of capital from the investing public. The consequent appearance of the large corporation using the open market for securities has changed and is changing the face of Canadian economic life.

In view of the importance of this question, we examined the existing situation with respect to the methods of control in Canadian corporations with the object of giving a detailed picture of the relations between ownership and control. We also attempted to estimate the growth of the large corporation in Canada in recent years and its relative importance in the whole structure of Canadian industry.

4. METHODS OF CONTROL IN CANADIAN CORPORATIONS.

Control of a corporation may be obtained in various ways. The most obvious is by *majority control*, where one or a few shareholders own more than half the stock and agree to control the business. Ownership, however, is not often so concentrated as to make majority control possible. With the wide distribution of corporation shares—personally and geographically—it is impossible for most of the owners of shares personally to attend shareholders' meetings. The proxy system has, therefore, grown up, whereby an owner who is unable to be present at a shareholders' meeting may designate some other person to be present, and at his discretion vote the shares. This legal device, combined with diffusion of ownership, has led to *minority control* of corporations.

Under minority control, one or more individuals who have a substantial number of shares (but much less than half) may send proxy forms to the other shareholders (none of whom are large holders), who fill them out and return them, thus giving the minority group control of the shareholders' meetings. As a result of this technique, a minority group may control a concern for years, until some other group enters the contest for control.

Minority control usually comes through a small but active group, within or without the management. When this group holds only a few shares and is associated actively with the management of the company, management control develops. As the proxy machine is usually under the control of the management (and is usually paid for by the corporation itself), it is relatively easy for the management to obtain sufficient proxies to control the business. Such development is most probable in a large concern where no one shareholder owns an appreciable proportion of the shares.

A general idea of the relative importance of these different methods of control in the Canadian corporate structure was gained by the analysis of the voting stock of the 145 largest Canadian companies, excluding financial institutions.

When the list of the largest Canadian corporations had been completed, a questionnaire was sent to them, and, from the returns so obtained, the information presented in this analysis was compiled. The questionnaire asked for the names and holdings of all shareholders who owned more than 1 per cent of any class of stock issued, and for the *total number* of shareholders with less than 1 per cent. The information was to be taken from the share register as of June 1, 1934, or as of an approximate date. From the given information, the percentage of the total issue held by each shareholder (holding more than 1 per cent and hereafter referred to as the large shareholder) was computed. Where more than one class of stock had general voting rights, the aggregate of the two (or more) stocks was taken as the basis for the calculation. As the purpose of the information was to analyse the ownership and control of corporate business, through the ownership and control of voting stock, the analysis was confined to stock with general voting rights; this involved certain arbitrary decisions where "hybrid" stock was concerned. Thus shares with non-voting or with conditional voting rights were disregarded.

The information obtained as above was analysed to discover the relationship of ownership and control. In classifying the nature of the control of the companies, five classes were selected. We classified as *privately owned* those companies with 80 per cent or more of the voting stock owned by one person or group; as *majority controlled* those with 50 per cent to 79.99 per cent; as *minority controlled* those with 20 per cent to 49.99 per cent. Companies with less than 6 per cent of voting stock held by one group were classified as *management controlled*, on the assumption that with such a wide division of ownership the entrepreneurial group could perpetuate itself in control; those with ownership ranging from 6 per cent to 19.99 per cent were regarded as *joint-minority-management controlled*.

The table below shows the manner in which the 145 largest Canadian companies are distributed over these classes.

METHODS OF CONTROL IN 145 LARGEST CANADIAN CORPORATIONS

	Number of Companies	Percentage of total number of companies	Assets of Companies (in thousands of dollars)	Percentage of total assets of companies
Management control (5.99 per cent and under).....	26	17.9	2,290,058	42.8
Joint minority-management control (6 per cent to 19.99 per cent).....	41	28.3	987,609	18.5
Minority control (20 per cent to 49.99 per cent).....	29	20.0	837,157	15.6
Majority control (50 per cent to 79.99 per cent).....	28	19.3	756,909	14.2
Private control (80 per cent to 100 per cent).....	21	14.5	476,941	8.9
Total.....	145	100	5,348,674	100

It will be seen that over 66 per cent of the companies were controlled by minorities owning less than 50 per cent of the outstanding capital. What is even more significant is the fact that of these nearly three-quarters fall into the management or joint-minority-management classes where the management owns less than 20 per cent of the total capital.

Of the 145 companies analysed, 40 were subsidiary companies and fell into either the majority or privately owned group. If the subsidiary companies are

excluded the picture becomes even more striking, for then 83·8 per cent of the remaining 105 companies are controlled by groups owning less than 50 per cent of the capital, 63·8 per cent of them and 82·4 per cent of their total assets are controlled by groups owning less than 20 per cent.¹

In classifying the schedules to arrive at the above results, numerous difficulties were encountered. The large number of brokers which appeared as the registered owner of shares in some companies was surprising. It was impossible to go behind these registered owners, and it was assumed that they represented roughly the actual division of shares among individuals; the schedules were thus classified on a strict mathematical basis. This condition doubtless obscures the real situation at times, and it is possible that, had complete data been available, the companies would be classified differently. But there is certainly no method of eliminating this difficulty. Financial institutions such as trust companies also appeared in the lists with great regularity. In some cases, the holdings were specified "in trust"; in others no such specification occurred. It is difficult to say to what extent this practice also hid the real situation. Another problem was that of detecting those individuals who, although reported as independent and separate holders, were in fact acting together. A few obvious cases could be detected, and in these cases the separate holders were regarded as forming one group, but there were doubtless many more which could not be distinguished with the information available. It would require a detailed investigation of the personal relationship in every case to settle the point.

As a result of these factors, it is quite possible that some companies are improperly classified and that companies whose ownership appeared to be minutely divided, were in fact controlled by larger combined groups. On the other hand, the lumping of what may be many small holders under one broker's name (or that of a financial institution) offsets this tendency to some extent. Thus, while there are bound to be errors in such a classification, it is improbable that on balance the situation is greatly misrepresented.

The significance of the results above is further emphasized by the fact that very few directors owned more than one per cent of the voting stock of the companies they directed. In 91 of the 145 companies no directors owned more than one per cent of the voting stock. Of the 101 directors of the other 54 companies (owning more than one per cent of such stock), 60 of them held between 1 and 3 per cent; 25 held between 3 and 10 per cent; 7 between 10 and 20 per cent; 5 between 20 and 30 per cent and 4 above 30 per cent.⁽²⁾

The results of those studies are, it is true, based on a sample, but this sample includes the largest non-financial businesses in Canada; it represents the great bulk of Canadian corporate assets and possibly a majority of the business assets of the country. It may, therefore, be taken as indicative of the type of change and concentration which the corporate form of business has facilitated, if not encouraged, in our present economic system.

The following table is interesting in that it gives for comparative purposes comparable information for the United States.

(1) See Annex III, Tables 1, 2, 3, 4 and 5, for a further analysis of this material.

(2) See Annex III, Table 6, for a frequency distribution of directors' holdings.

METHODS OF CONTROL IN 200 LARGEST AMERICAN COMPANIES¹

	Number of companies	Percentage of total number of companies	Assets of Corporations (in millions of dollars)	Percentage of total assets of companies
Legal device.....	41	21	17,565	22
Management control.....	88½	44	47,108	58
Minority control.....	46½	23	11,223	14
Majority control.....	10	5	1,542	2
Private control.....	12	6	3,366	4
In Receivership.....	2	1	269	—
Total.....	200	100	81,073	100

¹ A. A. Berle and G. C. Means, *The Modern Corporation and Private Property*, (New York: Macmillan, 1932), pp. 115-16.

It will be observed that the table shows a situation somewhat similar to that in Canada, although direct comparison must be made carefully because of the different methods used in making the tables. In the Canadian case, receiverships were ignored and the company classified on the basis of the original voting rights and the distribution of the stock reported in the schedule. Legal devices include holding companies; non-voting stock, voting and management trusts, all of which were ignored in the Canadian analysis, and a "subsidiary" analysis substituted: for some purposes the legal device is very important but for the immediate purpose it was regarded as best to analyse the Canadian companies on the basis given here. In the American study there were only a few joint-minority-management cases, and these were divided equally between the two classes, but this practice was not adopted in the Canadian case. It may be added that otherwise the classifications are the same in the two tables. The important thing is that a generally similar condition is shown in both countries.

5. LEGAL DEVICES AS METHODS OF CONTROL.

There are a number of methods of controlling companies by special legal devices. Of these perhaps the most important is the holding company, which is becoming increasingly common.

a. *The Holding Company.*

This is a company which owns the controlling interest in the voting securities of other companies. A pure holding company is one which does nothing but this. A mixed holding company is one which is also an operating company. Though it cannot be analysed here in detail, the holding company is worth close study as it is becoming increasingly important in our corporate structure of business.

The table below analyses the 276 Canadian companies which in 1932 had gross assets over \$1,000,000, in such a way as to give some idea of the extent of the holding company in Canada.

CLASSIFICATION OF ALL INDUSTRIAL COMPANIES WITH GROSS ASSETS OVER \$1,000,000, BY FORM OF ORGANIZATION AND AMOUNT OF GROSS ASSETS CONTROLLED¹

	Number	Percentage of Total Number	Gross Assets Controlled (in thousands of dollars)	Percentage of Gross Assets
Pure holding companies.....	29	10.5	\$ 698,468	19.5
Mixed, but primarily holding.....	14	5.1	582,622	16.2
Mixed, but primarily operating.....	112	40.5	1,682,463	46.9
Pure operating companies.....	121	43.9	623,310	17.4
Total.....	276	100.0	3,586,863	100.0

(1) D. H. Munger, *The Holding Company in Canada* (Kingston: Queen's University, 1934).

The figures in this table give some idea of the extent to which this method of control has developed. The reasons for this development are to be found in the advantages gained both from the centralized management and the unified financial structure which results from such a combination of two or more companies.

The holding company may also be used to recapitalize the financial structure of one or more enterprises through a substitution of its securities for the securities of subsidiary companies. Canadian experience has shown that this last is almost invariably a form of stock-watering for the purpose is that of capital inflation, which exploits the curious public belief that the larger the nominal issue of securities, the sounder the issue must be.

The holding company may also be used to pyramid the voting control to give its organizers, with a minimum amount of investment, control over the subsidiaries. Such pyramiding is substantially a method of control. It need not involve more than one operating company, and provides a very simple way by which such companies can be controlled by a relatively small investment of capital. Suppose, for instance, a company with the following set-up:

Bonds	\$ 50,000,000
Non-Voting Preferred Stock	50,000,000
Voting Common Stock	50,000,000
	\$150,000,000

Now, if a group wishes to get full legal control of this company, it will have to purchase a little over half the common stock, that is, \$25,000,000. After this has been done, a holding company is formed with the following set-up:

Bonds	\$10,000,000
Non-Voting Preferred Stock	6,000,000
Voting Common Stock	9,000,000
	\$25,000,000

The common stock of the operating company is turned over to this holding company for its securities, which are then all sold, with the exception of a little more than half the common stock, say \$5,000,000. Thus an investment of this amount is in control of the assets of the \$150,000,000 business. Each time this process is repeated, the equity is further diluted, until a ridiculously small investment may be controlling a tremendous volume of assets.

An example of this practice, which has come before us is that of G. Tamblyn Limited. At its formation in 1928 this company had the following capitalization:

Non-Voting Preferred Stock	\$700,000.00
28,000 Voting No-Par Common Shares (stated value).....	20,000.00

The report of our auditors revealed that 14,100 of the common shares were held by Drug Holding Company. The Drug Holding Company is purely a holding company, whose assets consist of shares of common stock of Tamblyn Limited. There are 200,000 issued shares of the Drug Holding Company, and of these 122,978 are held in the name of the executors of the late Gordon Tamblyn. Mr. Tamblyn's executors, as owners of a majority of the stock of Drug Holding Company, which in turn owns a bare majority of the common shares of G. Tamblyn Limited, are in effective control of the latter company.

An even more graphic example of the extent to which this can be used is provided in the United States in the Van Sweringen system of railroads and its ramifications, where \$20,000,000 controls enterprises with assets of over \$2,000,000,000.

b. *Non-Voting Stock.*

Another legal device of control is that of non-voting stock. For example, a company may make large issues of non-voting first and second preferred and common stocks; then issuing a relatively small amount of voting common. This permits a small amount of common stock—often given for an inadequate property consideration or as a bonus with other securities—to control a large aggregation of capital. A small but excellent example of this technique is that of Honey Dew Company, Limited. The capitalization of this company consisted of \$1,500,000 of non-voting preferred stock and only \$108,500 of voting common stock, in which control, however, rested.

The voting rights of the 145 largest companies examined showed that the non-voting stock method of control was not general in these companies.¹ This may be due to the fact that the majority of them are old and well established concerns. It is reasonable to believe that the legal device of non-voting stock is more prevalent in newer companies. Support is given to this view by the fact that between 1926 and 1930, inclusive, some \$220,000,000 of preferred, Class "A" and common shares were sold to the public, and of this amount only some 16 per cent carried unrestricted voting rights.

c. *The Voting Trust.*

Another form of legal control is the voting trust, where the owners assign their voting rights to a small group of trustees. It is of less interest and need not be developed because of its small quantitative significance. There were not more than three or four such cases in the group of 145 Canadian companies investigated. The trust is such an obvious method of control, compared to other more subtle forms, that it has lost in popularity. The technique appears to be used in reorganizations, etc., and the Canadian cases found were nearly all of this character.

6. THE GROWTH OF LARGE CORPORATIONS IN COMPARISON WITH THE GENERAL GROWTH OF BUSINESS.

There has been a steady and relative increase in the growth of the corporate form of business in practically all countries during the present century. The number of companies, as well as the business done, has been increasing. Canada has experienced its share in this development and it therefore becomes important to note the growth of concentration, to measure the rate of growth of the large corporation in relation to business in general, and to determine if there is a tendency for the large concerns to do an increasingly larger proportion of the business. It is assumed in this analysis that the volume of assets is a direct measure of the volume of business.

It should be made clear at once that the available statistical data on Canadian corporations is discouragingly scarce. Financial publications, such as *Moody's*, *Houston's* and the *Financial Post*, have the names of approximately 1,700 non-financial companies; of these there are financial statements for something less than 400.

It is estimated that there are some 8,000 retail organizations in Canada operating under the corporate form. Outside of the field of merchandising, however, the census and Dominion Bureau of Statistics figures are not concerned with the form of organization. The Dominion Income Tax Department, on the other hand, obtains returns from over 28,000 corporations. These returns, however, are unfortunately not available for statistical analysis as they are in the United States, even when the analysis in no way discloses individual information, but only deals with aggregates. Information of this kind should, we think, be available for the purposes of statistical and economic research, and we urge that steps be taken towards this end.

(1) See Annex III, Table 7, for details.

For purposes of analysis some definition of a large corporation had to be selected. Accordingly it was decided to study, for each year during the period 1923 to 1932, a group consisting of approximately the 100 largest Canadian companies. In 1923, this group included all companies with gross assets (less depreciation) of over \$5,000,000; by 1931, all companies with gross assets (less depreciation), of \$10,000,000, or over. This itself shows the relative growth of the large corporation during this ten-year period. In 1932, the figure had decreased to \$9,000,000. The aggregate assets were corrected for depreciation—that is, the amount of depreciation allowance was deducted where it was necessary to do so in order to get a net figure—but no attempt was made to correct the figures otherwise, or to go back of the balance sheet valuations. The companies were all non-financial in order to avoid double counting of assets, and holding companies were eliminated unless they presented a consolidated statement.

Statistics showing merely the growth of these large corporations, would have meant little unless such growth could be related to some other phenomena. Growth itself is no proof of concentration. Owing to the absence of data, as indicated above, the assets of this group of Canadian companies could not be related to all corporate assets; or indeed to all business wealth. So other bases of comparison had to be selected for the present analysis.

Three such bases were chosen, and the assets of this group were then computed:—

- a. as a percentage of the assets of all corporations for which balance sheets could be obtained.
- b. as a percentage of the total invested capital as reported by the Bureau of Statistics.
- c. as a percentage of the national wealth.

The result of all three computations was to show the relatively faster growth of the largest companies over a ten-year period, 1923-32.

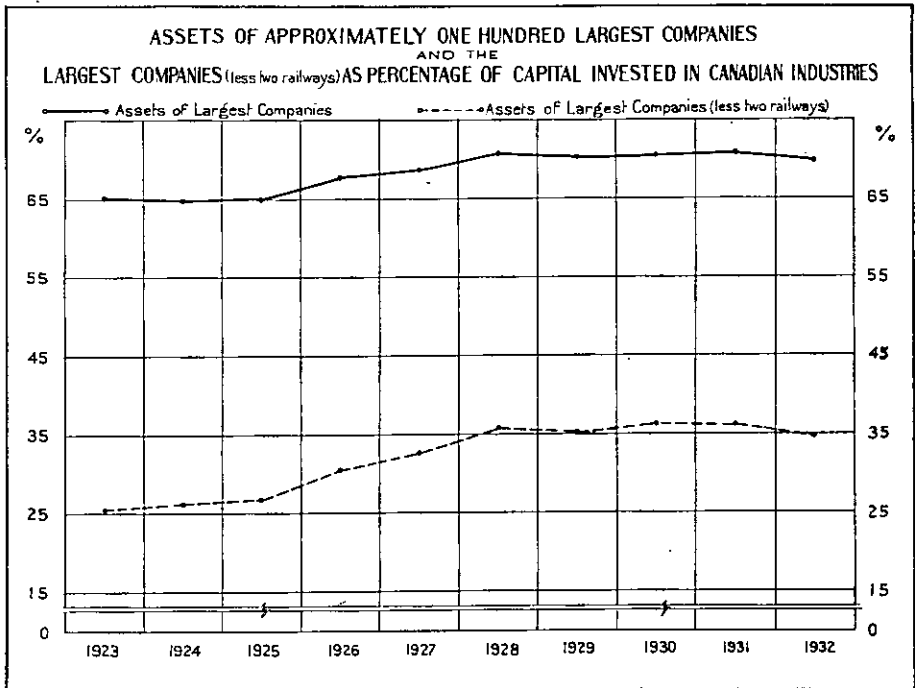
The first comparison shows that the group of the largest companies (excluding railways) constituted 53 per cent of the total *number* publishing balance sheets in 1923, but it had dropped to 28 per cent in 1932. The assets, however, of the group as compared with the assets of all companies had dropped only from 89 per cent in 1923 to 82 per cent in 1932. If it is fair to assume that the number of companies publishing balance sheets and the total value of their assets is an indication of the general growth of corporate business activity, then, since our selected group represented a decreasing proportion of the total number, but approximately the same proportion of the total assets, this fact would indicate that large corporations are growing more rapidly than the smaller companies.

If this were our only evidence we should hesitate to accept it as conclusive, but it is confirmed by the results of our other two comparisons.

The second of these shows concentration as measured by the ratio of total assets of the selected group to total invested capital. In 1923 the selected companies controlled approximately 25½ per cent of the total capital of all companies as reported by the Bureau of Statistics. In 1932 the figure had grown to 35 per cent.

The following chart shows the situation:—

CHART II

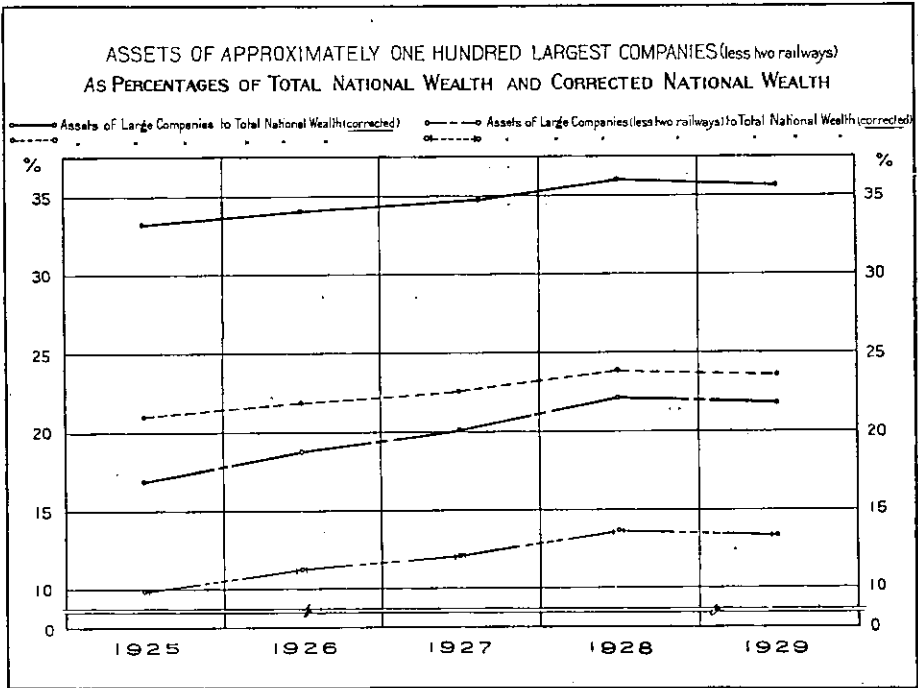


It may be acknowledged that this invested capital figure is not at all comparable with the gross assets of corporations and it may appear, therefore, that two unlike things are being related. If the absolute percentage figures were regarded as significant, this would be a fatal criticism. But all that is desired here is to see the relative rate of growth of the large companies as compared to business generally. It is the trend that is significant, and this can be determined as the invested capital figures are comparable from year to year all through the period; the Bureau of Statistics has submitted the series as a homogeneous one for the period. Accordingly, the result has validity for the immediate purpose. It indicates also that since 1923 the largest companies have been increasing their percentage of the total business. The last year showed a diminution throughout because of the decrease in the assets of the largest companies—business losses accounting for this change. The trend, however, is clear. It is towards concentration.

We now come to the third basis of comparison, as a percentage of national wealth. Unfortunately, the figures of national wealth are not available for the whole period, so that only the intermediate period 1925 to 1929 was covered. Assets of the largest companies, less two railways, were 10 per cent of the national wealth in 1925, and 13½ per cent in 1929. When the national wealth figure had been corrected for certain items beyond the scope of the corporate form e.g., agricultural wealth, canals, etc., the assets of the largest companies, less the two railways, were 17 per cent of the corrected national wealth in 1925 and 22 per cent in 1929. The significant thing is that for the third time a group of large companies had unmistakably increased its relative importance.

Again the following chart will show the situation.

CHART III



7. NATURE AND EXTENT OF THE GROWTH OF 63 LARGE CANADIAN CORPORATIONS WHICH HAD A CONTINUOUS EXISTENCE, 1923-1933.

a. Nature of Growth.

The fact that the percentage of total business assets owned by large corporations is increasing raises the question of how this increase is taking place. There are three main methods.

- (1) New security issues.
- (2) Re-investment of earnings.
- (3) Consolidations, mergers, etc.

In order to decide which of these methods was most important, a study was made of the net change and method of change between 1923 and 1933, in the assets of the largest corporation which had a continuous life for the entire period. The other companies of our group were either not in existence or not reported for the whole 10 years.

It is quite evident from the table below that the issue of new securities—the obtaining of new capital—was by far the most important method of growth. Some \$2,100,000,000 of new securities were issued; out of which \$404,800,000 were returned for outstanding securities. This left a net addition of \$1,700,000,000 of new capital from security issues; clearly quite the most important source of growth.

SUMMARY OF CHANGES IN BALANCE SHEETS OF 63 COMPANIES BETWEEN 1923-1933

(in thousands of dollars)

Item	Net Change	
	(1)	(2)
Net change in Assets.....	+1,389,449	+ 737,533
New Securities.....	+2,106,882	+ 646,094
Merger.....	+ 200,218	+ 200,218
Creation of Reserves.....	+ 58,325	+ 61,333
Change in Surplus.....	- 425,887	+ 94,938
Re-Appraisal of Assets.....	- 123,372	- 115,117
Retirement of Securities.....	- 404,844	- 162,960
Current Liabilities.....	- 37,584	- 2,568
Miscellaneous.....	+ 15,593	+ 15,595
Income available for general charges.....	1,754,117	1,038,949
Income available for dividends.....	532,111	850,070
Dividends paid.....	941,924	673,735
Balance.....	409,813	+ 146,335

Column (1) contains the figures for 63 companies, including transportation, while Column (2) contains 58 companies—that is, the transportation companies are omitted.

It will be noted that the omission of railways made considerable difference in the net results. New securities were reduced in importance and mergers had relatively a greater weight.

Another interesting disclosure by the table above is that, for the group of 63 companies, dividend payments exceeded earnings by over \$400,000,000. Of course, this would not be true for all the individual companies concerned; nor, indeed, was it true for the total, if railways were again omitted.

b. Rate of Growth.

As the table above shows the method, that below shows the rate of growth in this group of continuous companies:—

PERCENTAGE CHANGES IN NET ASSETS OF 63 COMPANIES

	All Companies	All Companies with the exception of those in the transportation group
	Percentage	Percentage
1924.....	+ 2.4	+ 1.8
1925.....	+ 2.1	+ 4.0
1926.....	+ 3.1	+ 6.7
1927.....	+ 6.5	+ 15.2
1928.....	+ 5.5	+ 9.8
1929.....	+ 7.1	+ 7.5
1930.....	+ 2.7	+ 5.6
1931.....	+ 0.3	- 0.3
1932.....	- 2.3	- 4.8
1933.....	0.0	- 1.4
Total change per cent.....	+ 30.5	+ 53.1
Total change as a compound percentage rate per annum.....	+ 2.7	+ 4.4

Each of the annual figures therein shows the rate of change per cent from the corresponding figure for the previous year. It will be noted that the all-inclusive group showed an average rate of growth per cent per annum for the period of 2.7 per cent; with the transportation group excluded, that rises to 4.4

per cent. For the shorter period 1924-29, the rates are 4.7 per cent and 8.8 per cent. It may be added that this study of an unchanging list of companies tends to understate rather than to overstate the rate of growth of the largest companies in Canada in this period.

The rate of growth may also be shown by expressing in a frequency table the 1933 assets of each of these 63 companies as a percentage of the 1923 figures. This gives the remarkable result that only 15 of the companies failed to double their assets during the period, and even of these 15, 11 increased theirs by more than 75 per cent.

Further analysis of the rate of growth of the largest companies was developed by taking the 100 largest non-financial companies in Canada at 1923 and at 1933, regardless of the group into which they fell. Admission to these lists depended on the amount of the net assets at the respective balance sheet dates, and on that alone. It might be explained here that for this immediate analysis, precisely 100 companies were taken at the two dates 1923 and 1933.

During this ten year period the total assets of the 100 companies increased from \$5,096,000,000 to \$7,324,000,000, or 44 per cent. Excluding five transportation companies, the increase was from \$1,902,000,000 to \$3,493,000,000, or 84 per cent.

We then classified these companies into industrial groups but found that thirteen fell into groups which were not statistically comparable throughout the period. The total assets of the remaining 87 increased from \$4,995,000,000 to \$6,948,000,000, or 39 per cent, but the rate of increase varied very considerably from group to group. Merchandising lead with an increase of 259 per cent, followed by utilities with 178 per cent.¹

NET ASSETS OF THE LARGEST CANADIAN NON-FINANCIAL CORPORATIONS AT 1923 AND AT 1933, CLASSIFIED BY INDUSTRIES

(in thousands of dollars)

	Number of Companies	Net Assets		Percentage Change
		1923	1933	
GRAND TOTAL.....	100	5,095,651	7,324,323	+ 43.7
GRAND TOTAL EXCLUDING THE TRANSPORTATION GROUP.....	95	1,902,234	3,493,276	+ 83.6
Industrial Groups				
Transportation.....	5	3,193,417	3,831,049	+ 20.0
Utilities.....	21	438,357	1,219,603	+ 178.2
Pulp and Paper.....	10	262,834	445,215	+ 69.4
Miscellaneous.....	6	202,222	401,882	+ 98.7
Iron and Steel.....	11	421,376	285,117	- 32.3
Merchandising.....	3	51,987	186,485	+ 258.7
Mines.....	8	107,941	177,867	+ 64.8
Construction Materials.....	4	67,185	82,133	+ 22.2
Textiles.....	5	71,721	78,663	+ 9.7
Foodstuffs.....	5	53,866	74,501	+ 38.3
Milling.....	4	50,810	67,460	+ 32.8
Beverages.....	2	21,568	53,573	+ 148.4
Rubber.....	2	34,505	34,324	+ 0.3
Real Estate.....	1	17,977	10,547	- 41.3
Total, excluding non-comparable groups.....	87	4,995,467	6,948,419	+ 39.1

The group totals and the grand total tell something, but they need to be supplemented by a better indication of the changes in the composition of these lists in the 10-year period. The frequency table below is designed to give that information.

(1) See Annex III, Table 8.

ROYAL COMMISSION ON PRICE SPREADS

FREQUENCY DISTRIBUTION OF 100 LARGEST COMPANIES, CLASSIFIED BY SIZE¹

Class—Net Assets (in millions of dollars)	Number		Cumulative Totals	
	1923	1933	1923	1933
100.0 and up.....	3	11	3	11
75.0—99.9.....	1	1	4	12
50.0—74.9.....	3	8	7	20
45.0—49.9.....	3	4	10	24
40.0—44.9.....	5	1	15	25
35.0—39.9.....	4	6	19	31
30.0—34.9.....	5	4	24	35
25.0—29.9.....	5	7	29	42
20.0—24.9.....	6	13	35	55
15.0—19.9.....	7	12	42	67
10.0—14.9.....	27	22	69	89
8.0—9.9.....	10	11	79	100
6.0—7.9.....	15	0	94	100
Under 5.9.....	6	0	100	100
Total.....	100	100	—	—

It will be observed from this table that two things have taken place. First of all, the two groups at the bottom of the scale—those with assets of less than 6 and 8 millions respectively—which had 6 and 15 companies respectively in 1923, have disappeared in 1933. All of the 100 companies, at the latter date, have assets of over 8 millions. At 1923, 5 companies had assets of less than 6 millions and an additional 15 had more than 6 but less than 8 millions. Nor is this result produced by a migration into the next higher brackets. The group over 8 and under 10 millions holds only 1 more company at 1933 than at 1923, and the two groups between 10 and 20 millions have 34 companies in each of the years. The groups between 20 and 45 millions have 26 companies at 1923 and 31 at 1933, between 50 and 100 millions, 4 and 9 respectively, and while there are only 3 companies with assets of over 100 millions in 1923, there are 8 in 1933.²

8. CONCLUSIONS.

The foregoing analysis has attempted to show the existing situation and trends with respect to corporations. In this analysis the following facts stand out clearly as bearing directly on the problem of monopolistic concentration and economic regulation:

a. As the ownership of corporations has become more and more scattered, control has become more and more concentrated.

b. The corporation as a form of business organization has been growing, by various methods, with great rapidity in the present century.

c. The growth of the large corporation has proceeded more rapidly than the growth of business in general.

It is important that there are in this country approximately 100 companies with assets of over \$10,000,000. It is even more important that a rapidly increasing proportion of Canadian business is being carried on by these one hundred.

The two interconnected problems created by the coming of the large corporation, the problem of concentration of economic power and the problem of the new conditions in competition, which the corporation has brought in its train, have been clearly revealed in the evidence before the commission. That evidence has given a remarkable picture of the results of the rapid development of the corporate growth of business in the economic life of Canada. The facts and

(1) See Annex III, Table 9, for the same table with the railway omitted.

(2) For a slightly different approach to the same range of facts see Annex III, Table 10.

figures which are presented in this study must be considered side by side with the material which is contained in the evidence before us, if they are to be understood in their proper context. So considered, they seem to lead to the inescapable conclusion that the rate of growth of the large corporation is, in large part, an explanation for the development of that imperfect competition which has manifested itself in the numerous cases of economic exploitation brought to our attention, and which is one of the main sources of many of our economic problems.

3. CORPORATE PRACTICES AND ABUSES.

1. INTRODUCTION—THE FUNCTION OF THE PROMOTER.

In this section we deal with some of the more important corporate practices and abuses of the period 1923-29, with illustrations from evidence we have received. This period represents fairly well the course of a business cycle. The year 1923 was the beginning of a period of business expansion which reached its peak in 1929. Then came the downswing of business and the depression, which have almost completed the cycle. Thus, in effect, one is observing the cyclical course of corporation finance. The period 1923-33, however, should not be regarded as unique, for that of 1908-1913 gave rise to a similar phenomenon in the field of Canadian corporation finance.

In general, a period of expanding business sees an active demand for capital. All sorts of enterprises are started and others are expanded and re-organized. It is relatively easy to sell securities to the public and the volume of flotation rises. A feeling of optimism gives all security offerings a rosy hue and investment dealers hunt for issues to meet the "demand." Then, with the cessation in business activities, the volume of new flotations drops and a testing period for the newly-distributed securities ensues.

The part played by the promoter and the investment dealer in this development is important. They assemble the factors of production and thus initiate productive enterprises. In a system of free enterprise, it is essential that this function should be carried on, and presumably it deserves some reward. The questions arise, however, whether the promoter always acts in a socially desirable manner, and whether his reward is properly related to his contribution. Usually this reward for services is taken in the form of common stock. This gives opportunities for doubtful practices, because for every promoter actually interested in the subsequent fortunes of a business enterprise, there are many more who are interested merely in acquiring some sort of a security which can be turned over for cash. The problem is to encourage the former and discourage the latter.

Insofar as the investment dealer's function is to assemble capital and to direct it to productive ends, society depends upon his wisdom for the proper direction of its savings. If the investment dealer is foolish or dishonest, society suffers. It is thus to the general interest to have an intelligent and reliable group engaged in this activity. Yet there is probably no occupation which selects its personnel more exclusively on one basis—the faculty of salesmanship.

Once an investment house is formed, it develops an organization for the distribution of securities, the success of which depends upon its "turnover." It thus becomes vital to maintain volume of sales in order to meet the overhead costs of the organization. This means that securities to be sold must be found. The investment dealer is essentially a merchandiser. He, therefore, is always on the lookout for opportunities to get securities—preferably "good"—to sell. New concerns may supply some of these, but old concerns, especially "reorganized" established ones, are an important source from which this merchandise is obtained.

2. AN ANALYSIS OF CANADIAN CONSOLIDATIONS.

With this brief background, the following analysis of consolidations, which bears so directly on the present discussion of corporate practices, may be given.

We are here concerned with the consolidation of two or more existing and competing concerns (other than public utilities) into a single unit, and with companies which publish annual statements in the financial press and not with the consolidation of unincorporated concerns, private companies or those whose shares are closely held.

a. *The Extent of the Consolidation Movement.*

The following table gives the number of consolidations since 1900¹.

NUMBER OF CONSOLIDATIONS BY YEARS, 1900-1933

Year	Number of Consolidations	Number of Concerns Absorbed	Years	Number of Consolidations	Number of Concerns Absorbed
1900.....	2	19	1917.....	3	10
1901.....			1918.....	2	6
1902.....	1	45	1919.....	1	2
1903.....			1920.....	2	8
1904.....	1	2	1921.....	5	8
1905.....	1	4	1922.....	4	4
1906.....	3	11	1923.....	7	38
1907.....			1924.....	15	29
1908.....			1925.....	20	68
1909.....	9	51	1926.....	25	70
1910.....	22	112	1927.....	31	95
1911.....	14	44	1928.....	68	195
1912.....	13	37	1929.....	62	149
1913.....	5	16	1930.....	25	65
1914.....	2	4	1931.....	11	20
1915.....	4	10	1932.....	6	13
1916.....	2	2	1933.....	8	8
			Total.....	374	1,145

The most striking fact about the above consolidations is that the vast majority of them occurred during boom periods. In 1910, for example, there were 22 consolidations (a record year to that date) and a peak which was not approached again till 1925 when 20 consolidations are recorded. Then follows a steep ascent to the 68 consolidations of 1928 and the 62 of 1929. In 1933 there were six. In the earlier period from 1900-1914, consolidations affected from 30 to 40 subdivisions of Canadian industry:² particularly the coal, iron and steel group (15 cases), the pulp and paper group (18 cases), and the packing and canning groups (8 cases). In the period 1921-1930, the industries chiefly affected were brewing, canning, dairying, pulp and paper, construction materials, and the grain trade.

b. *Methods of Consolidation.*

Broadly speaking, one or more of three distinct procedures may be employed to bring about a consolidation of incorporated companies. They are as follows:—

- (1) *Merger*: An existing company buys outright the assets and goodwill (and possibly, also, assumes the liabilities) of some other company, which then is liquidated;
- (2) *Amalgamation*: A new company incorporates to buy outright the assets and goodwill (and possibly, also, assume the liabilities) of two or more existing companies, which then are liquidated;

(1) See Annex III, Table 11, for a further quantitative analysis.

(2) For a table of consolidations according to class of industry see Annex III, Table 12.

- (3) *The Holding Company*: An existing company acquires a majority of the voting shares of one or more other companies, or a company newly formed acquires a majority of the voting shares of one or more existing companies.

The holding company method not only saves the heavy expense incidental to the conveyance of assets and the liquidation of the associating companies which is involved in a merger or amalgamation, but it may enable control to be secured with an outlay of only a fraction of the value of the assets to be controlled. It also ensures survival of the whole of the goodwill of the constituent concerns.

The merger and amalgamation methods resemble each other in principle but amalgamation involves the expense of incorporation of a new company and is resorted to only when the capital structure of none of the associating companies is suited to the requirements of the proposed consolidation.

According to this classification, the numbers of consolidations affected since 1900, by each of the various methods, are as follows:—

Acquisition of shares (holding company)	155
Amalgamation	144
Merger	45
Holding company and merger combined	15
Holding company and amalgamation combined	6
Not known	9
Total	<u>374</u>

In many instances the form of organization originally adopted was altered later to meet changing needs and circumstances. Thus, a consolidation which originally acquired the assets of another concern, might later incorporate a subsidiary company to own and operate assets; or, conversely, a consolidation which originally took the form of a holding company, might later liquidate the subsidiary and take over its assets.

The consolidations of the years 1921-1933 involved the incorporation of one hundred and eleven new companies. Of these, seventy-four were formed under the Dominion Companies Act, twenty-two under the Companies Act of Ontario, eight under the Quebec Act, three under the British Columbia Act, and one each in the following jurisdictions: Alberta, Manitoba, New Brunswick and Nova Scotia.

c. The Purpose of Consolidation.

A consolidation is promoted to serve any of the three following purposes:—

- (1) To allay the disastrous effects of competition by establishing a condition of "imperfect competition", e.g. some degree of monopoly;
- (2) To bring into existence improved and economical methods of manufacturing, marketing, and financing, through production on a large scale (generally referred to as "the economies of large-scale production");
- (3) To provide promoters and investment houses with an opportunity of profit.

A consolidation designed to reduce competition and secure the economies of large-scale production, is likely to originate in the mind of one of the competing industrialists, to occur in times of trade stagnation, and to be effected by exchange of securities rather than by the issue of new securities. On the other hand, a scheme of consolidation designed to provide "merchandise" for the investment houses to sell is likely to have its origin in the brain of the professional promoter or investment dealer, to occur in times of stock market activity, and to involve the sale of large quantities of new securities.

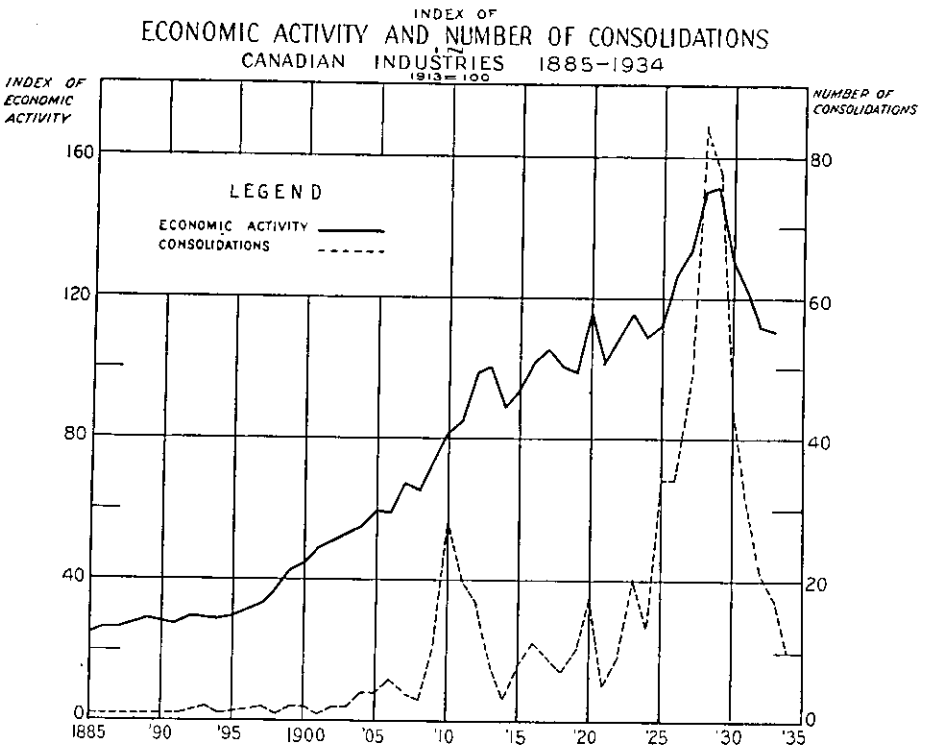
The professed objects of the Canadian consolidations may be treated summarily by pointing out that every purchasing company which issued a prospectus at the time of consolidation and alleged any motive for the con-

solidation, was confidently expecting to eliminate wasteful duplication of expenses and to secure the economies of large-scale production.

The actual objects of these consolidations are more difficult to determine. Inferential evidence that a large proportion of the consolidations was promoted by financial interests for their own advantage, is to be found in the fact that the bulk of them occurred in periods of stock market activity (1909-1912, and 1927-1929), and that they involved public financing to an amount in excess of two hundred and twenty-three million dollars. Of this sum, fifty-two million dollars in thirty-six issues was subscribed between 1909 and 1912 inclusive, and one hundred and seventy-one million dollars in sixty-four issues between 1927 and 1929 inclusive.

The chart below explains the situation.

CHART IV



A prominent and significant feature of the public financing of consolidations is the heavy preponderance of bonds and preferred shares—the latter usually with restricted voting rights. The following table shows this:—

PUBLIC FINANCING ARISING DIRECTLY OUT OF CONSOLIDATIONS

(1921-1933)

(in thousands of dollars)

Year	Number of Issues	Amount of Issues			
		Total	Bonds	Preferred and "A" Shares	Common
1921.....	1	2,000		2,000	
1922.....					
1923.....					
1924.....	1	1,000	1,000		
1925.....	4	11,952	5,266	5,686	
1926.....	2	2,200	2,200		
1927.....	14	39,305	20,525	15,100	3,680
1928.....	30	105,878	57,500	42,548	5,830
1929.....	20	25,904	7,250	18,654	
1930.....					
1931.....	1	248	248		
1932.....	1	3,750		3,750	
1933.....					
	74	192,237	93,989	87,738	9,510

It will be noticed from the above table that of \$192,000,000 worth of securities issued between 1929 and 1933, \$183,000,000 consisted of bonds, preferred stock and class A common stock. These facts support the view that the real motive of many consolidations was financial gain to the professional promoter and investment dealer.¹

They do not, however, have any bearing on the economic soundness of the consolidations themselves or on the propriety of the valuations placed upon them for purposes of capitalization. Only an investigation of the subsequent history of the consolidated concerns will throw light on these matters.

d. The Results of Consolidation.

It is difficult to generalize on the results of consolidation because it must be remembered that the two peak periods of consolidation were followed by the sharp and protracted business depressions of 1913-1916 and 1930 to date. After making full allowance for this latter circumstance, however, it seems reasonable to assume that the vitality of consolidations as a whole is lower than that of the average for all business. Facts in support of these views are contained in annex iii, tables 14 and 13.

(1) An attempt to determine whether the elimination of competition was the real objective of some schemes of consolidation between 1921 and 1930 proved largely abortive. It was hoped to compute the total assets of each consolidation, to classify the consolidation according to the census of manufactures, and by comparison of the assets of the consolidated concern with the total "capital" of the group as reported in the census of manufactures of 1930 to determine whether it occupied such a position in the group as to give it virtual control of the market. The attempt failed because of the impracticability of assigning to a single industrial group a consolidation which might be a vertical combination of establishments engaged in distinct branches of manufacture.

The results of this inquiry are to be found, however, for what they are worth, in Annex III, Table 13. Interpreted very broadly, they indicate that only in the fields of tobacco manufactures, asbestos products, petroleum products, nickel smelting and refining and cement manufacture has a single concern by the process of consolidation achieved a dominant position in its field; and that for the rest, the consolidation movement in Canadian industry does not seem to be responsible for any nation-wide monopoly that may exist.

Table 14 shows that nineteen of the eighty-seven consolidations occurring between 1900 to 1920, were compelled to reorganize or liquidate within from one to four years of their formation. This gives a figure of 22 per cent of failure (or 5.5 per cent each year for four years) over a period when Bradstreet's annual percentage of business failures to total number of concerns doing business ranged from a low of 0.40 per cent in 1919 to a high of 1.85 per cent in 1914.¹ After making due allowance for the fact that Bradstreet's figures take account only of formal failures to meet the claim of creditors, it seems that mortality amongst consolidations was heavier than amongst business concerns as a whole.

Table 13, covering consolidations of the years 1921 to 1930, shows that of the one hundred and thirty-one consolidations whose subsequent fortunes could be traced:—

Sixteen concerns, or 12 per cent of the total number had failed or had to submit to re-organization between 1930 and 1933;

Forty-eight concerns, or 37 per cent incurred deficits in recent years;

Twenty-one concerns, or 16 per cent showed profits steadily declining since consolidation; while only 15 concerns or 11 per cent showed consistently good or improved earnings since consolidation.

It also shows that with one exception, the earnings of every consolidation (which made an estimate of future earnings in a prospectus), fell far short of the estimate.

No basis can be secured for direct comparison of these figures with the figures for all concerns doing business during the years 1921, to 1930, but they indicate a condition of affairs amongst consolidated concerns which is certainly no better than that amongst business as a whole, and one which is, in all probability, considerably worse.²

The reason for this bad record is suggested by a close study of the individual histories summarized in Annex III, Tables 15 to 20 inclusive, and it is apparently due to one or more of three factors:—

- (1) Weakness of the constituent concerns,
- (2) Excessive capitalization involving crushing charges for interest and depreciation,
- (3) Inferior management associated with the sudden as contrasted with the gradual or natural increase in the scale of the problems of administration.

3. AN ANALYSIS OF CANADIAN REFINANCING OPERATIONS.

Consolidations have not been the only fruitful source of new securities for the investment dealer. Reorganizations or "refinancings" have been also exploited to the full.

"Refinancing" is the term used to denote the sale of an existing incorporated business by owners who are anxious, or have been persuaded, to dispose of it and who have accepted the services of promoting and investment broking interests to effect the sale. Generally it involves the following successive operations:—

- a. The purchase by the promoter of either the assets or the shares of the vendor concern henceforth known as the "predecessor" company;
- b. The incorporation of a new company (usually with the same name as the "predecessor" company or a similar name);

(¹) *Canada Year Book*, 1922-23, page 871.

(²) The percentages of total number of failures (*Canada Year Book*, 1933, pp. 406 and 964) amongst manufacturing business to total number of manufacturing concerns reporting under the Census of Manufactures were as follows for recent years:

1924	1.5 per cent	1925	1.8 per cent	1926	1.3 per cent	1927	1.9 per cent
1928	2.2 per cent	1929	1.9 per cent	1930	2.0 per cent	1931	1.9 per cent

- c. The sale of the assets or shares of the "predecessor" company to the new company by the promoter in consideration of the allotment to him of securities of the new company in the form and to the amounts determined by him;
- d. The sale to the public for cash of the whole or the greater part of these securities.

a. *The Purpose of "Refinancing."*

To the owners of the vendor company, "refinancing" is merely an operation which enables them to "sell out" on terms which appear to them to be advantageous. To the promoter or investment dealer, it is a device used for one or more of the following purposes: to create a supply of securities which may be sold to the public at a profit, to secure control of the vendor business, and to acquire a claim to any profits without sharing in any losses.

Realization of a net cash profit from the sale of securities depends upon the promoter's selling them to the public for more than he paid for the assets or shares of the predecessor company—in other words, upon the promoter's selling the business to the public for more than the owner of the business with his inside knowledge, believed the business to be worth.

The promoter gains control and a claim to profits without risk of loss, by selling to the public non-voting securities with fixed interest or dividend return and reserving to himself the whole or a majority of the voting shares in the new company. This does not necessarily involve any cash outlay on his part.

The study of Canadian "refinancing" which follows, was undertaken to ascertain the extent and nature of such operations in Canada. It is unfortunately not possible to make any reliable calculation of the profits realized by the promoters from these activities, for it is impossible to determine accurately what amount was paid by the promoter for the assets that he bought from the "predecessor" company or whether these assets were exactly the same in form and amount as the assets that he sold to the new company.¹ Comparison of the book worth of the "predecessor" company with the capitalization of the new company is no criterion whatever of these profits. And even if the profits were ascertainable there would be lacking any precise standard by which to judge whether or not they were reasonable. It may be noted, however, in this connection that the "promoter" of a refinancing scheme is not entitled to the reward of an entrepreneur, but merely to the modest brokerage customarily payable to a broker who acts as intermediary in the sale of a property from one party to another. In the absence of direct evidence as to profits actually made by the promoters, refinancing schemes (and the promoters) must be judged by the form and amount of the capitalization with which the new companies were endowed and by the subsequent earnings histories of these companies.

b. *The Extent of Refinancing Operations, 1926-1933.*

The table below shows for each of the years 1926-1933, the number of refinancing operations which took place and the amounts of assets and of public financing which these operations involved. It must be understood that the figure of "Net Tangible Assets" in this table is in many instances the amount certified for prospectus purposes by an appraisal company possessing a knowledge of the capitalization proposed by the promoter for the new company.

¹ In exceptional cases it is possible to make an estimate of these figures. Thus in the formation of the British Columbia Power Corporation, Limited, the promoters apparently paid some \$57,000,000 for the shares which they acquired in the predecessor company, and they sold to the public securities in the new company to the amount of \$60,000,000. They netted a gross cash profit of \$3,000,000 and Class B shares which gave them control of the new company.

ROYAL COMMISSION ON PRICE SPREADS

SUMMARY OF REFINANCING 1926 TO 1933

(in thousands of dollars)

Year	Number of Instances	Net Tangible Assets as Valued for Prospectus Purposes	Total Amount of Securities Sold to Public	Per cent of Securities Sold to Net Assets
1926.....	7	45,077	15,250	34
1927.....	20	83,777	68,664	82
1928.....	40	245,075	170,165	69
1929.....	18	46,627	36,960	79
1930.....	3	3,137	1,450	46
1931.....	0			
1932.....	0			
1933.....	0			
Totals.....	88	423,693	292,489	69

From this table it is seen that refinancing operations were prevalent throughout the years 1927, 1928 and 1929, but that they reached their peak in 1928, when forty occurred involving net assets valued at \$245,075,374. There were a few instances in 1926 and 1930, but none has occurred since 1930. Clearly a "refinancing" operation is a phenomenon associated with a period of stock market inflation. The securities sold to the public to effect the sale of the eighty-eight concerns listed, totalled just under three hundred million dollars and represented sixty-nine per cent of the "net tangible assets" of these concerns. In 1928 alone, over one hundred and seventy million dollars of securities were sold, representing the same percentage of the "total net assets" of the forty concerns involved. These figures may be compared with the estimated figure of five hundred and twelve million dollars as the grand total of all securities (no matter their origin) sold to the public from 1927 to 1929. The comparison suggests that money then available for investment far exceeded the opportunities for investment in new enterprises and that refinancing schemes were promoted in order to create a supply of new industrial securities equal, in nominal amount at least, to the demand for that type of security. It may be noted that the eighty-eight new companies formed were incorporated as follows:—

Jurisdiction	Number of Incorporations
Dominion	55
Ontario	16
Quebec	7
British Columbia	3
Nova Scotia	2
New Brunswick	1
Saskatchewan	1
Not known	3
	88

The table below offers a summary analysis by years of the securities sold to the public in connection with refinancing schemes and shows that bonds, preferred shares and Class "A" shares accounted for \$265,052,375 or 91 per cent of the total offerings.

ANALYSIS OF SECURITIES SOLD TO THE PUBLIC IN REFINANCING OPERATIONS

(in thousands of dollars)

Year	Total Amount	Bonds		Preferred Shares		Class "A" Shares		Common Shares	
		Amount	Per cent of Total Securities	Amount	Per cent of Total Securities	Amount	Per cent of Total Securities	Amount	Per cent of Total Securities
1926.....	15,250	4,500	30	6,750	44			4,000	26
1927.....	68,664	25,860	38	28,795	42	2,248	3	11,821	17
1928.....	170,165	28,225	17	49,758	29	82,129	48	10,053	6
1929.....	36,960	11,850	32	17,715	48	5,863	16	1,562	4
1930.....	1,450	1,300	90	150	10				
1931.....	0								
1932.....	0								
1933.....	0								
Totals....	\$292,489	\$71,645	25	\$103,168	35	\$90,240	31	\$27,436	9

Bonds do not carry any voting rights and, of the preferred and Class "A" share issues listed in the table and totalling \$193,407,375, less than ten million dollars carried unrestricted voting power. In short, eighty-seven per cent of the total amount of all securities sold to the public consisted of non-voting securities. Many issues of bonds and preferred shares were offered with a bonus of voting common shares but in no instance did the common shares so offered amount in the aggregate to more than a small minority holding of such shares.

It seems clear from this analysis that in general the refinancing schemes were so constructed as to afford the public the privilege of subscribing the requisite amount of cash while endowing the promoters with unhampered control of the new companies. No evidence is available as to the actual worth of the consideration received by the new companies for the issue of the common or Class "B" shares to the promoters, but an analysis of subsequent earnings histories of these companies (given below) indicates that in many if not most instances such considerations must have been purely illusory.

c. The Results of Refinancing Operations.

Of nineteen companies whose bonds were sold to the public and whose subsequent earnings are known:—

- (1) Ten companies have failed to earn bond interest consistently to date. Eight of these companies have failed to earn interest since 1930 or earlier; one since 1931 and one since 1932.
- (2) Of the ten companies in (1) six have already passed into receivership.
- (3) The remaining nine companies have earned bond interest to date.

Of forty-seven companies whose preferred shares were sold to the public and whose earnings are known:—

- (1) Eight have been liquidated or are in process of liquidation.
- (2) Thirty others have failed to earn the preferred dividends in one or more years.
- (3) Nine have earned the preferred dividend regularly to date.

Of thirteen companies whose Class "A" shares were sold to the public and whose earnings are known:—

- (1) Not one has earned the Class "A" dividend every year to date. Four earned it the first year only; three the first two years only, two the first three years only; and two the first four years only.

- (2) Not one has earned the Class "A" dividend in 1933. Only one earned it in 1932; only two earned it in 1931.
- (3) The majority incurred operating deficits in 1932 and 1933.

Of thirteen companies whose common shares were sold to the public and whose earnings are known:—

- (1) Three were early absorbed in consolidations and lost their identity.
- (2) Three earned something on the common shares up to 1932.
- (3) Seven have failed to earn anything on common shares in recent years.

Almost without exception the realized earnings of these companies which estimated their earnings for prospectus purposes have fallen from the beginning far short of the estimates. It would indeed be more accurate to say that they have never approached the estimated earnings, for a comparison of the two figures gives results which are nothing short of grotesque.

This summary of earnings histories points to the following conclusions:—

- (1) That the refinancing operations were attended by gross over-valuation of assets and consequent over-capitalization.
- (2) That the so-called bonds, preferred shares and Class "A" shares had in many instances no real equity junior to them; in other words, that the receivers of the common stock gave no real consideration to the company for the issue of these shares.

The promoter of a refinancing scheme is in fact, but not in law, acting as a broker in the sale of a business as a going concern. If his legal position could be adapted to his actual position, he would be required to reveal to the buyer the exact amount and nature of his interest in the brokerage transaction. There is some reason to suppose that if publication of this information had been obligatory in the years 1927 to 1929, fewer sound old established Canadian businesses would have been refinanced and serious losses would have been averted.

4. ILLUSTRATIONS OF CORPORATE PRACTICES FROM THE EVIDENCE.

With this general picture of the financial background of the period in mind, we may refer to three cases which illustrate some of the practices discussed above. These cases are Simpson's Limited, Toronto, Burns and Company, Limited, Calgary, and Canadian Cannery Limited, Hamilton. These three companies have been investigated by us and much of their history has already emerged in the evidence. We cite them here merely because of that fact. We have no doubt there are many other cases that have not been brought officially before us but which might prove even more striking examples of some of the practices to which we have been referring.

The details of these three cases are given in Annex iv. Here we merely state the general conclusions from the facts outlined in that Annex.

The first case, the Robert Simpson Company and associated companies, is one where the original owners sold out to the public on terms most advantageous to themselves. In creating the security-structure an additional burden of fixed cost of \$1,000,000 per annum, was placed on the operating company. The public holds certain classes of securities which are yielding no return at present and to earn a return on which the company would have to operate on a scale which seems extremely optimistic. More narrowly, the successive reorganizations erected a pyramid of bonds, preferred, Class A and B common shares, secured entirely in the first place on the junior shares of the operating company. If these common shares paid no dividend, the holding company received no revenue. But this position was altered when by purchasing the assets of the operating company, but not paying for them, nor even paying interest on the debt, the holding company was able to charge a rental and

thereby ensure some revenue, whether or not the operating company was profitable. That this action lessened the security of the holders of bonds and preferred stocks of the operating company, who should have ordinarily a first call on earnings, is obvious and in our opinion is an illustration of a questionable financial transaction.

The reorganizations witnessed two appraisals of the fixed assets of the Canadian Appraisal Company, by virtue of which over \$8,000,000 was written into the capital. The remuneration of the investment dealers, Wood Gundy & Company, seems to us entirely out of proportion to the service performed.

The Burns case illustrates three main points in the practice of corporation finance. Firstly, it involves the write-up of assets for the purpose of establishing nominal asset values to cover the issue of new securities—that is stock-watering. Secondly, it represents a distinctly doubtful case of an investment house mis-stating the income figures, through the depreciation allowance, for the purpose of showing sufficient income to cover the interest and dividend needs of the new securities. Thirdly, it raises the propriety of a re-financing utilizing the above practices, at the top of a business boom and the inevitable reorganization after the boom. As the facts are related in detail elsewhere, it is sufficient to state here that this case is one of the most flagrant which we have encountered. We wish to condemn without reservation or equivocation such financial malpractice as it illustrates.

The case of Canadian Cannery Limited involves slightly different considerations. The company was formed by the banding together of a large number of independent canning and preserving companies and was enlarged on several later occasions to bring in numerous independent canners. Plants acquired were paid for, usually, by issuing capital stock and bonds. Upon each successive reorganization the company's plants were revalued. The exact amount of appreciation and other intangible assets included in the recent balance sheet is not clear, but it is at least \$6,000,000, equivalent to over 50 per cent of the presently outstanding capital stock.

The extent of the excess capital issued for appreciation of assets on appraisal or other revaluation, for bonuses in excess of appraised values, for services, etc., is indicated by the fact that during the past eleven years, despite meagre and diminishing annual depreciation provisions, the operating profits on the book capital in only one year exceeded 5 per cent and averaged less than 3 per cent.

None of the capital stock of this company was sold for cash but was issued entirely for assets acquired and for services. Mortgage bonds to the extent of \$958,500, have been sold for cash, but on the other hand, bonds having a par value of \$1,876,100, and shares having a par value of \$672,300, have been purchased for redemption. The company has also invested a substantial amount in its own shares which shares have not been redeemed but are carried upon its balance sheet as an asset; a practice which is possibly illegal and certainly improper.

The president of the company is a stock broker whose firm, Avern Pardoe & Co., is the largest registered holder of shares in Canadian Cannery, Ltd. While many of these shares are held for clients, there can be no doubt that the requirements of investors greatly influence the actions of the management.

The evidence regarding the operations of the company revealed that an inaccurate statement of the company's financial position was shown by the balance sheet presented to the shareholders in 1932; this was signed by the company's auditors, only subject to certain vital qualifications. The profits as shown did not in fact exist. The failure of the directors to see that the true facts were disclosed provides a reprehensible example of faulty stewardship exercised by a minority management group.

5. THE MAIN PROBLEMS TO BE SOLVED.

The above cases indicate four main problems which warrant specific consideration. They are:

- a. *Over-capitalization.*
- b. *Appraisal practices.*
- c. *Accurate and adequate information for the investor and shareholder.*
- d. *The place of the investment dealer.*

As to (a), over-capitalization or stock-watering is one of the most wide-spread evils associated with incorporation of companies; it is made even more objectionable because it is in fact legalized. Vendors and promoters allot shares to themselves, for services and properties contributed to the company, at a figure grossly in excess of any possible intrinsic value. Frequently, the balance of the issue is then offered to the public, which buys it for cash. The holder of a share who has given for it services worth possibly \$1.00 is on an equal footing with the holder of another share who has given \$100.00 cash for it. Each share may have only approximately \$50.00 of real assets behind it, so one shareholder has been mulcted of nearly \$49.00 by the other. This situation is virtually legalized, because the courts ordinarily do not inquire into any consideration other than cash given for shares. The courts will force a man who has paid \$99.00 for a \$100.00 par share to contribute the other dollar; they seldom do anything about the man who has contributed a table worth, possibly, \$10.00 at the absurd valuation of \$20,000.00.

As to (b), the usual method of writing up the value of assets is through the so-called appraisal companies. The alacrity with which certain appraisal companies appear willing to give a desired valuation to almost any type of asset is evidence enough of the general unreliability of their certificates.

As to (c), the question of adequate and accurate information: there is no argument whatsoever against giving a prospective purchaser of a security every relevant bit of information concerning the security which he is about to buy. The same applies to the shareholder. This is the least that can be done. If all the facts as to what was actually being done had been given to the public in the case of the Burns and Simpson's financing operations referred to above, it is almost certain that the securities could not have been sold with such ease. Even allowing for the cupidity of the public, it is hard to see how the preferred stock of the Burns Company could have been sold when the preferred dividend was barely earned.

As to (d), it is obvious that the investment dealer cannot be relied upon to safeguard the interests of the investor. That has been clearly shown in the cases summarized. The interest of the investment dealer is allied with that of the vendor group. His whole position as a merchandiser makes him almost incapable of anything but *ex parte* statements. His mistakes have been all too frequent. Too often the fees he has received, rather than the economic justification for the issue of securities offered, have been the deciding factor in his activities.

4. REMEDIAL SUGGESTIONS

We now come to suggestions and recommendations for remedial action. In making these recommendations we are not so optimistic as to believe that any legislation, however wisely conceived and effectively administered, will prevent all foolish investments or all unsound company promotion. We have, indeed, no right even if we had the desire, to take away from the citizen "his inalienable right to make a fool of himself." We do, however, feel that we have the right to attempt to prevent others making a fool of the citizen. We would emphasize also, first, that permission for a group of persons to be incorporated into a company, should be viewed as a valuable concession granted by the state, especially

in relation to the convenience of a general restriction of personal liability, and, second, that such a concession involves corresponding obligations and responsibilities. Not the least of these obligations is to ensure that there shall be full and accurate information as to all the facts concerning every company that seeks incorporation or financial support from the public after such incorporation.

We may anticipate at the outset a general objection that will be levelled at many of our suggestions, namely, that Canada is a young and developing country, and as such needs and will continue to need capital; that no unnecessary obstacles or discouragements should therefore be placed in the way of the assembling of such capital from the investing public. To this objection we have one answer. All our recommendations are designed to encourage sound development through the discouragement of unsound and reckless promotions of the kind which too often characterized the financial history of this country in the last fifteen years. Even if, for the sake of argument, we make an admission, the validity of which we do not accept, that some capital might be frightened away by laws designed to protect the investor, the amount of such capital is not likely to come within measurable distance of the millions lost to this country by unwise and reckless promotions, millions which might have been saved if some of the recommendations we are about to make had had the force of law.

Many of the remedies which we suggest for the evils disclosed involve amendments or additions to existing legislation. This brings up at once the question of jurisdiction. It is obvious that the existence of ten jurisdictions, each having the right to make its own laws for the incorporation and regulation of limited liability companies—and each in fact exercising this right—greatly complicates the problem of control through such legislation. It is not part of this report to discuss fully the problems arising from multiple jurisdictions, but the question is so important that it cannot be ignored.

One possible solution for this problem would be to amend the constitution so that the Dominion Parliament would obtain exclusive jurisdiction over companies by the provinces surrendering such jurisdiction over property and civil rights as would be needed to secure effective control. Difficult as this solution may appear, it would in practice be the most satisfactory one.

A more realizable alternative would be to obtain uniformity in the essential features of the Dominion Companies Act, and the provincial Acts through the co-operation of the legislatures concerned. Though two Dominion-Provincial Conferences have not succeeded in securing uniformity by this method, we think that the difficulties in the way of such an achievement can be overcome.

But whatever may be the solution of this constitutional problem, it is clear that growing public resentment necessitates further social control of the financial operations of companies. Accordingly, it is urged here that, within its legal competence, the Dominion should to the very limit give leadership with a strict Act. We feel that the prestige of a Dominion incorporation is such that the provinces will follow such a lead. If they do not, then the question of securing uniformity by constitutional amendment would have to be considered.

This view, it may be noted, is in direct contradiction to that expressed by many who believe that the federal act cannot be much more advanced than provincial legislation; that if it is, the Dominion will lose incorporations and revenue to the competing jurisdictions. There is, however, every reason for believing that a bold position with respect to the federal act will in the long run, strengthen rather than weaken the Dominion's position, and that it will encourage a general improvement through similar provincial reform measures.

A stringent federal act, for instance, might well put a premium on federal incorporations by giving a decided advertising value to the sale of the securities of companies so incorporated. Even if, for a time, certain provincial acts remained less strict than the federal act and there were some temporary diversion of applications for incorporation from Ottawa to the provinces, the loss of revenue, if any, would be a paltry sum to balance against the social gain involved.

1. AMENDMENT OF THE DOMINION COMPANIES ACT.

Therefore, in an effort to remedy some of the abuses discussed in the previous sections of this chapter, and pending some satisfactory solution of the problem of uniformity, we recommend certain changes to the Dominion Companies Act, irrespective of what the provinces may do.

These changes are based on the assumption that limited liability company legislation involves three sets of obligations, as follows:—

- a. Upon the company to create a non-withdrawable fund of capital, which would operate as security for bond holders, for creditors and shareholders.
- b. Upon the directors to give publicity to the affairs of the company by full annual statements and periodic reports, for the information of shareholders, bond holders and other present and prospective creditors.
- c. Upon promoters, directors, etc., to give full and accurate information to all persons who are invited to purchase shares or other securities.

To strengthen and make more effective the first obligation, we recommend either the abolition of shares of no-par value, or the requirement that the full consideration received for no-par shares should be credited to the capital account.

In respect to the prohibition of no-par stock it should be remembered that this, by itself, would not entirely solve our problems and might indeed raise new problems. For instance, prohibition of no-par shares would mean that some provision might have to be made for the issue of stock at a discount to avoid unnecessary complications in respect to companies, the market value of whose capital has shrunk.

The alternative proposal to complete prohibition, namely, the abolition of the right to allocate any part of the consideration received for an issue of no-par shares to distributable surplus, would achieve the same objective. Under the present Companies Act, the amount of the issue price of such shares which may, at the directors' discretion, be carried to distributable surplus (and hence utilized to pay dividends to shareholders) is limited to 25 per cent; or where the company acquired a going concern which had a surplus over and above all liabilities, an amount which does not exceed the unappropriated balance of realized net profits of such going concern, immediately before acquisition. The present Act also prohibits retroactive transfers from capital to surplus in respect to shares issued exclusively for a consideration payable in money. These are excellent provisions as far as they go, but they should be strengthened by stipulating that 100 per cent, not 75 per cent, of the consideration received, must be placed in the capital account.

This same idea might well be extended to cover par stock. At present, a company which sells its shares for more than par, is required to put the amount of the par value in the capital account, but is allowed to put the premium—excess over par—in the surplus account. This premium can be distributed as dividends. We doubt if there is any sound reason for this practice and we are of the opinion that the full consideration received for par shares should be regarded as capital. We, therefore, recommend that all premiums received on the sale of par stock, should be placed in a capital or non-distributable surplus account.

A similar problem arises with respect to the writing-up of fixed and intangible assets, a practice which has given rise to much abuse. It is possible, for a company to write up an asset, thus creating against the new asset value a surplus account; then dividends paid in cash may be charged against the surplus. This practice simply means that dividends are paid when the company's position does not warrant it. Accordingly, we are of the opinion that all increases in surplus or reserves which result from an increase in asset values (as a consequence of write-ups, appraisals, etc.) should be regarded as capital surplus, that is incapable of having dividends, directly or indirectly, charged against them.

Another desirable reform would be to require that companies should be incorporated only for activities which they intend seriously to pursue at the time of incorporation, and to amend the present law to prevent companies engaging in activities not directly related to those for which they were incorporated. We feel that, if a company desires to extend its activities to a field not closely related to the activities specified in the original incorporation, this should only be permitted after adequate publicity has been given. For instance, if a company incorporated for merchandising wished to go into the gold mining business, it should require (1) the approval of the shareholders, and (2) supplementary letters patent from the competent authority of the Government. In this way, investors would not, through the action of directors, become involuntary participators in a type of business which they did not anticipate when purchasing their shares.

We now come to suggestions with respect to publicity. We feel that complete and accurate information concerning each issue of shares made to the public by an incorporated company, is the most effective, and at the same time, the least questionable protection which the investor can be offered.

The provisions of the existing Dominion Companies Act with regard to publicity concerning the financial affairs of a company, place Dominion legislation well in the van in this respect. A company with a Dominion charter must now present to the annual meeting a yearly balance sheet, a statement of surplus, and a statement of income and expenditure. To ensure that such statements should be given adequate publicity they, together with the auditor's report, should be required to be published in a daily paper enjoying wide circulation in the locality where the head office of the company is located and in some official paper such as the *Canada Gazette*. It should further be incumbent on the company to file such statements with a public authority, more specifically with the Securities Board referred to later in this section. Finally, the responsibility for carrying out these provisions with respect to publicity should be placed on the board of directors of the company who should file with the Securities Board satisfactory proof that this obligation had been carried out. Suitable penalties should be provided for non-compliance with these provisions.

We feel also that the present Act might be amended to enlarge the information now required. Section 112 of the Act sets out certain details in respect to this information. This section might be elaborated somewhat to require information under the following headings:—

- (a) Fixed and intangible assets—in more detail than are at present given; land, buildings, plant and equipment being shown separately, and where there is idle plant or unused property in any substantial amount, this also to be shown separately.
- (b) Investments and securities—nature of and market value.
- (c) Inventories—so as to show raw materials as distinct from manufactured goods or goods in process of manufacture; with specific divisions for such things as containers, spare parts, etc., where they represent substantial amounts.
- (d) Accounts and notes receivable—in such a form as to make a distinction between current and overdue or doubtful accounts.
- (e) Executive salaries and bonuses—so as to show the number of executives and the total amount paid.
- (f) The amount, if any, by which fixed assets, including goodwill and other intangibles, have been written up.

With respect to the prospectus provisions of the existing Dominion Act, these are at present most unsatisfactory. They provide for most extensive information, it is true, but unfortunately, from the investor's viewpoint at least, a prospectus has to be delivered to the purchaser only in respect of securities

offered by the company, or on its behalf. It is well-known that a company customarily sells its shares, not to the public either direct or through agencies, but outright to an investment house. The investment dealer, in retailing the securities to the public, is not acting on behalf of the company, but is selling its own property and is not, therefore, subject to the new prospectus clauses. This, to a great extent, nullifies their value and should be altered.

There is a body of legal opinion which holds the view that the federal legislature has not, through the Companies Act, the constitutional power to impose prospectus obligations or liabilities on persons outside the company, as this would violate the property and civil rights clauses of the British North America Act. There is another view, however, that the federal legislature can impose all the obligations it likes on its own creature—the company with a Dominion incorporation.

We see no reason why a Dominion company and its directors should not have imposed upon them by law the same obligations and responsibilities in respect of an advertisement or other offer of shares for public subscription, by underwriters or investment dealers who have purchased the shares for resale, as if the underwriters or investment dealers were technically the company's agents and offering the shares to the public on the company's behalf. This would place upon the company the responsibility for statements in advertisements of shares by such dealers. These advertisements should be subject to all the requirements now governing prospectuses. It would be unfair to saddle the company with responsibility for all representations made by holders of shares upon sale of those shares, but the company and its directors should be responsible for representations made on any offering for general public subscription, whether made on behalf of the company or not.

Even if this change cannot be made through the Companies Act, the end desired might be achieved by making it a criminal offence for anyone to offer for public subscription securities of a company with federal incorporation, if those securities have not been subjected to the prospectus obligations of the Dominion Companies Act.

Furthermore, we believe that every prospectus should state in clear detail all commissions, fees and other remuneration received by the promoters, underwriters, or middlemen. The net consideration received or to be received by the company should be clear to the investor.

The Companies Act, prior to 1934, stipulated that whenever shares were allocated otherwise than through an offer to the public, a statement in lieu of prospectus and containing much the same information, had to be filed with the Secretary of State, by the company. This at least provided anyone who was offered shares by an investment dealer a means of obtaining statutory information. The present Act does not require any statement in lieu of prospectus, which obviously is within the legal powers of the federal Government to demand. We recommend that companies be required to file such prospectus information, and to publish it in a daily newspaper enjoying wide circulation in the locality where the head office of the company is located and in the *Canada Gazette*.

We recommend also that steps should be taken to simplify the capital structure of corporations, by limiting the classes of shares that may be henceforth offered to the public, to common and preferred—without any of the numerous subdivisions that now so often confuse and mislead the investor, and facilitate the concentration of control in the hands of entrepreneurial groups. Allied to this provision would be a stipulation that every share offered, both common and preferred, should bear equal voting rights. Management shares should be prohibited.

We further recommend that when the management of a company have become aware of the serious impairment of the capital of that company, they should be required forthwith to inform the directors of that fact, who shall be under obligation, immediately to call a meeting of shareholders and put the above situation before them.

2. THE POSITION OF DIRECTORS.

In discussing the responsibility of directors generally, we should refer to the practice of naming "provisional" directors who are often no more than clerks in solicitors' offices. While this practice undoubtedly facilitates the prompt organization of a company, these directors are at times called upon to transact important business before resigning in favour of the permanent board of directors. We feel, therefore, that the first permanent directors should be held responsible for all business transacted by the provisional directors.

We desire also to refer to a practice which was brought to our attention in evidence submitted, namely the growing practice of multiple and interlocking directorates. This we feel to be an unhealthy and possibly dangerous development. We feel strongly that corporate growth in this country would proceed along sounder lines than it has in the past, if all directors were actively engaged in directing the concerns of which they are directors.

Evidence has been given that, in some cases, directors through large holdings of their company's securities, have been in a position where their personal interests have conflicted with those of the company. Later in this chapter, we recommend that directors should eventually be placed in a trustee capacity with regard to all security holders. This, in part at least, might be brought about by prohibiting directors from speculating in the shares of their companies. To ensure such prohibition being effective, they should be required to disclose annually to their shareholders the extent to which they have directly or indirectly purchased or sold their company's shares during the year.

3. THE PREVENTION OF STOCK-WATERING—THE SECURITIES BOARD.

We now come to a most important point, namely, provisions to discourage stock-watering which is, at times, almost as destructive as currency debasement. Where the capital structure is illusory it falsifies all statistics and calculations based upon it. To strike at this practice we make two recommendations: first, that it should be made illegal for directors, promoters, etc., to issue fully paid-up shares unless the company receives for these shares, adequate consideration in cash, property, or services. The duty of investigating and determining the adequacy of such consideration, where such adequacy is involved in any litigation, should be placed squarely on the Courts.

Although the present legal situation is not perfectly clear it would appear that in practice, Canadian Courts show a reluctance, which amounts to virtual refusal, to inquire into the adequacy of consideration if it is in some form other than cash. If, in some way, the duty of such inquiry could be definitely placed on the Courts, a most valuable step forward would have been taken.

We do not think that this would be placing any burden on the Courts which they could not adequately discharge. It is a customary practice for Courts to-day to place a value on an arm, an eye, or a reputation. There is no reason why they should be unable to place a value on a body of assets given as consideration for an issue of stock. If the decision of the Courts should be that adequate consideration was not given, then liability for the balance of the consideration unpaid should attach to the directors concerned, if it could be shown, (a) that such directors had knowledge of the inadequacy of the consideration, or (b) failed to take reasonable steps to ascertain the adequacy of the consideration. This would not merely discourage stock-watering but might also check that growth of interlocking and multiple directorates to which we have referred.

The machinery outlined above, however, can only come into action after the securities have been issued. It should, therefore be supplemented by and combined with some machinery which would review the situation before the securities were issued. This leads logically to the formation of an Investment or Securities Board, functioning as a section of the Federal Trade and Industry Commission, recommended later in this report. It should co-operate closely with that department of the Government responsible for incorporations but should not, we feel, be an administrative division of such department. The functions of such a board should be to review the proposed capital structure of all companies incorporated under the Dominion Act and desiring to issue bonds or stock to the public. In other words, the Board would pass on all issues of bonds or stock after thorough investigation. In performing this duty, the Board would necessarily give careful consideration to the proper relation that bonds or stock to be issued, bear to the company's assets. In the case of an industrial company, for instance, the Board would have to decide up to what percentage of the fixed assets a bond mortgage should be issued and, in the case of shares, what return could reasonably be expected. It might insist that a bond issue should not exceed the percentage of fixed assets which is normally considered sound practice for the mortgaging of real estate. This would eliminate the issuing of bonds by holding companies secured by assets consisting largely or wholly of shares in another company; thereby placing the bondholder in a junior instead of a senior position so far as the fixed assets of the other company is concerned. It should insist also that, before the proposal for an issue is submitted to it, the sanction of the shareholders in special meeting be obtained and that the approval of bonds should be given only for the amount actually required at the time of issue.

Moreover, creditorship securities are now occasionally issued with such designations that they convey the impression that they constitute a lien or charge on property when in fact they are merely unsecured obligations ranking with other similar unsecured debts of the company. The proposed Board should prohibit this practice. At the very least, any company issuing a security which bears the name of a debenture and which does not constitute a lien or charge on property, should be required by law to state that fact prominently in red ink, or, in some similar manner, on the face of the document.

The Board should have the power to send in its own auditors for necessary investigations, or to summon appraisal companies, companies' auditors, etc., and secure from them all the details of present transactions and past financial history of any company whose proposed issue of bonds or shares is being investigated. The Board should scrutinize as well the advertising and publicity material to be given to the public at the time of offering for sale to ensure that the true character of the transaction is disclosed. It should have no power formally to approve of any issue; merely to reject those it did not approve. There should be strict provision to the effect that no company or investment house whose proposed issue of shares had not been rejected, should be permitted to make any reference to that fact in its advertising literature, or even to the fact that the Board had reviewed the terms of its offer to the public.

It is not suggested that such a board should have any authority over the affairs of private companies. On the other hand, a private company going to the public for the first time, even for a loan on mortgage bonds, should be subject to investigation as far back as the Board deemed it necessary, with a view to deciding whether the company would have the right to obtain funds from the public at large.

We feel that a board functioning as indicated above would go a long way to prevent the gross over-capitalization which has gone on.

The Board would also exercise a very necessary and desirable restraint over the activities of appraisal companies. Evidence before us has established

beyond doubt the frequent unreliability of certificates of appraisal companies and the doubtful way they are sometimes used for stock selling purposes. We therefore recommend legislation making appraisal companies liable in damages to anyone suffering loss through the purchase of stock, to which purchase any such appraisal has contributed, if it can be shown that such appraisal was untrue in any material part, and that it was issued or published by the appraisal company (a) without honest belief in its accuracy or (b) without such company having first taken all reasonable means to verify the accuracy of the facts or opinions contained in the appraisal.

We realize, of course, that it may be stated that if the Government gives any Securities Board, as outlined above, the right to review all issues of securities, this will involve accepting the responsibility for the fortunes of all issues which it has not prohibited, and that the public will throw the blame on the government for any losses which they might incur through investments in such companies. This argument is met, in part at least, by our suggestion that adequate steps be taken to ensure that the Board's preview of an issue must not be used in the advertising material of the investment house or the company. It should also be pointed out that the Government at present exercises strict powers of supervision and control over banks and insurance companies, without admitting that such supervision makes it responsible for the fate of investments in such banks or insurance companies. In any case, we feel that the advantages of having the capital set-up of companies reviewed before securities are issued far more than neutralizes the risks, if any, which might be involved.

There is one other question which we should like to raise, namely, whether mining companies should not be exempted from these specific recommendations mentioned above which would require the courts to inquire into adequacy of consideration and make the directors liable for any inadequacy found. Mining promotions are by their very nature speculative and the element of chance cannot be eliminated from them. While we feel strongly that they should be put on exactly the same basis as all companies with respect to information, publicity, etc., we are of the opinion that in respect to the recommendations referred to above, they might well be given exceptional treatment.

4. CONCLUSION.

In conclusion, we think it of primary importance that the legal fiction that ownership means control, should be replaced by an acceptance of the fact that shareholders are often in effect a powerless group and properly the subjects of a trustee relationship.

It is clear that the very size of many companies precludes a shareholder from being active and that, with the diffusion of equity securities, it is probably not to the shareholders' interest to be active. This, combined with geography and the proxy system, makes it inevitable that owners of companies will be able to a lesser and lesser extent, to take any of the responsibilities of such ownership. The entrepreneurial group more and more will secure control. One notable evidence of this development is to be found in the absence of opportunity for shareholders effectively to question and examine the management of their companies at the annual meetings; meetings which, as is well known, are more often concerned with securing the speedy performance of the statutory requirements, including the formal sanction of the company's annual statement, than with a serious examination by the shareholders into the company's activities and present position. The auditor of the company, who in theory represents the shareholders, need not be present and, indeed, is seldom available for questioning. The whole procedure is in fact of little value as a protection for the shareholders' interest.

For reasons such as above, we feel that the whole trend of law should be towards putting the managers and directors in a trustee capacity, with respect to all security holders.

CHAPTER IV

INDUSTRY

1. INTRODUCTION

In this chapter we summarize the results of our general investigation into certain specific industries. We were not called upon to survey the whole of Canadian industry, but we feel that we have covered a representative cross-section, ranging from industries such as tobacco manufacturing, meat packing, farm implements, and canning, in which concentration has developed far, through others such as textiles and milling, in which large and small concerns exist side by side, to those such as baking, which still remain predominantly small-scale in character. Our sample goes from almost complete monopoly at one extreme to disorganized cut-throat competition at the other.

Most of the problems of modern business are the joint product of three of its associated but distinguishable characteristics; the growth of the corporate form of organization, the development of large-scale production, and a wide-spread but not universal tendency toward, at least, quasi-monopolistic concentration.

The first of these characteristics, the corporate structure, has been examined in the preceding chapter. Its development, in general, has profound implications for economic theory and policy but, in detail, it raises chiefly problems that are narrowly financial. Before turning to the specific industries investigated, therefore, it might be useful to examine briefly the development of large-scale production and concentration, from the point of view of industrial, rather than financial organization. These developments carry very direct consequences for the wage-earner, the primary producer, the consumer, and the state itself, and we devote later chapters to each of these special points of view. Here, however, we discuss industrial concentration in its more general aspects.

1. LARGE-SCALE PRODUCTION.

Since the early nineteenth century, the scale of industrial operation has increased. Small or medium sized plants have gradually been superseded by very large plants. This development, however, has not proceeded evenly. In some countries, such as France, large-scale production has developed less than in others such as England; in some industries, such as baking, less than in others such as cigarette production.

The movement results from certain technical, managerial and marketing economies that can be achieved by enlarging the scale of production. More adequate utilization of by-products, more complete specialization of labour and machinery, increased opportunities for research are typical technical economies. Managerial economies arise when further specialization of such functions increases expertness and when the costs of certain other functions, such as advertising, increase less rapidly than the output of goods. Marketing economies result from the purchase of raw materials, the sale of the finished product, and the transportation of both, in large quantities.

These economies, as the scale of production increases, may however be offset by certain limitations. As a plant grows in size, co-ordination of the minutely subdivided operations becomes more difficult. The relative scarcity of managerial ability limits continued growth. The characteristics of certain

products (e.g., non-standardization, perishability), of certain processes (e.g., necessary handwork), and of certain markets (e.g., style changes) similarly limit the size of efficient operation in particular industries. Even where the most efficient size of operation in any one industry may be very large, small plants may continue to survive if the proprietor's interest, energy and power of quick decision offset, as they often may, the superior technical efficiency of specialists in a large firm. In only a few industries, therefore, have large-scale plants entirely displaced the small. In some industries, small-scale production still survives as typical.

Nevertheless, there is a general tendency toward larger production units. In the United States, manufacturing establishments with an output of \$1,000,000 or more in 1904 represented only .9 per cent of the number of plants but produced 38 per cent of the output. By 1919, they had increased to 4.85 per cent of the plants and produced 68.18 per cent of the output, and in 1929 to 5.57 per cent and 69.22 per cent respectively. In 1904, they employed 25.6 per cent of the wage-earners; in 1919, 57.47 per cent; and in 1929, 58.24 per cent.

In Canada, comparable figures are not available for earlier years, but the trend is much more evident for the last decade than in the United States where in fact the development has slowed down somewhat. In 1922, plants in Canada with an output of over \$1,000,000 were 1.9 per cent of the total number, but produced 52 per cent of the total output; in 1929, they were 3.2 per cent of the number but produced 62 per cent of output. In 1923, plants with over 500 employees represented only less than one-half of 1 per cent of all plants, but employed 21 per cent of all employees. In 1929, they constituted almost three-quarters of 1 per cent of all plants, but employed 27 per cent of all employees.

2. COMBINATION.

Large-scale production refers to the size of the producing unit. Combination refers to the scale of management. Whether the actual plants be large or small, their combination under one management may achieve two distinct types of advantages. The first type consists of managerial and marketing economies of large-scale production. In a chain store, the unit of physical operation remains small but the large-scale management can effect economies in advertising, purchasing, etc. The second type consists of the elimination of certain wastes of competition. If many plants are united under one management, certain competitive costs of duplicate advertising and salesmen, cross freights, etc., may be avoided.

Combinations are also motivated by the desire not only to realize such desirable economies but also to achieve monopolistic power to limit production and thus obtain monopolistic profits. Experience, however, has taught many combinations, obviously so motivated, not to exploit their monopolistic power completely, to crush competitors or to extort maximum profits. The fear of potential competition, of the competition of substitute products and of government regulation restrains in some measure the unmodified exercise of monopoly power.

Combinations, if based on sound economic considerations, may tend to increase efficiency, but the benefits are often not distributed to the public in the form of lower prices or to the employees in the form of higher wages. In fact, increased profits, if realized, often are not passed on even to the shareholders. Not infrequently, these are diverted to promoters or a controlling managerial group.

Monopolistic combinations, further, by the protection of relatively inefficient members from outside competition, by the suppression or delayed introduction of new inventions and similar policies, may often obstruct general industrial progress.

Some indication of the extent of the combination movement in Canada, was given in the previous chapter and discussed in its financial aspects. It is necessary to supplement this with a brief discussion of the extent to which it and other forces have led to the development of monopoly.

3. MONOPOLY.

The tendency toward monopoly which has marked the development of every industrial country in the world in recent years is evidenced in the record of consolidations in Canadian industry, as outlined in the preceding chapter. In few industries in Canada, outside of certain public utilities, has this development reached the stage of absolute monopoly, that is, complete control by any one company of the production or distribution of certain commodities and services. The more important are explosives, nickel and certain heavy chemical lines.

Monopoly, however, considered as any form of industrial organization with sufficient control over the supply of a commodity to enable the organization to modify the price to its own advantage, has made greater headway. We have not attempted to measure the extent of the existence in Canada of this type of monopoly. Possibly it would not be fair to do so from the industries we have investigated because in many cases they are those concerning which there have been most frequent complaints of monopolistic, or trade abuses. The forty leading industries, as determined by the Bureau of Statistics include, it is true, a number characterized by large units of control or operation. Very few of these, however, may be considered to be dominated by a single monopolistic concern in a considerable area; others are free from such domination, or are characterized by many small firms as well as various larger units.

In industries where there is monopolistic domination, a large measure of control may rest with a single concern, in spite of the fact that it is not alone in the field. Examples are the cement, tobacco, meat packing, petroleum products, and fruit and vegetable canning industries. In others, two or three concerns may dominate the market. In the latter case, agreements among a few producers may cause the public to suffer many of the disadvantages of monopoly with few of the potential economic advantages of centralized control or operation. At times, as in the electrical manufacturing and tin plate industries, these agreements are international in character, operating through control and exchange of patents and through agreements regarding markets. Under such international cartels any control which the State might wish to exercise through reduction or removal of customs duty would be of little or no effect; foreign goods could be prevented from entering the market to any extent, duty or no duty.

Another type of monopolistic control, usually comprising a larger number of producers or traders and representing all or nearly all the members of an industry, is exemplified by the combination of the eight manufacturers of rubber footwear in Canada. This method of control is not that of monopoly, as the separate firms operating under a common agreed policy may readily return or be required to return to independent operation. The methods of such combinations vary: control of price is usually secured by a simple price-fixing agreement, enforced by trade association supervision and a schedule of penalties for infringement. In some industries this is the only method used. In others the price agreement may be supplemented by a production or sales quota arrangement, by provisions for allocating customers and sales territories, or by eliminating competing plants by joint purchase or by a price war. When such a combination is further protected by the customs tariff, its control is exceptionally complete. In one case investigated under the Combines Investigation Act, the fruit basket industry, practically all of these elements were present. The price agreement was supported in another instance, in the plumbing contracting industry, by

undertakings secured from labour unions and from manufacturers and wholesale houses that they would withhold labour and material from non-members of the contractors' organization, the Amalgamated Builders Council. The method of including all competing firms in a merger or consolidation is less frequently resorted to for the purpose of controlling price. The establishment of a joint selling agency, such as has been attempted in the canning industry, can be of great benefit to its principals through economies in marketing costs, but if its control of supply is extensive it contains grave possibilities of detriment to primary producers and consumers. Where control of supply is at all complete and substitute products are few or unsatisfactory, price agreements may not be necessary to effect price enhancement: the result may be secured by restriction of output or by quota provisions, or by a lowering of the quality of the article.

Potential competition and the competition of substitute commodities are not always effective in protecting the public against monopoly or monopolistic combination. Inter-industrial agreements can nullify the effect of the latter, and newcomers to an industry can be quickly assimilated, the ultimate effect being the development of excess capacity and consequent increase of production costs.

Federal control of monopolies and monopolistic combinations in Canada is provided for by the Combines Investigation Act of 1923 and Section 498 of the Criminal Code. The latter condemns the undue lessening of competition, and action under it has been taken against monopolistic associations rather than against monopolies. The Combines Investigation Act can be used against single company monopolies as well as against combinations if they have operated or are likely to operate against the public interest. It authorizes investigation, publicity and, if necessary, punishment. The penalties include fine or imprisonment, reduction or removal of duties and revocation of patents. The effect of the statute in restraining detrimental monopolies and combines cannot, however, be measured by the number of investigations, published reports or prosecutions.

Most of the investigations under the Combines Investigation Act are made as the result of complaints from the public—usually from primary producers, competitors, or consumers. Complaints against single firm monopolies have been few. Public concern has been voiced chiefly against agreements of competitors to fix and enhance prices, and investigations made under the Act have related more frequently to this type of combination than to monopoly. Some of the methods of joint control of price which have been reported against and which the courts have subsequently condemned have been indicated above. The only finding which was reversed by the courts related to a monopoly, the Famous Players Corporation, in the motion picture industry. Findings supporting the charge of monopolistic practices or agreements were reported also in other cases, including Western fruit, radio tubes, and British anthracite coal, though, in the latter, agreements to lessen the competition of other products figured largely in the result. No special measures however have been taken under the Combines Investigation Act for the supervision and control of corporations which have become effective monopolies. While removal of monopoly powers may be the appropriate remedy in most cases there may be instances where regulative measures would be a desirable addition to the present method of investigation, publicity and penalty. We will return to this matter in more detail in Chapter IX.

With this general introduction, we now review in very brief form the industries which we investigated, omitting those phases of the subject which deal with the primary producer and the wage earner, as they are considered specifically in Chapters V and VI.

The treatment we give the various industries is not identical because the nature of the investigations varied in almost every case. Certain of them

were conducted by auditors and are based on careful and detailed examination of the company's records. Others were conducted by auditors through questionnaires, and analysis of the returns. Still others are merely the result of oral evidence received by us from witnesses, supplemented by statistical and other written material as requested. It will be obvious therefore that there can be no uniform treatment when the nature and procedure of investigation varied so greatly.

Our survey will be in the following order: Tobacco manufacturing; meat packing; agricultural implements; canning; rubber footwear and tires; fertilizer; textiles; milling and baking; furniture.

2. THE TOBACCO INDUSTRY

1. GENERAL CONDITIONS IN THE INDUSTRY.

The tobacco industry provides a good example of an industry which is dominated by a single unit, in this case the Imperial Tobacco Company of Canada, Limited, which accounts for at least 70 per cent of the production. The competition within the industry is, therefore, obviously monopolistic in type, a fact which has had interesting results for the producer, the employee, the competitor, the consumer and the company itself. The producer and labour aspect of the question we leave for a subsequent chapter, but the remaining questions we will discuss briefly here. In such discussion, special attention will have to be given the profits, policies and general position of this dominating unit.

Since the end of the Great War, the tobacco industry in Canada has rapidly increased in importance, with leaf production rising from 13 million pounds in 1921 to 45 million in 1933. During the same period, exports of leaf tobacco rose from 200 thousand pounds to nearly 14 million. In 1933, there were 127 firms engaged in the tobacco manufacturing industry with a capital invested in fixed and current assets of \$50,000,000. In that year, production of cigarettes amounted to over 4,000 million, cigars to 112 million, and other forms of tobacco to 24 million pounds. The total factory value of these amounted to over \$64,000,000, of which \$27,000,000 represented excise duties paid on these products. Thus the importance of the industry is manifest.

During the past few years there has been a considerable change in the consumption of the various tobacco products in Canada. Cigarettes decreased until 1932 when the lowering of the excise duties caused an increase. Cut tobacco decreased 5 million pounds in 1929 and has remained constant at the lower level since then. Cigars dropped considerably in 1933. On the whole it is reasonable to assume that there has been little, if any, decline in the per capita consumption of tobacco in all its forms.

The principal outlet for Canadian grown tobacco is in the domestic market, which consumes about 34 million pounds of leaf annually, or 65 per cent of total consumption. In this market, the producer enjoys the protection offered by an excise duty of 40 cents per pound on unstemmed and of 60 cents per pound on stemmed tobacco of external origin. As a result of this protection and the growth of Canadian production, the use of imported leaf tobacco has steadily declined in recent years.

In consequence of high customs duties on manufactured tobaccos the Canadian manufacturer has very little competition from the imported product, most of which comes from the United States and the United Kingdom. Imports, never large, have shown a marked tendency to drop still further in recent years. Between 1928 and 1933, importations of cut tobacco fell from 326,912 to 122,408 pounds, of cigars from 22,321 to 5,188 pounds, and of cigarettes from 62,500 in 1929 to 8,575 pounds in 1933.

Imports of unmanufactured tobacco have dropped from nearly 18 million pounds in 1928 to a little over 8.5 millions in 1934, with an even heavier drop in imports of manufactured tobacco products. At present, the bulk of the imports consist of bright flue-cured tobacco from the United States. Between 1922 and 1930, from 40 to 50 per cent of the raw leaf used was imported, but in 1933, this figure had fallen to 32 per cent. Stocks of foreign leaf held in bond in Canada in June, 1934, amounted to less than 5 million pounds, as compared to over 11.5 million pounds in June, 1929. This drop in imports has naturally been accompanied by an increased use of domestic tobacco. Evidence was given to the effect that this development is continuing and that eventually it was hoped to attain an even higher proportion of the domestic leaf in tobacco manufactured in this country.

The export market is becoming increasingly important in the Canadian tobacco situation, with the United Kingdom the chief, indeed almost the sole, export outlet. In 1932, more than 25 per cent of the Ontario flue-cured crop was shipped to that market. This development which, evidence indicates, should increase in importance is due in large part to a preference received in Empire markets. This preference was first instituted in 1919, subsequently increased in 1925, and finally fixed at 2 s 0½ d. per pound for a period of ten years in 1932. Under the preference, Empire tobaccos cleared from bond for home consumption in the United Kingdom, have risen from 28.5 million pounds in 1929 to 40.8 million in 1933. Canadian figures increased from 4.2 million pounds in 1929 to 8.9 millions in 1933.

Despite continued growth, however, certain conditions have developed in the industry which indicate anything but a healthy state. The position of the grower has been far from satisfactory, with prices for the raw leaf subject to fluctuations in a market in which, up till 1934, the trend had been generally downward. On the other hand, one highly organized company has been in the position to manipulate raw material costs and to sell its product in a sheltered market at prices showing but little variation from year to year. With this increasing domination, the smaller companies, particularly during recent years, have experienced great difficulty in securing and holding an outlet for their goods and in maintaining financial solvency.

In short, there is a decided lack of balance in the industry. While industrial profits as a whole have been consistently high, conditions have been such that they have been acquired almost entirely by one or two large manufacturers. In contrast, the growers, dealers, a majority of the manufacturers, the wholesaler and the retailer have been faced with meagre profits or in some cases, absolute losses.

Before considering the operations of the Imperial Tobacco Company, some mention should be made of the second largest concern, the W. C. Macdonald Inc. This company, with a capital of \$2,500,000, was incorporated in 1930 to take over the business of a former company of the same name. At the time of reorganization, the old company had undivided profits amounting to approximately \$4,000,000, of which \$2,500,000 was earmarked for withdrawal by the President and subsequently was drawn by him at the rate of \$5,000 per week. At the end of 1933 the undivided profits of the new company amounted to nearly \$600,000 and the capital account stood at \$750,000.

2. THE IMPERIAL TOBACCO COMPANY.

a. *Capital Structure.*

The Imperial Tobacco Company with its various subsidiaries is by far the largest factor in the Canadian tobacco industry, and by virtue of its size alone, dominates all branches of the trade. The capital of the present company

stands at \$55,285,160, a controlling interest in which is held by the British-American Tobacco Company Limited, an English corporation with large holdings in the United States and elsewhere.

The company had its beginning in 1895 when the American Tobacco Company, Limited, was incorporated with an authorized capital of \$1,000,000. In 1908, it was succeeded by Imperial Tobacco Company Limited, having an authorized capital of \$11,000,000. Four years later, the present Imperial Tobacco Company of Canada, Limited, was formed with an authorized capital of nearly \$64,000,000. Upon the formation of this company, the preference shares of the 1908 company were exchanged for an equal number of preference shares in the new company while ordinary shares were exchanged on the basis of five of the new for each one of the old. Following these exchanges the par value of the capital of the new company totalled \$31,002,500.

The total issued capital of this company now stands at \$55,285,160, of which preference shares represent \$8,030,000, and common shares the balance, or \$47,255,160. The consideration received for this capital includes \$14,162,727 in cash, profits of \$7,585,160 which were capitalized in 1928 through the distribution of a 20 per cent common stock dividend, and, for the balance, various assets including shares in other companies, trade marks, goodwill, etc.

b. Profits.

The profits of the company and its subsidiaries have been large, as have the dividend distributions to shareholders. During the five years 1929 to 1933 cash bonuses to officials amounted to \$1,861,923 and dividends paid totalled \$26,874,300. The undivided profits, represented by the surplus account, stand at present at \$11,886,573, made up as follows:—

Imperial Tobacco Company of Canada, Ltd.....	\$8,138,486 ¹
Tuckett Tobacco Company.....	2,065,574
National Tobacco Company, Ltd.....	879,695
B. Houde Company, Limited.....	335,383
United Cigar Stores, Ltd.....	325,377
Liggett & Myers Tobacco of Canada.....	142,054

During the last five years the company's net profits totalled \$36,225,253 after taking care of every form of taxation, making liberal depreciation allowances and providing for generous reserves as outlined below:

- (1) \$3,461,203—Depreciation Reserve against cost of real estate, buildings, plant machinery, furniture and fittings, valued at the cost of \$4,282,000.
- (2) \$803,000 in General Reserve.
- (3) \$595,418 deducted from investments in various subsidiary companies.

In addition, in the Imperial Sales Company, there is a reserve of \$229,500, set up against real estate, buildings, plant machinery, automobiles, furniture and fittings valued at the cost of \$815,074. Further, in the Imperial Leaf Company, a reserve of \$263,914 has been set up against real estate, etc., valued at \$988,000. The reserves in these subsidiaries have been accumulated in two years and similar reserves have been set up in the other subsidiary companies. All told, reserves in the parent and subsidiary companies come to over \$5,353,000. The exorbitant profits that this company has been able to make, even in a period of general economic distress, are proof that a dominating position can be used to avoid the necessity of sharing in that distress.

c. Policy of the Company.

Size alone is not the only indication of the dominating position of the Imperial Tobacco Company in this industry; the policy of the company towards the producer, the competitor, and the retailer provides even better

(1) Including Imperial Sales Company and Imperial Leaf Company.

evidence. The methods adopted to maintain this position are twofold; first, maintenance of volume by utilizing its superior strength in the competitive struggle; secondly, by maintaining prices on this volume through a system of resale prices for its products. We shall deal with this latter method first.

The Imperial Tobacco Company in attempting to put into effect a system of resale price maintenance is adopting a policy which in principle meets with the general approval of the trade, and in the operation of which they have received co-operation from other manufacturers, jobbers and retailers. Their method of enforcement is simple. The Imperial Tobacco Company merely removes from its lists dealers and jobbers who cut prices, either of their own or competitors' products, with the jobbers' associations assisting by bringing the names of offenders to the notice of the company. "Cutting off the list" in this case is no mere gesture. When a company which produces nearly three-quarters of the supply refuses to sell a wholesaler or retailer, the effect on that dealer is too obvious to need comment.

A variation of this policy, adopted last summer by the Imperial Tobacco Company, provides even better evidence of the monopolistic position of this company in the industry. The company at that time asked its dealers to enter into a price-maintenance agreement through acceptance of a written contract. This contract was of such a one-sided nature as to warrant some surprise, in view of all the circumstances, at the company's efforts to put it into effect. In signing it, and it must be remembered refusal meant being "cut off" the Imperial list, the dealer undertook to maintain prices not only for Imperial products but for those of other manufacturers as well. The one-sided nature of its obligations, which are practically all on the side of the dealer, and its extension to the products of all manufacturers, provides a drastic demonstration of the domination of this particular company over the whole industry.

The other aspect of Imperial Tobacco Company policy, namely the maintenance of its sales volume, also involves practices which have caused considerable controversy and on which we received much evidence. There are various methods by which this firm can exercise control over the distribution of its products. Twenty-five per cent of its business is done directly with the retail trade, with these direct buyers securing a 10 per cent price advantage over those who buy indirectly through jobbers. Evidence was given to the effect that the qualifications for entrance to the direct list were merchandising ability, size of community served, class of establishment maintained, advertising possibilities, and financial responsibility. Representatives of the company denied that one condition for getting on the direct list was to give Imperial products prominence in display over the goods of other manufacturers. The fact remains, however, that when a company, in such a dominating position as this one is, adopts such a policy of preferential selling, it constitutes a weapon which can easily be used to the detriment and damage of smaller competitors as well as independent retailers. That it was used as such was alleged by witnesses appearing before us, and denied by the company.

We also received many complaints from the smaller manufacturers and dealers in regard to the practices of the promotional and sales force of the Imperial Tobacco Company. It was claimed that retailers were intimidated with a view to blocking the sales of competitive products. Advertising material of the smaller manufacturers was spoiled, obscured or destroyed. One small cigar manufacturer reported an attempt to force purchase of his business with the alternative of opening a competing factory in his district. Jobbers were said to have been compelled to push the distribution of Imperial Tobacco Company products and hinder those of the independent manufacturers. Sales to dealers of certain popular brands of the Imperial Tobacco Company were allegedly conditioned on the accompanying purchase of less popular merchandise. The general contention, in fact, was that the Imperial Tobacco Company used

oppressive tactics and unethical methods to promote the sales of its products in every part of the country. Officials of this company claimed ignorance of these practices, and denied that the company engaged in them. They also cited isolated instances of unfair action by their competitors.

While not accepting as valid all the allegations launched against this company, we feel, nevertheless, that at times, in its efforts to press the sale of its products, it has used its power in a way that is to be condemned and has indulged in unfair competitive practices. At the same time we cannot forbear to note a remark made in evidence by the President of one of its competitors, to the effect that human nature and business being what they are, it was difficult to avoid such practices, and that he might be guilty of them himself, if only his company were as strong as the Imperial Tobacco Company.

There remains to be discussed whether the concentration of power in this industry in the hands of one company has benefited the consumer. We will examine later what it has done to the producer and the tobacco factory worker.

Evidence on a point such as this cannot be conclusive, but we do know that the unprecedented levels to which raw tobacco has fallen in recent years has not resulted in any noticeable decrease of prices of the finished product by the manufacturer, with the exception of cut tobacco, in which there has been some slight reduction.

It is true that in 1932 there was a reduction in the price of cigarettes from 25 to 20 cents per package of twenty. Four cents of this reduction, however, is accounted for by the lowering of the excise tax from \$6.00 to \$4.00 per 1,000 cigarettes. The other one cent was absorbed almost entirely by the jobber, retailer, and the reduction on sales tax. The Imperial Tobacco Company's contribution to this consideration for the consumer amounted to one cent per 1,000 cigarettes. It did not appreciably effect subsequent profits.

We examine now a second industry, wherein one company exercises a dominating influence: meat packing.

3. THE MEAT PACKING INDUSTRY

1. GENERAL CONDITIONS IN THE INDUSTRY.

Our inquiry into slaughtering and meat packing companies was carried on through our investigators, who made a detailed examination of the records of the larger companies in the field. Considerable evidence was also received as to the policies of the large packers in the purchase of livestock, but this phase of our inquiry is discussed fully in the chapter dealing with the primary producer. We consider, in this section, the industry generally, its history during the depression, and the effect of its competitive practices and merchandising policies.

Meat packing is one of the most important of Canadian industries. In 1932, the last year for which complete statistics are available, it ranked third in point of gross value of output and first in order of cost value of materials used. In 1933, there were 135 establishments, representing a capital investment of over fifty-four million dollars, which employed more than nine thousand persons and paid over ten million dollars in salaries and wages.

The industry is concentrated in the larger centres of population, with Toronto and Montreal together handling over half of the total product. Substantial volume of output is also found in Winnipeg, St. Boniface, Edmonton and Vancouver. Among the Provinces, Ontario has the largest share of the volume, accounting in 1933 for 48 per cent of the capital, 40 per cent of the employment,

and 46 per cent of the total value of products sold. The Western Provinces contain important units and, in 1933, accounted for 34 per cent of the total value of products sold.

The reports of the Dominion Bureau of Statistics show packing to be an industry principally of large-scale production. Out of the 135 establishments referred to, 24 plants, many under the same ownership, together accounted for 84.7 per cent of the value of total output. The remaining 15.3 per cent, divided among 111 plants, is relatively unimportant.

For many years, there has been in the packing industry a definite trend toward concentration. The history of the past twenty-five years is little more than a succession of mergers and consolidations, resulting in a steadily decreasing number of medium-sized plants, and an increasing dominance by the consolidated units. The resulting situation is illustrated by the fact that, in 1933, out of a total production for the industry of \$92,000,000, the two largest companies together accounted for nearly \$79,000,000, or 85 per cent. Canada Packers Limited, the largest company in the field, is a consolidation of four large packing concerns which came together in 1927. Its sales in 1933 were over \$54,000,000, or 59 per cent of the total for the industry. The Swift Canadian Company, Limited, had, in the same year, sales of over \$24,000,000, or 26 per cent of the total.

It may be fairly stated, therefore, that these two companies dominate the industry. Their buying and marketing policies affect their smaller competitors and largely determine the operating methods of the industry. A proper appreciation by the managements of these companies of their responsibilities to producers and consumers is manifestly of supreme importance. The disparity in bargaining power between the farmer and these large packers is obvious and is referred to in a later chapter; to a large extent, also, the consumer is at a bargaining disadvantage and is in danger of exploitation as uncontrolled monopoly develops.

As a result of the method of record keeping of the larger companies, a method peculiar to this industry and followed by large packers in the United States, our investigators were able to obtain only limited information as to the detailed operating results. The Dominion Bureau's statistics of the industry as a whole, however, serve to illustrate the major trends and, in view of the fact that the two largest companies account for nearly 85 per cent of the total volume, these statistics should reflect with reasonable accuracy the operating ratios of such companies.

2. THE INDUSTRY AND THE DEPRESSION.

In common with all Canadian industries, the general business depression has affected the packing business, but not in the same manner, nor to the same extent, as many others. From 1929 to 1932 the physical volume of production, measured by the number of pounds of meat produced declined 7 per cent, as compared with a reduction of 33.4 per cent in the volume of physical production of all manufacturing industries. In spite, however, of this relatively small reduction in volume, the value of the output of packing companies fell by 50.9 per cent, compared with an average of 47.2 per cent for all industries.

The selling value of the product consists of (1) the cost of materials, and (2) the value added by the packer. As over 90 per cent of the cost of materials represents payments for animals slaughtered, this index may be taken to reflect essentially the return to the primary producer. The value added by manufacture, or by the packer, represents his labour costs, overhead expenses and profits. The following table shows the percentage decreases of the principal statistics, between 1929 and 1932, in the packing industry and in all Canadian industries:

DECREASES 1929-1932

	Meat Packing	All Industries
	Per cent	Per cent
Value of Production.....	50.9	47.2
Volume of Production.....	7.0	33.4
Cost of Materials.....	56.8	53.0
Value added by Manufacture.....	24.5	41.4

In 1929, sales of the packing industry in Canada totalled \$186,000,000 and the cost of materials was \$152,000,000. In 1932, with a decrease in physical volume of only 7 per cent, sales had fallen to \$91,000,000 and cost of materials to \$66,000,000. Thus, while sales fell by 50.9 per cent and the return to the primary producer fell by 56.8 per cent, the return to the packing company declined only 24.5 per cent. This indicates clearly that the live stock producers suffered much more severely than the packing companies.

This situation is not paralleled, however, in the combined results of all industries, where the value of production has decreased 47.2 per cent and the return (costs and profits) to the manufacturer 41.4 per cent. The ratios of the decline in the value added by manufacture to the declines in the total value of production and in the cost of materials were, in all industries, respectively, 87.7 per cent and 78.1 per cent; in the packing industry these ratios were 48.1 per cent and 43.1 per cent, respectively.

From the foregoing, it seems clear that the packing industry has been better able to protect its margins than has the primary producer, or certain other industries. The corollary is found in the retention by the packer of an increasing proportion of the average sales dollar. In 1929, for every dollar's worth of meat sold, 81.7 cents went to the suppliers of materials, and the value added by manufacture amounted to 18.3 cents; in 1933, however, although the consumer's dollar purchased approximately 80 per cent more meat than in 1929, out of each dollar the producer received only 76.3 cents (or 5.4 cents less than in 1929), and the packer 23.7 cents.

The manner in which these results have been achieved has a direct relation to the monopolistic character of the structure of the industry. The dominant position of the two large companies, with extensive storage facilities and control of a great proportion of the slaughtering equipment in the country, has undoubtedly secured for them some measure of control over both live stock prices and selling prices for their product. While there is no direct evidence of a combination between these companies, we are not persuaded that prices have been subject to the same fluctuations as might be expected in a more generally competitive field.

The Swift Canadian Company suffered operating losses in two out of the last five years, but Canada Packers Limited, with approximately double the volume of the Swift Company, was able to extract a charge sufficient to cover all its costs and a profit in each year—and this in the face of a severe decline in prices and purchasing power generally.

Further reference will be made to the profits of these companies, but we should here consider the view expressed by the President of Canada Packers Limited, of the relations of the industry to producers and consumers. This witness summed up his estimate of the situation as follows:

“The total live stock is sold for the total sum, whatever it is; from that sum is deducted the packer's expense and the packer's profit and the farmer gets the balance.”

The witness further admitted that the packer's charges should be as low as possible and that his profit should be a reasonable one. The statement quoted, if it means what it appears to, implies the occupancy by the processor of a privileged position where, in return for the performance of a necessary function, a return on the capital employed should be assured. It suggests, in fact, and evidence supports the suggestion, that many of the vital characteristics of monopoly are present. We cannot, therefore, escape the conclusion that the continued prosperity of Canada Packers, Limited, during the depression bears some relation to the enjoyment of relative freedom from competition. That the inadequacy of such competition has operated to the detriment of the primary producer seems evident.

3. PROFITS OF THE INDUSTRY.

The earnings of the five packing companies (Canada Packers, Swift Canadian Company, Burns & Co., Wilsil, Limited, and Gainers, Limited), reviewed in evidence represent for the years 1929 to 1933 an average return of but 3.3 per cent per annum on the invested capital. In the years 1931 and 1932 the group showed a loss due to large operating deficits of the Swift Canadian Company, Limited, and Burns & Co., Ltd. The earnings of the group should, therefore, be considered in conjunction with the profits of its largest member, Canada Packers, Limited. The following table shows the percentages of earnings on invested capital for each of the five years:

Year	All five Companies	Canada Packers Limited
	Per cent	Per cent
1929.....	9.9	16.0
1930.....	3.4	7.5
1931.....	1.7*	3.9
1932.....	1.2*	6.3
1933.....	6.2	12.3
Average.....	3.3	8.9

* Loss.

The above earnings ratios are based on the profits shown by the companies, adjusted in Canada Packers, Limited, for certain extraneous charges. The evidence, however, indicates that certain operating charges have been excessive and that the true profits of Canada Packers, Limited, are probably greater than disclosed by the records.

Our investigators reported that for the five years ended 29th March, 1934, provision for depreciation and repairs by Canada Packers, Limited, amounted to over \$6,100,000, or nearly 52 per cent of the average depreciable value of the fixed assets. On an average depreciable value of approximately \$11,830,000 the annual charges were as follows:

	Repair Charges	Depreciation	Total
	\$	\$	\$
Year ended 27 March, 1930.....	612,158	748,373	1,360,531
26 " 1931.....	465,483	766,950	1,232,433
31 " 1932.....	463,839	777,821	1,241,660
30 " 1933.....	350,165	748,997	1,099,162
29 " 1934.....	446,874	753,629	1,200,503
Total.....	2,338,519	3,795,770	6,134,289

The amount of these charges considered in relation to the depreciable value of \$11,830,000 indicates the rapid rate at which the fixed assets are being written off.

Profits have also been affected by writing off against operations over \$500,000 of the book value of investments. The market value of investments at 29th March, 1934, exceeded their net book value by over \$100,000. Realized profits of \$191,000 on investment transactions have not been shown as profits, but carried forward as a reserve. New inventory reserves of \$180,000 have been created out of earnings during the period. These and other items not satisfactorily explained lead us to the conclusion that the profits of Canada Packers, Limited, have been substantially more than shown. While the Company's conservatism may be sound business policy, we cannot overlook these facts in considering its relative position in the industry.

4. COMPETITIVE CONDITIONS IN THE INDUSTRY.

The evidence taken by us indicated that selling competition between the packing companies was keenest for the business of the small merchant and was at times of a predatory nature. A number of cases were found where on one day the same goods were offered by Canada Packers, Limited, to different merchants in the same town at different prices. The spreads between the high and low prices were in some cases as much as three cents a pound, and when related to the general profit margin of one-half cent, or less, per pound, are illustrative of extreme price discrimination, practiced apparently to obtain business from a smaller competitor. In dealing with the more important individual accounts, however, there was little evidence as to such competition between the large packers. For instance, on the formation of a voluntary chain by independent grocers and butchers in Nova Scotia, it was soon found that all the packers were quoting the same prices.

There is considerable spread between prices charged by the large packers to large and small retailers. The advantage of the large buyer consists not only in special price and quantity discounts, but arises also through special allowances for advertising and demonstrating. Department and chain stores are the customers to whom such concessions are granted, and there is no doubt that the favourable terms extended the largest buyers are largely responsible for the fact that the small independent retail butcher is frequently under-sold. The worst feature of this price discrimination is the secret nature of the concessions given, which prevents the small butcher knowing how great an advantage his large-scale competitor has through purchasing at lower prices from the common supplier, the packer.

In our chapter on distribution we refer in detail to discriminatory discounts, unearned advertising allowances and salesmen—demonstrators. These are all used as instruments of unfair competition and, as such, are to be condemned. Reference is also made in the chapter on distribution to loss leaders, which find a place in the retailing of meat products. Examples of specific loss leaders on meats, referred to in the evidence, were as follows:

Article	Cost to Independent Butcher	Loss Leader Retail Price
	cents	cents
Shoulders of pork.....	.11	.08
Spare ribs.....	.24	.17
No. 1 Picnic Hams.....	.12	.10
Lard.....	.12	.10

Another question which has caused some controversy is the competitive justification of the packers venturing into fields foreign to the slaughtering and packing of meats. A brief description of the organization of Canada Packers, Limited, will illustrate its varied business activities.

Canada Packers, Limited, is a holding company owning the following companies: Harris Abattoirs, Limited, Harris Abattoirs Western, Limited, Gunn's, Limited, Gunn, Langlois & Co., Ltd., Canadian Packing Company, Limited, William Davies Company, Inc., William Davies Company, Limited, and Ontario Fertilizer Company, Limited. The operations of all these companies are, however, consolidated under one management, though varied in character. Six main-plants are operated in the larger cities and wholesale selling branches are maintained at some twenty-nine points in Canada and Newfoundland. Seven creameries are operated at different points in Canada; cold storage plants are located at Toronto and Montreal, and a wool-pulling plant at Toronto. In the canning field the company has one subsidiary and two other plants in Ontario. Fertilizer plants are operated at Toronto, Montreal and Saint John, N. B.

In connection with the creameries, evidence was submitted that the competition of this company was having a disastrous effect on the business of independent creameries. The company's creameries in 1933 were shown to have suffered a loss of \$38,000, but the hope was expressed by the president that the creameries could be made profitable. It is evident that this company's presence in the creamery business, which is more or less accidental, has had a disturbing effect upon the regularly established creamery companies. The evidence indicates also that its creamery products were at times the subject of loss leader offerings by chain stores.

As to canning, the evidence indicates that Canada Packers, Limited, entered this business to save freight on railroad shipments. Regular car-routes are operated for meat products and, by filling up these cars with canned goods, it was possible to effect a considerable saving in freight. The canning departments, however, in 1933 operated at a loss of some \$50,000, in spite of such savings. Quite apart from the methods employed in purchasing materials for canning, or in merchandising the product in competition with the standard canning companies, the effect of this Company's competition on the wholesale trade is undoubtedly disturbing.

We question the justification for the participation of a meat packing company in the creamery and canning fields and recall that a similar excursion by United States packing houses into other food products fields was checked by legislation. In the case of Canada Packers, Limited, the operation of creamery and canning branches at a loss, necessitates a greater spread on its regular meat products business, in order to earn a satisfactory return on the capital invested. Having regard to the dominant position of this company in the Canadian market and the fact that it is able to exercise at least some influence on prices, it seems clear that, in the long run, the losses from unprofitable sidelines are paid either by the producer, or the consumer, or both.

One other reference was made in evidence to activities of this company detrimental to producers in unrelated fields. It was stated that, in order to promote the sale of fertilizers, the company acted as a forwarding agent for produce including onions, potatoes and grapes, and landed such produce in the larger markets at less than the current price. While the actual producers of the fruit and vegetables so handled did not suffer directly, this policy had a depressing effect upon the current prices in the produce markets and unnecessarily complicated the sale of fertilizer.

Summarizing, the packing industry in Canada, which is engaged in a public service of national importance, presents an illustration both of large-scale production and monopolistic concentration. The two largest packing companies in the United States, Swift and Company and Armour and Company,

do not together account for as high a proportion of the packing business in that country, as Canada Packers, Ltd. alone accounts for in Canada. This dominating position of one company emphasizes the natural disparity in bargaining power between the packer and the primary producer and facilitates unfair competition in the distribution of packing house products by encouraging price discrimination and other uneconomic competitive practices. One further result of the present set-up of the industry is that during a trying period of economic readjustment the dominating packer has been able substantially to protect his profit margin, while other branches of the industry, more especially the live stock producer, have had to bear a disproportionate share of the burden of depression.

4. THE AGRICULTURAL IMPLEMENT INDUSTRY

1. GENERAL CONDITIONS IN THE INDUSTRY

In conducting our inquiry into the Agricultural Implement Industry our investigators were instructed to proceed by questionnaire, followed by visits to the larger companies and discussions with their officials. Accordingly 59 questionnaires were sent out to manufacturers and others engaged in the industry, and complete replies were received from 24 companies, which comprised all those, a knowledge of whose operations was regarded as essential for our purposes.

Over a period of years, actual manufacturing conditions in this industry have changed less than in many others. Except in the case of tractors which have been subject to the same improvements as motor cars, the majority of farm implements in use to-day were in use, in somewhat similar form, in the years preceding the War. The only radical developments of the last two decades have been in regard to combines and other large-scale machines, and in the gradual transition from animal to mechanical power.

Manufacturing technique in the production of agricultural implements, even prior to the War, had reached a high degree of efficiency and consequently there has not been the same room for reduction in factory costs, through large-scale production, elimination of the man for the machine, etc., as in many other lines of manufacturing. Technical improvements have been continual, but these have been more in the nature of betterment in appearance, in the size of machines, and in strength, quality, and durability of materials, than in structural design of the machines themselves.

The Industry in Canada is very largely in the hands of four large manufacturing companies, two of which are in the relation to each other of parent and subsidiary. These four are, Massey-Harris Co., Ltd., International Harvester Co. of Canada, Ltd., Cockshutt Plow Co., Ltd. and Frost and Wood Co., Ltd. The sales in Canada during the five years 1929 to 1933 of these four companies amounted to approximately 75 per cent of all sales of agricultural implements. An additional 17 per cent was represented by the sales of Canadian subsidiaries which imported the products of their American parent companies.

Other groups which were also engaged in the industry were a number of relatively small manufacturing companies; certain companies which, while not specializing in agricultural implements, included in their lines one or more products which were sold to farmers; certain American companies which, while having no factories in Canada, sold their products in Canada through branches; three companies selling agricultural implements by mail order; and jobbers, dealers, and wholesalers, who purchased the products of smaller manufacturers or imported from other countries. Thus it will be seen that the picture of

the industry is substantially the picture of the four large manufacturing companies, with which this section of the Report will therefore deal almost exclusively.

Virtually the entire Canadian production is centred in the province of Ontario, the large companies having plants in Toronto, Hamilton, Brantford, and Smith's Falls, and the smaller manufacturing companies being located chiefly in smaller cities and towns within the province.

Total shareholders' capital invested in the Industry, by the four large companies, was \$62,000,000 in 1927, \$92,000,000 in 1930, and \$61,000,000 in 1933. The investment in the 11 smaller manufacturing companies was \$4,800,000 in 1929 and \$4,000,000 in 1933. This increase in shareholders' equity in the period 1927-1929 was to a considerable extent accounted for by profits from operations, and no evidence was produced that any of the companies investigated had been guilty of those abuses, arising out of mergers, reorganizations, etc., such as came to our notice in certain other industries.

In 1926, the selling value of total domestic production of agricultural implements amounted to some \$38,000,000. In 1929, it amounted to over \$40,000,000, from which figure it declined with extreme rapidity, until by 1932 it amounted to only \$5,500,000. Striking evidence of the much greater extent to which this industry suffered during the depression, in comparison with industry as a whole, is afforded by figures published by the Dominion Bureau of Statistics. These show that in 1926 the selling value of the factory production of all agricultural implements in Canada amounted to 1.18 per cent of total industrial production in Canada, while in 1932 it had dropped to .26 per cent. This particularly heavy decline is further illustrated by the fact that the domestic production of the four large companies in 1933 was only 19 per cent of the corresponding production in 1928.

In 1933 the four large companies employed 3,500 persons and paid salaries and wages totalling \$4,000,000, while 10 small manufacturing companies employed 392 persons, paying salaries and wages of \$370,000. This represents a reduction, since 1929, of 66.5 per cent in the average number of employees in the large companies, and of 44.6 per cent in the 10 small companies. Great as has been this reduction, it is relatively far less than the decline in total domestic production to which reference has already been made. Examination and comparison of actual hourly wage rates indicates that reductions have been far less drastic than in the majority of other industries. We will report more fully upon this in chapter v.

The domination of the four large companies in this industry also affords an example of the existence of what has been referred to as imperfect competition. Of the four large companies, one, International Harvester Company of Canada, Limited, is a wholly-owned subsidiary of the largest American organization in this industry, and its policy is therefore determined by the management of that organization. Massey-Harris Company, Limited, and Cockshutt Plow Company, Limited, the shares of which are both widely distributed, may also be said to be management-controlled. The fourth company, Frost and Wood Company, Limited, has for many years been virtually, and now is actually, a subsidiary of Cockshutt Plow Company, Limited. We, therefore, have a situation where the managements of three large companies dominate the industry in Canada. As a result of this situation, competition between them is "imperfect," rather than "simple." This is shown, even in the absence of direct agreement or affiliation, by the maintenance over a long period of years of substantial similarity in prices and practices. Due to the dominant position occupied by these companies for many years and the policies which they have adopted, no cut-throat competition has occurred in this industry either before or since the depression. We have seen in other industries how competition of that nature can lead to abuses and

unethical practices, and, while this industry and its employees may in this respect have been more fortunate than some others, it is probable that absence of simple competition has resulted in higher prices to farmers than would otherwise have obtained.

2. COSTS AND SELLING PRICES OF IMPLEMENTS.

Price reductions from the 1930 level were made in 1931, 1932 and 1933, while they were increased in 1934 by the discontinuance of a policy of offering substantial discounts which had been inaugurated in 1932 and 1933. The greatest reduction in price by any of the three major companies on their principal products was to a point 20 per cent below the 1930 level, while prices in 1934 were from 90 per cent to 96 per cent of those of 1930. Thus, the policy of the Big Three of the implement manufacturing industry since 1929 has been, in effect, to maintain prices and to adjust their production to sales at those prices; in other words, price inflexibility and production flexibility.

The result has been that the farmer, the industry's sole customer, whose income has been drastically reduced through the falling prices of primary products, and who has relatively little bargaining power, has been compelled to pay what he regards as high prices to a monopolistic manufacturing group for the essential tools of his trade, at a time when he could least afford it.

We obtained selling prices in 1913 of a number of machines which were comparable to machines produced to-day, and noted that, except in the case of a tractor, substantially higher prices were asked at the present time. Technical improvements attained since 1913, to which reference has already been made, are no doubt responsible for a portion of these increases. The following table presents a graphic picture of the increase in price to the consumer and in cost to the manufacturer:—

	International Harvester Company of Canada		Massey-Harris Company Limited	
	Average of 6 Imple- ments		Average of 9 Imple- ments	
	1913	1933	1913	1934
	\$	\$	\$	\$
Cash Price to Consumer (Regina).....	83.04	127.24	86.39	130.00
Agents' Commission.....	15.84	23.16	9.94	20.92
Freight.....	8.98	13.63	12.43	16.58
Material.....	22.41	39.78	25.54	42.08
Productive Labour.....	5.58	11.46	4.97	6.33
Other Factory Expense.....	6.42	38.84	7.63*	26.42*
Gross Profit before Selling Expenses, etc.....	23.81	0.37	25.88	17.67

*—Includes figures for Factory Overhead and Administrative Expense.

Criticism has been voiced before us that the manufacturer has not passed on to the farmer the reduced cost of his labour and materials, but that he has on the other hand endeavoured to recover from him the costs of carrying idle plant and other overhead resulting from reduced production. Overhead and direct labour costs of 26 implements produced by three manufacturers were in 1930 16.5 per cent of the cash paid by the farmer. They had arisen to 44.5 per cent in 1932, the rise being caused by the fact that there were far fewer sales over which to spread an overhead which could not be reduced to keep pace with the decline in demand.

In 1930, total manufacturing costs of these three manufacturers were 50.7 per cent of the cash paid by farmers, leaving 49.3 per cent available for selling expenses, bad debts, collection and general expenses and agent's commission.

This was insufficient in the cases of each of the large companies to provide a net profit. Manufacturing costs in 1932 were 87·8 per cent of the cash paid by the farmer and, with other expenses, exceeded the price realized by the company, a gross loss of 17 per cent instead of a gross profit being the result.

The President of International Harvester Company of Canada stated to us that, in his belief, prices had been too low in the good times; that in this industry they should not fluctuate from year to year, depending upon operations, but should only be changed if, after a period of years, they were found to be too high or too low. It was further argued that the stability which would result from relatively fixed prices would be of benefit to both the farmer and the manufacturer. As a result of this stability of prices, substantial profits would be required in good years for the purpose of absorbing and carrying the losses of the lean years which were certain to follow.

3. THE QUESTION OF EXCESS CAPACITY.

In considering the manufacturing and merchandising situation in the industry, it was noted that both imports and exports of agricultural implements are an important feature, as the following table will show:—

	Selling value of production at factories	Exports	Selling value of production available for Canada	Imports	Total available for Canada
	\$	\$	\$	\$	\$
1925.....	24,770,216	11,342,712	13,427,504	6,494,986	19,922,490
1926.....	38,269,214	13,628,341	24,640,873	13,336,650	37,977,523
1927.....	42,996,288	17,412,947	25,583,341	18,946,288	44,529,629
1928.....	41,199,841	15,643,381	25,556,460	29,636,449	55,192,909
1929.....	40,659,479	15,870,918	24,788,561	40,292,899	65,081,460
1930.....	26,902,139	18,396,688	8,505,451	30,075,453	38,580,904
1931.....	11,175,404	7,183,078	3,987,326	16,495,217	20,482,543
1932.....	5,510,078	2,484,965	3,025,113	3,315,542	6,340,655
	231,482,659	101,968,030	129,514,629	158,593,484	288,108,113
Average.....	28,935,332	12,746,004	16,189,328	19,824,186	36,013,514

The Massey-Harris Company is responsible for the major portion of the export trade in implements, its export sales and foreign business having amounted to between 60 per cent and 80 per cent of its total sales in the last seven years. On the other hand, International Harvester Company of Canada has imported from its parent company in the U.S.A. a substantial proportion of the goods which it has sold in Canada. We have noted, however, that since 1930 a much larger percentage of its output has been produced in Canada, its Canadian production having risen from approximately 50 per cent of its Canadian sales during the years 1924-1929, inclusive, to an average of approximately 80 per cent in the years 1931-1933.

It was submitted that the manufacturer of agricultural implements, whose only customer is the farmer, has great difficulty in estimating his probable sales. His difficulties, as compared to those encountered by ordinary business, are accentuated by the wide and unpredictable fluctuations and variations which occur, often in a very short time, in crop conditions and prices.

The table quoted above indicates clearly that from 1926-1929, which were the most profitable years for the industry, domestic production showed no substantial increase. In point of fact, the peak was reached in 1927. With exports during the four years remaining comparatively steady, the increased domestic demand was met by imports, which rose from \$13,000,000 to a peak of \$40,000,000. In the year 1929 the total value of products available for sale in

Canada were provided to the extent of over 60 per cent by importation. In fact, imports, having in 1929 for the first time equalled the domestic production, did not decline in the two subsequent years as drastically as domestic production, which they exceeded in both 1930 and 1931. The selling value of production shown in the table is, we understand, the value of production at factories converted to the prices that would be charged to branches. It is therefore considerably less than actual retail selling value of production. Inasmuch as sales in Canada of all agricultural implements, except tractors, for which the demand virtually ceased subsequent to 1930, averaged approximately \$42,000,000 per year for the four years 1927-1930, we have concluded that manufacturing facilities in Canada were ample to supply the demands of the Canadian markets in the years 1927-1930. Until recent years, however, export business was substantial and in order to fill it and the domestic market, very considerable importations were necessary. In view of this export business, therefore, it cannot be said that in this industry productive capacity was expanded in Canada during the years of profitable and increasing business to a point in excess of normal requirements.

4. PROFITS OF THE INDUSTRY.

Earnings of the four large companies showed profits in 1927, 1928 and 1929 totalling \$16,000,000, after eliminating the foreign business of the Massey-Harris Company, and an estimated amount for the expenses relative thereto. Losses have been incurred in each of the four years thereafter totalling \$11,000,000. In the case of 11 small manufacturing companies and of the Canadian branches of U. S. companies, net profits were made in 1929 and losses thereafter.

The expenses of the four large companies have increased from 17.5 per cent of net sales in 1928 to 52 per cent of net sales in 1933, which indicates extreme rigidity of expenses. This rigidity, however, is not quite as real as the percentages show, since they have been reduced from a high of \$10,000,000 in 1929 to a low of \$5,000,000 in 1933. It is nevertheless evident that expenses have not been reduced proportionately to the drop in sales.

Evidence shows that of the four large companies, two obtained a small return on investment over the ten-year period 1924-33 inclusive, the figures being 2.6 per cent and 1.0 per cent. The other two companies failed to earn a return and made losses of 2.6 per cent and 1.1 per cent. In considering these results, we enquired as to whether any of the capital had been placed upon their books without the receipt of adequate and proper consideration. No evidence of this was found, at least in the years under review. That there was no undue expansion of manufacturing facilities in the years of prosperity has already been shown and we therefore do not believe that the investment upon which the returns have been calculated is greater than was justified.

5. METHODS OF SALE AND DISTRIBUTION.

Farm implements are sold on a cash basis and on a credit or time basis, the policy of the large companies being substantially similar in this respect. The experience of one of the larger companies shows that in 1933 cash sales amounted to 60 per cent of all sales in Eastern Canada and 57 per cent of all sales in Western Canada, as compared with 44 per cent and 35 per cent, respectively, in 1931.

This trend is undoubtedly desired by the companies, under present conditions, and has no doubt been influenced and encouraged by them. From the point of view of the farmer, it is natural that past experience and his declining income in recent years would militate against his signing notes which might remain as a millstone round his neck. In addition, the manufacturer's experience and his record of bad debt losses and collection expenses would indicate to

him the extreme desirability of encouraging sales for cash, in preference to sales on credit. Time sales are usually booked on a one fall payment basis or a two fall payment basis, and since 1924 the large companies have insisted upon a cash payment on time sales of at least 25 per cent.

Debt adjustment legislation, the difficulty of disposing satisfactorily of second-hand machines, and the desirability of maintaining a reputation for fair dealing, have been major contributing factors in the policy of repossessing machines only infrequently. Legal action, as a general rule, has only been resorted to when the amount involved is substantial and when evidence of bad faith has been present.

Interest is charged on notes given in connection with time sales, both before and after maturity. The rates in the different provinces, which vary to some extent from year to year, were as follows in 1934:—

	Before Maturity	After Maturity
Ontario.....	6% per annum	7% per annum
Manitoba.....	7% " "	8% " "
Saskatchewan.....	7% " "	7% " "
Alberta.....	7% " "	8% " "

In view of the fact that the difference between cash and credit prices is intended to cover the risks attendant upon time sales, we believe that interest charged upon notes should never exceed 7 per cent, and should frequently be less, even after maturity.

It was shown that collection expenses and notes written off as uncollectible, over a ten-year period, had each amounted to about 10 per cent of instalment sales and that, in addition, interest on notes had very frequently been waived or reduced. Experience shows that in recent years, at least, the differential between cash and time prices has been insufficient to cover collection expenses and losses from bad debts, and the companies therefore consider that their time prices are not excessive. This contention might be justified, provided that the anxieties of the companies to make sales had not in the past led them to extend credit with undue liberality and optimism to those farmers whose financial position and prospects did not make them a reasonable business risk. Direct evidence of this was not forthcoming but we are inclined to believe that the companies were not blameless in this regard. To the extent, if any, therefore that credit has been unwisely extended, collection expenses and bad debts have been higher than they should have been. It is better for both farmer and manufacturer that the latter should refuse a sale if the alternative is the extension of unjustified credit.

In Canada, distribution of farm implements is effected through the maintenance of branches throughout the country, where stocks of machines and parts are kept. The employees of these branches supervise the sales, collection and servicing in the various districts. The three large companies maintain a total of 41 branches at strategic points throughout the country, mainly in Western Canada. In addition to these branches, the large distributors maintain warehouses or transfer points, where machines and faster-moving parts are stored. One of the large manufacturers has 22 warehouses, of which 10 are in Alberta and Saskatchewan.

The large companies actually sell their products through agents located throughout the country, who are supplied on consignment with a number of machines for display purposes and a stock of parts. When a sale is made, the machine is forwarded to the agent from the nearest branch or transfer point, and the agent receives a stipulated commission from which he is expected to pay his expenses. The maintenance of branches, warehouses, and agencies, with

the necessary staffs and accommodation, results in a very costly system of distribution and the problem of its simplification is one that vitally affects both the manufacturer and the farmer. All manufacturing is centred in Ontario and in relatively close proximity to the sources of raw material and other manufacturing requirements, and therefore freight charges on the finished product are a substantial item to the Western farmer. The necessity of maintaining the essentials in this system of distribution made it impossible to reduce selling expenses in conformity with the reduced sales of the last few years. The percentage of selling expenses, including commission, to gross sales increased from 26.8 per cent in 1929 to 39.3 per cent in 1931, from which it was reduced to 37.2 per cent in 1933. This increase in the percentage of selling expenses to sales was shown in spite of the fact that actual selling expenses of the four companies were cut from \$5,800,000 in 1929 to \$2,600,000 in 1933, or 55 per cent.

This system results, as we have seen, in a degree of inflexibility of expenses in periods of restricted sales, which reacts unfavourably upon both buyer and seller. Unless and until a different method of distribution can be devised and perfected, however, it appears essential to maintain branches, transfer points and agents, not only in order to obtain sales but to give service and supply repair parts.

Competition in this industry expresses itself, not in prices, but in salesmanship, in keeping and supplying spare parts, and in giving service. This fact has no doubt been responsible for the high pressure salesmanship in the years prior to 1930, of which we found evidence, and which presumably caused a proportion of the bad debts which were subsequently incurred.

We were informed that the present Canadian system was in use in the U.S.A. until about 12 to 14 years ago, at which time the implement dealer succeeded in establishing himself financially to the point where he was able to stock his inventory of goods himself. He was able to buy the repairs and pay for them, and to buy the machines he needed for his immediate stock. The manufacturing companies, therefore, sold to him under a sale contract and escaped the responsibility of having to carry his inventory of merchandise. It also very greatly simplified their collection problems, since they dealt only with dealers rather than with far more numerous individual farmers. In Canada, the dealer has not yet reached that independent financial position, and the manufacturers continue to use consignment contracts.

Sales of repair parts are made for cash, and in the case of two of the largest manufacturers, they have averaged over a ten-year period, 13.8 per cent and 16.8 per cent of total sales in Canada. All machines are, of course, made up of individual parts and the selling price of a complete machine is less than the sum of the selling prices of its individual parts. In other words, the companies make and maintain the selling prices of their repair parts at figures substantially above their actual cost. The 1934 selling prices of all individual parts for 17 machines varied from 226 per cent to 136 per cent of the selling prices of the completed machines themselves, the average differential for all machines being 173 per cent; that is, parts bought separately would cost 173 per cent more than the average machine bought complete. As in the case of machines, it was reported as having been difficult, if not impossible, without detailed investigation, to ascertain the real cost of repair parts. Whatever the actual mark-up may be, it is added to cover the cost of obsolescence, of selling repairs, of maintaining substantial inventories of repair parts, and of the occasional necessity of remanufacturing a small quantity of parts, of which the inventory may have become depleted. Some provincial Governments require that repair parts must be kept in stock for periods of approximately ten years, which places upon the manufacturer the duty of maintaining inventories in excess of what he claims is otherwise necessary. Perhaps the solution may be found in further standardization which would result in carrying fewer parts in stock, aided by a greater degree of co-operation between manufacturers' representatives in giving service.

6. CONCLUSIONS

The main feature brought out by our investigation is the desirability, and even necessity, of providing a fair deal for the farmer, without making any more precarious the continued existence of the manufacturer.

The system of distribution has been shown to be not only expensive but comparatively rigid and inflexible. We feel that a trial should be made of the American system, by adopting it wherever competent and financially reliable dealers can be found.

It has been shown that the carrying of a very large inventory of parts has been unsatisfactory, in the matter of cost, to both distributor and farmer. We believe that there is still considerable room for further standardization of parts, and that it would be to the manufacturer's as well as to the farmer's advantage to explore every possibility of action towards this end.

The productive capacity of the plants is sufficient to supply the normal demands of domestic consumption, though insufficient to supply the domestic and export demand for abnormal years such as 1928. In the absence of anything approaching these normal demands, and with a similar contraction in export business, considerable idle plant has resulted. In the absence of over-capitalization, it is difficult to conclude that the industry is not justified in including overhead on idle plant in its costs. The necessity of carrying this idle plant, however, has been partly responsible for the manufacturers' policy of maintaining prices. In consequence, the farmer has been unable to purchase one of the means of economical agricultural production at a time when he needs it most, and when other economic factors are operating against him.

It is difficult to see how the problem may be solved by legislation, with justice and satisfaction to both parties. Unless it applied to industry and finance generally, compulsory deflation would not be fair to one industry alone, particularly to an industry in which the dominating companies have not been guilty of social abuses. Compulsory regulation of prices, if it were in a drastic downward direction, might be used as a means of alleviating the farmer's position, but it would have the opposite effect upon the industry under review. In the long run, it might not even help the farmer.

The solution to this problem may come from external sources—a return to more normal demand through the increasing purchasing power of the farmer—or it may come from internal sources—a winding-up or recapitalization of one or more of the manufacturing companies.

5. THE CANNING OF FRUITS AND VEGETABLES

1. GENERAL CONDITIONS IN THE INDUSTRY

The canning of fruits and vegetables is an important Canadian industry and one which has made rapid progress during the last decade. Since 1923 the capital invested increased 62 per cent, employment 51 per cent, salaries and wages paid 18 per cent, value of products 44 per cent and the physical volume of production 100 per cent. This growth is the more remarkable as it represents a corresponding increase in the domestic demand for fruit and vegetable preparations, the foreign trade being relatively small as compared with the domestic production.

In 1933, according to the report on this industry issued by the Dominion Bureau of Statistics, there were 273 plants in operation with a capital investment of \$37,286,824, an average employment of 6,530 persons and a payroll of \$3,842,575. The output was valued at the factory at \$29,981,400 and the materials used amounted to \$16,461,755. The industry is of considerable importance to the agricultural economy of Ontario, Quebec and British Columbia.

Our investigators did not enquire into the operations of all the companies in the industry but covered the two largest, Canadian Cannery, Limited and Associated Quality Cannery, Limited; as well as a home-canning company, King and Rankin, Limited. They also received general information from thirty-eight smaller independent companies.

The investigation made indicated a considerable degree of concentration in this industry, with the first two companies above mentioned dominating the field. It was also demonstrated that the canning industry has grown, in this country, neither wisely nor rationally, and has been characterized by over-expansion resulting in surplus capacity, illusory capitalization of companies, a fierce struggle on the part of the larger companies to maintain and increase their positions at the expense of the smaller, and an equally intense effort on the part of these smaller companies to survive in the face of this struggle.

2. GROWTH OF THE TWO LARGEST COMPANIES

The history of the largest company, Canadian Cannery, Limited, and its predecessors, goes back to 1893 and presents, as we have seen, a striking picture of the combination and consolidation of many small units into one huge corporation, with each successive stage in the process accompanied by increased capitalization resulting from the issue of shares and bonds for assets at, or above, "appraised" values. Today the company has 80 separate canning factories; far more than is necessary to maintain production.

In 1933, fifty-four of these plants, with a book value of \$3,000,000, were idle or obsolete. It is probably fair to say that the basic reason for this company's possession of so many separate units, many of which were closed as soon as bought, is its desire to gain control in the industry and to remove competition. These successive amalgamations, however, have not solved the problem of over-production. At no time has there been a proper balance between production and consumption in spite of the quasi-monopolistic control of this company; nor is there one today.

The capital structure of the largest company, Canadian Cannery, Limited, is discussed in chapter iii and is briefly as follows. The consolidated capital and surplus of Canadian Cannery, Limited, and its subsidiaries, not including depreciation reserves or borrowed capital, amounts to over \$11,000,000. No actual cash has ever been invested in the capital stock of the present parent company, Canadian Cannery, Limited, or its predecessors, Dominion Cannery, Limited, and Canadian Cannery Consolidated Company, Limited. That is, no new money has been invested in Canadian Cannery, Limited, from the time the various companies were taken over by them, although many other assets, usually plants, have been received as consideration for the issuance of shares.

The funded debt of the company as of February 28, 1934, was \$3,263,900, while the reserves and surplus stood at \$6,270,365. Fixed and intangible assets were valued at \$15,918,735, of which nearly \$3,000,000 represents goodwill, and nearly \$3,000,000 more arises from the writing-up of fixed assets.

The second largest company in the industry is the Associated Quality Cannery, Limited, which began operations in 1928 with the acquisition of four companies and now operates twelve plants.

The net book value of the original four companies was \$532,782, but the value placed on these assets, when taken over by the new company, was \$1,011,293. The liabilities of two new companies taken over in 1932 exceeded assets by \$91,038, while at the same time there was an issue of 2,015 shares of stock for a total of \$30,225, making total net additional liabilities of \$121,263. This was offset by an additional debit to goodwill, of \$121,263.

Capital as at February 28th, 1934, was \$306,209, representing ledger value of capital stock, of \$1,843,725 less accumulated deficit of \$1,537,515. Bonds to the amount of \$500,000 have been issued and bank borrowings stand at \$1,328,934. The control of the company now rests in the hands of the Whittall Can Company, Limited, which holds seventy per cent of the stock.

Over the five year period of the depression, 1930 to 1934, Canadian Cannery, Limited, reported gross profits amounting to 24.5 per cent of sales and net profits of 2.7 per cent of sales, while since 1928 Associated Quality Cannery, Limited, showed total net operating losses amounting to \$1,266,164.

3. EXCESS PRODUCTION AND CARRY-OVERS

The General Manager of Canadian Cannery, Limited, in his report to the directors of the company in March, 1934, stated "the future is still uncertain for the industry, and we must face the fact that there are too many canning companies operating and producing in excess of the possible consumption in Canada."

In view of this statement it is worth noting that since 1930 the carry-over of this company has, at each fiscal year-end, more than equalled the value of sales during the ensuing 12 months. This maintenance of what the company calls a "reasonable carry-over", has had important effects upon the grower, as we shall notice in a subsequent chapter.

Whatever the policy may have been, there is no doubt that these large carry-overs have had a disturbing and depressing effect, not only on the growers' prices, but on conditions in the trade generally. They have helped to make the price structure in the industry exceedingly unstable and have facilitated price cutting. More than one witness who appeared before us charged Canadian Cannery, Limited, with exercising a controlling influence by cutting prices for the purpose of restricting or eliminating competition. The maintenance of such large carry-overs, and the selling of one product, tomatoes, over a period of years, at a price consistently less than cost of production, by a company occupying such a dominating position in the industry as Canadian Cannery, Limited does, make such charges not easy to refute.

4. MERCHANDISING METHODS

The mass buyers have also, to some extent, helped to disorganize the price structure. Before they became important merchandising factors, the sales practice of the companies consisted in booking each dealer's annual requirements without prices in the spring of the year. The market is opened by Canadian Cannery, Limited, announcing their prices after the completion of the pack, and an effort, throughout the ensuing twelve months is made to advance the opening prices gradually. The dealer's opening order becomes a firm commitment, and, as a rule, a uniform due-date is recited and the undelivered part of the order billed as at the due-date, the goods being held thereafter at the customer's risk and expense.

In recent years, however, it has become a common practice for the canning factories to issue price lists at different times through the year. Because of over-stock, competition, and buying pressure, there is great difficulty in maintaining such lists for any reasonable period. There is a continual demand from all classes of customers for lower prices and other concessions, such as, special allowances, advertising allowances, free goods, and floor stock allowances. Many of these are secret and all have contributed to the disorganization of the industry. We agree with the general manager of Associated Quality Cannery, Limited, who stated that all secret or discriminatory rebates to customers should be cut out and the established discounts alone given.

5. RELATIONSHIP BETWEEN CANADIAN CANNERS, LTD., AND AMERICAN CAN CO.

Canadian Cannery, Limited, enjoys important competitive advantages in its arrangements with American Can Company for the supply of containers.

The significance of this relationship may be judged when it is realized how important a part the price of the container plays in the canners' costs. The following table gives the percentages of the total cost of production, of produce, direct and indirect labour, containers, etc., as taken from the records of Canadian Cannery, Limited, and adjusted for rebates, etc.

DISTRIBUTION OF TOTAL COST OF PRODUCTION

(Fiscal period ending February 28th)

	1930	1931	1932	1933	1934
	%	%	%	%	%
Produce.....	34.6	32.4	30.0	25.3	25.2
Other Materials.....	5.0	6.0	5.0	6.3	8.1
Containers.....	22.1	28.7	28.6	27.8	26.4
Cases and Labels.....	7.6	8.0	8.9	9.1	10.0
Direct Labour.....	10.1	8.6	8.5	9.5	9.4
Prime Cost.....	79.4	83.7	81.0	78.0	79.1
Indirect Labour.....	5.6	3.7	5.0	4.1	2.4
Plant Managers' Salary.....	4.5	3.2	4.5	5.2	5.1
Factory Overhead.....	10.5	9.4	9.5	12.7	13.4
Total.....	100.0	100.0	100.0	100.0	100.0

Any company, therefore, which secures an advantage in the purchase of containers is at once in a strong position with respect to its competitors.

There are two large companies manufacturing cans in Canada. The American Can Company (Canadian district), which supplies Canadian Cannery, Limited, and the Whittall Can Company, Limited, which supplies the Associated Quality Cannery, Limited.

These two companies report that their prices for standard size cans are the same to every customer, the only concession given being quantity discounts to a limited number of large buyers. Current list prices of these two manufacturers are identical, and cans are sold, as a general rule, under the terms of a contract which provides, amongst other things, that the canning company must purchase all its can requirements from the one manufacturer during the term of the contract. It appears that this provision was made to prevent competing can manufacturers from supplying cans during the unexpired term of a contract.

Previous to 1930, Canadian Cannery, Limited, manufactured its own cans at Simcoe, Ontario. In July, 1929, however, it sold this plant to the American Can Company, under an agreement which committed it to purchase its entire can requirements, with minor exceptions, from the American Can Company for a period of twenty years, beginning January 1, 1930. The Can company, in turn, agreed to give Canadian Cannery a preferential discount over every other purchasing company, by guaranteeing that the net prices charged that company, after taking into consideration discounts and rebates as laid down, should be as low as the lowest net prices for the same kind of cans charged any Canadian customer and lower than the lowest net prices charged any Canadian customer, using a less total number of cans, by at least one-half of the discount and quantity payment. Furthermore, rental and terms for closing machines are guaranteed to be as favourable as made to any other Canadian customer and, in addition, a discount of 5 per cent is given.

Stripped of its legal verbiage, this contract simply means that the largest can company will ensure that no small canning company will be put on an equal

competitive position with the dominating company, so far as this most important element of cost is concerned, namely, the cost of the container. The evidence of the general manager of the American Can Company was that Canadian Cannery, Limited, had an advantage of 15 per cent in the price of cans over all other competitors.

There is no question about the decided disadvantage to which the trade in general is put by these special concessions. To be able to purchase containers at 15 per cent less than they can be purchased anywhere else by anybody else in the industry in Canada is a concession of the worst monopolistic type. Bearing in mind that cans are at present the main constituent of cost in respect to total costs of manufacturing, it is reasonable to conclude that this advantage has a greater effect on the competitive position of Canadian Cannery, Limited, than that which might be gained by any other exercise of the power that naturally accrues to the dominant manufacturer.

The extent of this price advantage is shown by the fact that under the contract, American Can Company has returned to Canadian Cannery, Limited, during the last four years, as special discounts, rebates, etc., a sum of \$1,147,865.

It is hard not to agree with the head of one small canning company who appeared before us when he states that independents simply cannot compete without resorting to reduction in costs that can only be made in other directions. Those other directions usually lead towards the grower and the canning factory wage-earner.

These price concessions were not the limit of the American Can Company's dealings with its favoured customer. It paid \$1,250,000 for the Simcoe plant of Canadian Cannery, Limited, referred to above, which had been carried on the books of that company at a depreciated ledger value of \$170,787.

The manager of the American Can Company justified these concessions on the ground that Canadian Cannery, Limited, took, in 1934, one-third of their output, and that therefore their patronage was important, especially so since they had lost the business of Associated Quality Cannery, Limited.

Associated Quality Cannery, Limited, also purchase their cans exclusively from one company, the Whittall Can Company, Ltd. Their contract, however, is not as advantageous as that of Canadian Cannery, Limited, with the American Can Company, and does not put them in a preferential position over all their competitors. This may be due to the fact that the Whittall Can Company, Limited, has a controlling interest in Associated Quality Cannery, Limited. It is not, therefore, necessary for it to make any great concessions as to terms and discounts in order to secure this business. What it loses as a shareholder in Associated Quality Cannery, Limited, it more than makes up in its profits from the sales of containers to that company. The contract between the two companies, which runs to 1941, merely provides for a quantity discount on net amount of sales which, during the period 1931-33, benefited Associated Quality Cannery, Limited, only to the extent of \$3,500. Partly, no doubt, as the result of this contract with Associated Quality Cannery, Limited, the Whittall Can Company, Limited, has been able to maintain its position during the depression, with net operating profits of 13.9 per cent on sales in 1929, rising to 14.2 per cent on sales in 1933.

The results of the operation of the American Can Company have been even more fortunate, and the concessions given to Canadian Cannery, Limited, as outlined above, have apparently been justified by the results obtained. The net operating profits of the American Can Company in Canada during the years of the depression have risen from 9.9 per cent on sales in 1931 to 21.1 per cent in 1933.

Thus we have a situation in which as a result, partially at least, of arrangements between the dominating corporation making cans and the dominating corporation operating canneries:

- (a) The price of containers is kept at an exorbitant height, while the prices received by the growers have fallen to unprecedentedly low levels.
- (b) No other canning company can secure containers from the largest can company on a fair competitive basis.
- (c) In view of the fact that the two largest users of cans are tied up with the two largest suppliers of cans, it is difficult, if not impossible, for any smaller can manufacturing establishment to extend its business sufficiently to act as a competitive break on the operations of the large can companies.

It all provides a striking example of monopolistic arrangements reacting to the injury of producer, wage-earner and small competitor.

It was stated to us by representatives of the can companies that the reason for the high prices charged for cans was the price of tin plate, which was higher in 1934 than it had been in 1929. Witnesses had no explanation for this increase of price over such a period, and expressed ignorance as to the existence of an international tin plate cartel. We are satisfied, however, that there is some international control of competition in this important product and that the general manager of Associated Quality Canners, Limited, was substantially correct in attributing the situation in respect to the price of tin plate to the fact that the Welsh tin plate interests prevented a free market and restricted Canadian can manufacturers to a single source of supply. We feel also that the tariff should not be used in any way to facilitate such restriction.

Whatever may be the exact causes of this situation in respect to tin plate, the implications are clear. At the one end there is a huge international arrangement to control prices, and maintain profits; at the other, thousands of growers of fruits and vegetables in this country, helpless in the face of these superimposed corporate organizations, the combined weight of which is crushing them to a level where they can make little or no return for long hours of arduous and productive labour.

6. THE RUBBER FOOTWEAR AND TIRE INDUSTRY

1. GENERAL CONDITIONS IN THE INDUSTRY.

The rubber industry is a very important part of Canada's industrial structure. According to the net value of products in 1930, it ranked ninth among all manufacturing industries; according to salaries and wages paid, eleventh. In 1930, Canada was the fifth largest importer of raw rubber in the world; by 1933, it was seventh.

The industry is one of large-scale production and high concentration. In 1933 there were only 45 establishments, employing \$65,000,000 capital, nearly 10,000 employees, and producing over \$41,000,000 of products. The average capital per establishment was \$1,451,000; the average number of employees, 217; the average output, \$922,000. Even these figures understate the degree of concentration. Fourteen firms employed 86 per cent of the total employees and 92 per cent of the total capital, and produced 89 per cent of the total output.

When this concentration is supplemented by the organization of powerful associations to fix prices and to establish discount schedules and sales quotas, it is not unreasonable also to infer that the industry is monopolistic. Any competition therein is certainly "imperfect".

The industry was very hard hit by the depression. From 1929 to 1932 the gross value of tires produced decreased about 68 per cent; of footwear, 49 per

cent; of all products, 58 per cent. The number of employees decreased about 7,000, or 42 per cent; total payrolls, 54 per cent. Slight improvement occurred in 1933. According to their own figures, not checked by our auditors, the seven leading footwear companies, as a group, suffered net losses in each of the years 1930, 1931 and 1932. For example, in 1931, the combined losses of five firms exceeded the profits of the other two, making a net loss for the group as a whole of \$1,354,000. As a group, the seven leading tire companies had similar operating results—practically no profits in 1930, net losses in 1931 and 1932. The loss in business is explained chiefly by decreased exports. Domestic sales declined 47 per cent, but exports, which in 1929 represented over a third of the total output, declined over 79 per cent.

The two major products of the industry, tires and rubber footwear, represent respectively 39 per cent and 41 per cent of the total output. The two branches follow essentially similar policies and present quite similar problems. It will be sufficient, therefore, to confine our discussion chiefly to the rubber footwear branch, in which, in 1932, there were only nine establishments employing 3,260 persons, producing over 14,000,000 pairs with a factory sales value of \$16,600,000. The industrial policies of the Rubber Footwear Association, with respect to discounts, prices and sales, are of special interest. They raise the question of whether a deliberate policy of price control at the cost of decreased output and employment is preferable to a flexible price policy which might minimize the decreases in business activity. The drawing of any inference from the available statistics in an attempt to answer this question has been complicated by the sudden increase in very low-priced imports. For example, the imports of rubber footwear from the Straits Settlements for retail sale at a price much less than the lowest possible Canadian cost of production, jumped from 23,000 pairs in 1932 to 567,000 pairs in 1933. Total imports of rubber and rubber-soled boots and shoes, chiefly from the Straits Settlements, Czecho-Slovakia and Japan, increased from 137,000 pairs in 1929 to 2,092,000 pairs in 1934. Their average import value in 1934 was about thirty-five cents. This import situation also complicates the analysis of the excess capacity in the industry.

The information at our disposal is based on testimony before us. No examination of the facts was made by our accountants or investigators. Formal complaint had been made that the industry is a monopolistic combine within the meaning of the Combines Act. Following this complaint, an investigation was made by the Registrar but we regret that we were denied access to the results of his intensive research. We have, therefore, had to rely on public information and *ex parte* statements.

2. DISCOUNTS AND REBATES.

The rubber footwear manufacturers, as organized in the Canadian Rubber Footwear Manufacturers' Association, afford a striking example of the self-organization of an industry. Standardization of prices, goods, and discounts is rigidly maintained among members. The secretary of the association holds bonds of members varying in amount from \$10,000 to \$75,000 on which fines may be levied if the terms of agreement are not carried out. Members are also placed on a sales quota and if any member exceeds his quota he must pay into the association pool 25 per cent of the amount by which he has exceeded it. There is also a tax of 15 per cent for the pool orders shipped at old prices after new higher prices came into effect. This prevents any one manufacturer from taking advantage of a rising market by accepting business prior to a rise for shipment after.

The policy of the association with respect to special discounts to certain retailers is an important aspect of this organization. The schedule submitted to us by officials of the association describes in some detail the group classifications which decide the granting of special discounts to the customers.

According to this document, manufacturer members have four preferred lists of retail customers. The classification for list A is an annual volume of purchases in excess of \$75,000 by these customers. A preferential discount of from 12 per cent to 14 per cent is granted, and an additional bonus from 1 per cent on volume from \$250,000 to \$500,000 increasing to a total of 6 per cent on the excess over annual purchases of \$1,000,000. In grade B are included purchasers with an annual volume in excess of \$35,000 who receive a 10 per cent discount. Customers in grade C must have an annual volume of purchases of over \$20,000 and are eligible for an 8 per cent discount. Groups B and C have in theory the bonus for volume on the same scale as group A, although it is not likely in fact that their volume has ever been sufficient to qualify them for this bonus.

Group D is in a relatively less favourable position. It consists of those co-operative buying groups whose annual purchases exceed \$20,000. They receive a 6 per cent discount instead of the 8 per cent received by other customers in the same volume class. In addition they are not eligible for a higher discount group, however large their volume of purchases. The largest discount a co-operative buying group can secure is 6 per cent plus a 2 per cent bonus on volume. It appears that the only co-operative buying group whose volume is comparable to the largest mass buyers in Class A is the York Trading Company, which finds itself severely penalized by this arrangement.

We have also received evidence that voluntary chains of retailers who endeavoured to obtain the benefits of volume discounts, by pooling their purchases, were refused the appropriate discount for volume, and it cannot be said that this apparent discrimination was satisfactorily explained by the officials either of the rubber companies or of the association.

Customers with a volume of purchases below \$20,000 are listed by the association as "unpreferred," but they receive a bonus varying with the size of their annual volume of purchases, unless these fall below \$300 in value, when the bonuses cease.

In order to understand the effects of this schedule of discounts upon the hundreds of small retailers who are excluded from its main benefits, it must be borne in mind that their chief competitors are the mass buyers in group A⁽¹⁾ who benefit most extensively by the discount rate. When they, for example, are receiving a discount ranging from 14 per cent to 18 per cent, they can afford to sell at a certain retail price level. The small retailer is obliged to compete principally with the prices thus established, and it is obviously not possible for him to do so with profit.

This scale of discounts is based, apparently, upon volume, with one significant exception—the co-operative buyer. The special discrimination against him was explained by officials of the association as resulting from the additional expenses which his business involved. It is more expensive, for example, to send out travellers to the numerous small units composing such a group than to deal with a chain store. There is doubtless some truth in this argument, but the real objection to the co-operative buyers, as was admitted by the secretary of the association in the course of evidence, is the objection to their method of doing business.

Another, although less important side of the association's policy of discouraging certain methods of doing business, is to be found in their attempt to eliminate jobbers from the field, with the exception of a few "consignment jobbers" who are given preferred treatment.

The principal reason for this policy is the difficulty of controlling jobbers and making sure that they adhere to all the rules of the association. In any case, jobbers are a declining factor in this industry.

⁽¹⁾ This group includes—Agnew Surpass Shoe Stores, Dupuis Freres, Limited, T. Eaton Co. Ltd., Hudson's Bay Company, J. B. Lefebvre, Robert Simpson Co., Ltd., Army & Navy Dept. Stores, Neighbourhood Stores.

3. PRICE FIXING

The price maintenance scheme prevalent in the industry must be considered in connection with the import and export situation. Exports have dropped from about \$32,000,000 in 1930 to \$7,600,000 in 1933. One would expect under conditions of free competition that there would be a resultant decline in the number of manufacturers in the industry. Under present conditions this has not been the case. None of the manufacturers in the industry has gone out of business since the depression. The price-fixing policy of the Association is primarily responsible for this. It has attracted competition which it has then been obliged to absorb, with the result that there is a great excess capacity. Indeed, any two companies could produce all the rubber footwear for which there is a market in Canada at present prices. In the meantime, imports from Straits Settlements, Japan and Czecho-Slovakia have increased and it would be impossible for Canadian manufacturers, unless protected, to compete in price with these imports.

It has been advanced in defence of the price-fixing policy of the association that it has not in reality eliminated competition. There is always, it is said, the element of potential competition. New enterprise will be attracted to a field where relatively high prices prevail, and price competition will then begin anew. But this has not been the case in practice. On the contrary, the new concern entering the industry is absorbed into the Association and is soon found adhering to the standardized price level. In 1930, The Acton and Woodstock Rubber Companies appeared as possible price competitors. In 1931, they had come to terms with the Association and entered its ranks.

It may be added, with reference to price maintenance in general, that while it has eliminated price competition, sales competition with all its attendant expenses remains keen.

4. SALES QUOTAS

The sales quota is an ingenious device which has the effect of checking any tendency on the part of any one manufacturer in the industry to cut his prices. When such a manufacturer has reached his quota he is no longer interested in further business. Indeed, if he gets more business he has to pay a penalty in the form of fines for so doing. At a time when all manufacturers are working below capacity this checks any tendency toward doing capacity business. For example, when as frequently happens, the government calls for tenders for goods, it would be impossible for a manufacturer to obtain the contract by quoting a low price which, while it might be profitable for himself, would be contrary to the rigid regulations of the Association.

The rubber footwear industry, therefore, provides a striking example of that industrial policy which consists of the maintenance of prices at the possible cost of decreased employment and output.

5. THE TIRE INDUSTRY

Essentially the same range of problems arises in the tire industry. Its only distinctive feature is the use of a special discriminatory device, that of private brand tires. These are usually the standard tires produced by the manufacturer but branded with the name or brand of a large distributor who sells them at less than the list price of the manufacturer's own brand. In 1933 approximately 10 per cent of the sales of association members were to private brand accounts.

Three association and three non-association manufacturers do private brand business, on which the discount from the standard price list ranges from 33 per cent to 44 per cent. This means that essentially the same tire which costs the ordinary dealer from \$7.75 to \$8.60 (depending on volume) and is expected to be sold by him for \$10.55, costs the mass buyer or other private brand dealer

\$6.53 and may be sold at \$7.75. This is a perfect illustration of the monopoly policy of quoting different prices to markets that are assumed to be separate. The cut price through mail order and similar private brand channels is not intended to affect the price in the regular market.

As a remedy for this practice, we recommend that the name of the actual manufacturer must be plainly stamped on all of his products.

7. THE FERTILIZER INDUSTRY

1. GENERAL CONDITIONS IN THE INDUSTRY

The manufacture of fertilizer in Canada is concentrated in only 20 plants, whose production in 1933 was valued at \$4,286,000. In the same year they had 667 employees and an employed capital of \$16,000,000, while the total wages bill amounted to \$776,000. Within the industry a great degree of concentration exists. Three firms represented \$11,000,000 or 71 per cent of the capital invested and accounted for \$400,000 or 51 per cent of the total wages bill.

The industry was very seriously affected by the depression. Exports declined from \$6,000,000 in 1929 to \$2,000,000 in 1932, while imports declined from \$4,800,000 to \$3,300,000 during the same period.

Plants for the manufacture of fertilizers are fairly well distributed across the country with the exception of the Prairie Provinces, where the consumption of mixed fertilizers has not been large. There are 7 manufacturing firms in the Maritime Provinces, 3 in Quebec where the use of fertilizer is encouraged by a bonus to the farmers by the provincial Government, and 3 in British Columbia, where from 5 to 6 million tons of mixed fertilizers are sold annually. There are 7 firms engaged in this manufacture in Ontario, where there is the greatest acreage of special crops and consequently the largest consumption.

2. TERRITORIAL PRICE DISCRIMINATION AND DELIVERED PRICES

Small though this industry may seem in absolute size, its policies profoundly affect the welfare of the primary agricultural producer. There is unmistakable evidence that in Ontario at least the fertilizer industry, dominated by Canadian Industries, Ltd., is monopolistic and exercises its monopoly power by a system of delivered prices. This device is of such general importance that it warrants rather more extended discussion than the size of this industry would seem itself to justify.

Complaints were made to us about the difference in fertilizer prices in Ontario and Québec. It was found that there were wide diversions between list prices to consumers west of a line from Kingston, Ontario, to Pembroke, Ontario and list prices east of that line in Ontario and in the Province of Québec. This is in part because the fertilizer manufacturers east of this line quote prices on an f.o.b. basis, whereas in Western Ontario, an association of fertilizer manufacturers quotes only prices on delivery to the farmer's barn. Also manufacturers east of the line will not deliver west of it. Such differences may be due in part to the Québec practice of co-operative buying.

West of the Kingston-Pembroke line an arbitrary uniform delivered price is established for each grade of fertilizer. The discrimination in this case is clear, as farmers near one of the fertilizer plants have to pay the same price as purchasers far away. Such uniformity in prices could not be maintained if each manufacturer were quoting prices f.o.b. his plant. While the fertilizer factories are not scattered over a very wide area, there must be some differences in freight rates from different plants to the same locality. A system of prices f.o.b. plant would thus mean that certain territories would be the economical

market for each plant. Under the system of identical delivered prices, each fertilizer plant is free to seek business anywhere in that section of the Province, in which the prices are controlled by the Association. That the prices, under such a policy, tend to be higher than they would have been under competitive conditions is clear from a comparison of Ontario prices with those in Quebec, where prices are quoted on an f.o.b. basis.

An attempt was made to explain this discrimination by reference to the higher cost of production in Ontario and to the delivery and other services which members of the Ontario Association offered. But little opportunity is given to purchasers to avoid such charges by buying f.o.b. plant. If the fertilizer companies sell transportation the cost of such services should be clearly indicated in their price quotations and not lumped in a delivered price with the cost of the material itself. Under a system of free competition the policy of quoting uniform delivered prices could not be followed for the tendency of competition would be to equalize the price to all buyers on an f.o.b. basis.

The system of delivered prices, especially if arbitrary basing points are established at which all producers quote the same price, means that the purchaser is compelled to buy with each unit of the commodity a fixed amount of often imaginary transportation. The farmer who lives next door to the fertilizer factory must pay not only the price of fertilizer itself, but also the cost of transporting it from the distant basing point, although in fact the fertilizer is simply carted across the road. It must be admitted of course, that a system of f.o.b. prices would not prevent agreement among manufacturers; it would, however, make it much more difficult for them to reach an amicable agreement on the division of territory. Under a system of delivered prices, each producer is free to bid for all orders (because all are quoting the same price), but, if a plant were not favourably situated with respect to some big buyer whose order was desired, the only way of securing such an order on an f.o.b. basis would be to quote a lower price at the plant. If such prices were published, this would mean, for this manufacturer, a lowering of his price throughout his territory and, in fact, an extension of his market unless other manufacturers immediately met his new f.o.b. price.

The system of delivered prices also encourages another serious evil in competitive practices in that it facilitates local price discrimination. As long as a manufacturer is restricted to f.o.b. prices he has difficulty in discriminating between buyers in different localities because a reduction in price at the plant means a reduction to all buyers irrespective of location. Under a system of delivered prices, however, particularly if there is a tacit agreement regarding prices among the big producers, the price may be cut severely in one locality and maintained in all others. The purpose of such a discriminatory policy is generally to undercut a local producer in his own market and thus put him out of business or force him into a price agreement. This monopolistic control of the market was further bulwarked by a policy on the part of chemical manufacturers and importers, of hindering the sale at market prices for home mixing of the separate fertilizer constituents.

The results of such a system of delivered prices are injurious not only to the purchaser, because prices are almost inevitably higher than they would be under simple competition, but they give the combine or monopoly a means of price discrimination against which no small manufacturer can protect himself. This is clear not only from the evidence on the fertilizer industry, but also from common knowledge of the marketing of gasoline. If the large oil companies were quoting prices f.o.b. their refineries, the small wholesaler of gasoline would be protected against local price discrimination, if he found it possible to reduce his prices through efficient management. Under a system of delivered prices the companies can drop their prices in any one locality and maintain them in all others. Under a system of f.o.b. prices, prices could

not be cut in one locality without reducing them in all localities served by the refinery. The objection to such a system would be that the big companies would not be able to protect themselves against local price cutters. But, given a standard quality of product, if such local reductions in prices are due to cheaper sources of supply, there is no economic justification for unfavourably situated oil companies competing in such localities.

The cases which have been cited are becoming more characteristic of marketing policies in Canada. The fertilizer industry is a particularly clear example of the workings of this policy of delivered prices. Later in this report we discuss methods for prohibiting such practices when they result in price discrimination. Here we merely express our condemnation of them as monopolistic and unfair.

8. THE TEXTILE MANUFACTURING INDUSTRIES

1. GENERAL CHARACTERISTICS.

Our investigation into the textile manufacturing industries in Canada covered 217 companies engaged in the manufacture of textile yarns and fabrics and other products. A number of other companies were listed in the 1930 Census of Industry, but the concerns reviewed by the commission were estimated to account for more than 95 per cent of the total employment in the fields selected for investigation.

In view of the number of companies concerned, it was obviously not feasible to examine into their individual operations in detail, nor did we consider that the possible results of detailed investigation would justify the time and expense involved. Our investigators were, therefore, instructed to submit to each of the companies a form of questionnaire and to arrange, tabulate and report upon the replies received.

The questionnaire so submitted and the evidence received by the commission dealt in considerable detail with the wage structure and employment generally, and the results of this phase of our inquiry are reserved for discussion in a later chapter of this report. Apart from this, however, considerable evidence was taken as to the general characteristics and trends of the industry in its several branches. In this section, we report on these features as they affect the social and economic life of the Dominion.

The 217 companies had in 1933 a capital investment, including bonds, of \$185,000,000; they operated 246 mills, employing approximately 47,500 factory workers, with a total wages bill of \$32,700,000; and their combined sales in that year totalled \$135,000,000. As a group these companies occupy a prominent position in the industrial structure of the country and in volume of production are only exceeded by three other groups, manufacturers of wood and paper products, vegetable products, and possibly iron and steel.

"The textile industry" is a generic term applied to producers of all forms of textile goods but within the companies investigated by us, there are such distinct lines of demarcation that different classes of producers constitute in effect a number of separate industries. Our auditors, therefore, reported upon ten separate groups which were found to have by no means similar characteristics and in summarizing our findings, it is necessary to refer specifically to the more important of them. The nature of this division and the relative importance of the different branches, is indicated by the following statistics of the year 1933:

Group	Number of mills	Average number of factory workers employed	Sales (thousands of dollars)
A. Primary Cotton.....	29	15,482	33,960
B. Woollen Manufacturers.....	44	6,888	20,672
C. Silk Manufacturers.....	18	3,407	11,167
D. Hosiery.....	32	5,242	12,863
E. Synthetic Silk.....	2	3,127	10,350
F. Knit Goods.....	78	10,342	29,069
G. Carpets and Rugs.....	5	625	1,816
H. Thread and Cordage.....	7	1,016	5,420
I. Bags, Waste, Cotton Batting, Tents and Awnings.....	24	781	7,260
J. Specialty Fabrics.....	7	657	2,441
Total.....	246	47,567	135,018

The characteristic form of business organization among these undertakings was the incorporated company and all the larger units were found to be operating under charters granted by the federal or one of the provincial Governments. Concentration under the corporate system does not appear to have developed to anything like the same extent among these companies, as it has in certain other industries reviewed by the commission. The companies investigated, however, in their different groups, afford examples of different phases of competition. The best example of simple competition is found in the woollen group where the largest single company had only 12.5 per cent of the total sales of the group, the next four, an average of 7 per cent each, and the next fourteen, all over 2 per cent of the total. In contrast to this is the synthetic silk industry, in which two companies, with radical differences in their technical processes, enjoy virtual monopolies. The largest single group, primary cotton manufacturers, is an example of imperfect competition. The largest company, Dominion Textile Company, Limited, has 38 per cent of the total sales and with its controlled subsidiary, Montreal Cottons Ltd., 48 per cent: the next two companies together have 31 per cent, leaving only 21 per cent for the next seven companies together.

Signs of an increasing degree of concentration in the textile industry are to be found in the appearance of certain interests in fields other than that in which their main activity lies. Through interlocking directorates at least, there appears to be a positive connection between some of the largest companies in the cotton, woollen, silk and knit goods field. Thus, while concentration has not developed to the point where two or three very large corporations, operating in all the important fields of the industry, dwarf the remaining companies, the presence of the same management interests in important units in different fields cannot but suggest the possibility of such a development.

In the more important groups, the largest companies were found to be publicly owned, but the textile industry contributed only in a small measure to the public financing operations of the period 1921-1933. Very little information is available as to the details of the consolidations and mergers which took place prior to 1923, before which date most of the great textile companies were formed. From 1923 to 1933, however, the relative freedom of this industry from unwarranted writing-up of assets for purposes of refinancing is evidenced by the fact that the five largest textile companies increased their net assets in the period by only 9.7 per cent, as compared with an increase of 83.8 per cent for the 95 largest non-financial Canadian companies (transportation companies excluded).

In the larger textile companies, however, the same marked development of management control was found as in other industries. Four out of the five largest concerns were found to be controlled by groups owning less than 20

per cent of the capital, and the fifth to be a case of minority control; in that less than 50 per cent of the capital was owned by the management group. Among the smaller companies in the industry, the public company is rare and a high proportion of these companies are entirely owned by the active management.

2. THE TEXTILE INDUSTRIES AND THE DEPRESSION.

The operations of the companies by groups were reviewed for a five-year period, and while the effects of the depression and the decline in prices were evident, textile manufacturers as a whole appeared to have suffered to a far slighter degree than industry generally. The principal reason for this appears undoubtedly to have been the tariff revisions which were made in 1930 and subsequent years, by virtue of which the Canadian industry largely escaped the demoralization which occurred in textile markets in other countries. The addition of specific to ad valorem rates of tariff duty on many items had the effect of virtually excluding the cheaper lines previously imported and with which Canadian manufacturers could not compete. Canadian mills, therefore, while sharing the general loss of volume consequent upon decreased public purchasing power, went into volume production on cheaper lines upon which the public demand tended to concentrate. Competition from Asiatic countries, where costs of production have been brought to unprecedented low levels, has been largely nullified by the dumping duties. Thus, the primary textile industries have been able to maintain employment at a remarkably high level. From 1929 to 1933, the number of employees decreased but 3 per cent and the wage bill by 15 per cent, whereas manufacturing in general suffered a decline of 29 per cent in the number of persons employed and a decline of 38 per cent in the amount paid out in salaries and wages.

The Bureau of Statistics index number of wholesale prices for textiles fell from 81.8 in 1930 to 69.7 in 1932, or by 15 per cent; in the same period the sales of the companies reviewed by the Commission declined by but 17 per cent. This indicates that in point of physical volume of production the industry gained approximately as much in the cheaper lines, which it started to manufacture in 1930, as it lost through the decrease in public demand for the lines which formerly represented its entire output. The other side of the picture is found in the statistics of imports of manufactured textiles from other countries. Importations (in yards) of cotton fabrics, for instance, declined from 1929 to 1932 by over 52 per cent; Canadian woollen and worsted cloth mills are estimated to have supplied 62.5 per cent of the domestic requirements in 1933, as compared with approximately 22 per cent in 1930; and similar gains were registered in other branches of the industry.

There can be little doubt, therefore, that textile manufacturers in all important branches of the industry, have benefited to a material extent from the increased tariffs which came into force coincident with the beginning of the depression. That the tariff policy has been largely responsible for the maintenance of employment at a relatively high rate, is also clear. In spite of such benefits, however, certain companies, particularly some in the natural silk group, have exploited the situation and shown a callous disregard for the decency of their wage scales. Investigation of some of these whose operations have been increasingly profitable, disclosed wage and employment conditions which can be described only as shocking. Fuller reference, however, will be made to the wage conditions in this industry in chapter v.

The past five years have witnessed certain technological improvements within the industry. New automatic machinery and more efficient looms were installed and had a perceptible influence upon the productivity of the individual employee. This was accomplished, however, without a large additional capital investment, and the fixed assets of the various groups show no sudden or unusual increases.

With this general picture as a background we discuss, briefly, the various groups into which the industry is divided, each with its own characteristics and trends.

3. PRIMARY COTTON MANUFACTURERS.

a. General Characteristics.

This is by far the largest and most important group in the industry and is composed of a few large producers. The Dominion Textile Company, Limited, the largest textile concern in the country, together with its controlled subsidiary, Montreal Cottons, Limited, in 1933 accounted for 48.3 per cent of the total sales of the cotton group, or 12.1 per cent of the total of all textile companies investigated. The next two companies in point of size, Canadian Cottons, Limited, and the Wabasso Cotton Company, Limited, together accounted for 31.3 per cent of the cotton total, and each had sales in excess of \$4,000,000 in 1933. These are followed by five other companies, only one of which had sales of less than \$1,000,000 in 1933.

The industry is concentrated in the province of Quebec, where approximately 70 per cent of the production is found. Ontario mills account for a little more than 20 per cent and the balance of the production comes from mills in the Maritime Provinces, all of which are owned and operated by the Ontario companies.

Most of the manufacturing takes place in small towns and of the 29 mills operated by the cotton companies, only five are to be found in cities of over 250,000 population. No less than fifteen mills are located in towns with populations of under 15,000, and these consequently play an important part in the life of these communities.

Of the nine companies making up the cotton group, six are public companies, in that their securities have been sold to the public at large; two others are subsidiaries of large manufacturing corporations in other industries; and only one company is privately owned and controlled by the group owning its entire capital. The combined balance sheets of the cotton companies, after eliminating inter-company holdings, show a total net worth of \$67,000,000, of which bonds represent 21.1 per cent, preferred shares 16 per cent, common shares 43.6 per cent, and free reserves and unwithdrawn profits, 19.3 per cent. On the whole, the financial position of the group is a satisfactory one and the several proportions of bonds, preferred and common shares, exhibit none of the extremes consequent upon excessive financial promotion.

A large part, 67 per cent, of the output of the cotton group is sold for further manufacture. Of the balance which is sold as consumer goods, a high proportion is sold through wholesale houses. While some of the manufacturers have developed their own jobbing outlets, the Dominion Textile Company, Limited, continues to employ the wholesale merchant for small-quantity distribution. Though sales are made direct to department stores, the independent retailer cannot deal with the manufacturer, a point which has some bearing on his competitive position.

One evidence of the imperfect character of the competition within this group is the fact that the larger companies fail to compete with each other in certain goods. Thus, the Dominion Textile Company, Limited, does not manufacture cotton denim, while other companies are the sole producers of other important lines. This means that the wholesaler, who wishes to carry a complete line of cottons, has to buy from all the larger companies.

b. Earnings and Profits.

The group as a whole earned profits in each of the four years 1930 to 1933, although the rate of earnings on the invested capital declined sharply. The net profits for the four years amounted to \$5,850,000 (of which over \$5,250,000 was earned by the Dominion Textile Company alone), and represented an average annual rate of earnings of 2.5 per cent on the invested capital. Taking the

three largest companies alone, the rate of earning on the invested capital declined 4.7 per cent in 1930 to 1.9 per cent in 1933; in 1934, however, the profits rose sharply and in that year represented 7.3 per cent of the net invested capital.

While further reference is to be made to the question of textile wages, we should here point out that the cotton group has a fairly good record in the matter of employment. While not paying high wages, it appears to adopt a fair attitude in its employment policies, and there are no cases of unscrupulous tactics comparable to those in some other sections of the textile industry.

4. WOOLLEN MANUFACTURERS.

In contrast to the semi-monopolistic character of the large cotton companies, the average woollens manufacturer is a relatively small unit. Our investigation covered forty companies in this field, of which the largest, Dominion Woollen and Worsteds, Limited, accounted for only 12.5 per cent of the 1933 sales. While the largest company in the cotton group was much more profitable than the average, the largest of the woollen companies was consistently unprofitable.

In spite of a considerable drop in prices, the sales of woollen mills increased by approximately 15 per cent from 1930 to 1933. The employment, however, showed a 30 per cent increase over the same period, which was accounted for, partly by new mills and partly by increased activity of the established mills. The production of Canadian mills rose from 5 million yards in 1930 to 13 million yards in 1933. Imports from Great Britain and foreign countries declined in the same period from 18,400,000 to 7,800,000 yards. The increased demand for the cheaper lines, of which the per-employee output is considerably higher, explains the apparent discrepancy between the gains in employment and production.

Out of the 44 mills operated by the companies investigated, 31 are in Ontario, 9 in Quebec, and 4 in other Provinces. The production of Ontario mills represents about 80 per cent of the total for the industry. Only six mills are located in large cities, and half of the total are in towns or villages with populations of under 5,000.

As in the case of the cotton industry, a very large proportion of the output of woollen mills is sold for further manufacture, principally to knitters and makers of clothing. About 27 per cent of the 1933 production was sold as consumer goods and distributed mainly through wholesale jobbers and department stores.

The invested capital of the group in 1933 was \$24,000,000, of which more than half represented companies privately owned by Canadian interests. Three public companies accounted for approximately \$7,400,000, and five companies controlled from outside of Canada made up the balance, approximately \$3,900,000.

The group as a whole has had increasingly profitable operations from 1930 to 1933. In the former year, profits were equal to 1.2 per cent of the net equity and increased to 6.6 per cent in 1933. The unprofitable operations of the largest company whose 1933 losses were equivalent to 8 per cent of its capital, were just exactly offset by the earnings of three specialty companies making felts for paper companies, so that the 1933 average of the remaining companies was still 6.6 per cent of their net equity.

The wages scales in the woollen group were considerably higher than those of the cotton companies. There were, however, four companies whose wages were exceedingly low and these were the subjects of special reports from our investigators. The combined employment of these mills, however, represented only 2.7 per cent of the total for the group.

5. NATURAL SILK MANUFACTURERS.

Our investigation into manufacturers of natural silk yarns and fabrics covered sixteen companies, of which ten are located in towns in the province of Quebec with populations of under 15,000. The two largest companies in the group each have about 20 per cent of the total sales and the first five in point of volume account for over 76 per cent of the total.

The operating statistics of the silk group reveal a marked growth throughout the depression. Between 1930 and 1933, six new mills went into production and the output of the group in 1934 is estimated to be nearly 40 per cent above the 1930 level. Operations were shown to have become increasingly profitable, net earnings advancing from 1.0 per cent on invested capital in 1930 to 5.7 per cent in 1933.

As in the cotton and woollen groups, the benefits received by domestic silk manufacturers from higher tariff schedules are unmistakable. In 1930 nearly six million yards of unfinished silk fabrics entered Canada from abroad; while in 1932 total imports were less than half a million. It is significant that almost the entire increase in the invested capital of the group during the period arose from the establishment of three mills owned by United States interests, one of which, Associated Textiles of Canada, Limited, has assumed a leading position in the industry.

The silk group contains only a small proportion of privately owned Canadian companies. While they represent one-third of the companies, their combined invested capital is less than 9 per cent of the total. The Canadian public companies, of which there are three, account for 61 per cent of the total invested capital; six United States controlled companies represent 21 per cent; and one concern, controlled in Great Britain, accounts for approximately 10 per cent.

The average wages paid in this industry were the lowest of any of the textile groups and were approximately 23 per cent below the average for the other nine groups or 27 per cent less than the average for all manufacturing industries. In the periods examined, 80 per cent of the employment was in the province of Quebec. While the operations of the smaller mills paying the lowest wages were not highly profitable, investigation of one of the larger and more profitable companies revealed a deplorable wage condition. This is reserved for fuller discussion in chapter v.

6. HOSIERY MANUFACTURERS

This group consists of thirty-two companies and presents an example of simple competition with no one company or group of companies dominating the industry. The largest company had in 1933 16 per cent of the total sales, the next largest only 9 per cent and each of the others 6 per cent or less.

Nineteen of the companies operate in Ontario, twelve in Quebec and one in Nova Scotia. The tendency of the mills to seek small centres of population is less marked in this group than in those previously reviewed. More than half of the establishments are in towns of over 15,000 population and one quarter of the total are found in the largest cities.

As in the case of other textile producers, manufacturers of hosiery have registered a large relative gain in the Canadian market. It is estimated that in 1933 domestic mills supplied over 98 per cent of the country's total requirements, as compared with but 68 per cent in 1930. The total demand, however, has decreased not only in dollar value but in physical volume and the companies reviewed registered a gain in employment of only about 3 per cent from 1930 to 1933.

An analysis of the methods of distribution of the output of this industry shows that nearly half of the total is sold direct to the smaller retailer by the manufacturer. Chain and department stores combined took 38 per cent of the 1933 production and wholesalers 17 per cent.

The invested capital in this industry in 1933 amounted to slightly over ten million dollars. Four public companies played but a minor part and represented less than 10 per cent of the total capital. The largest single class consisted of privately owned Canadian companies, although companies partly or wholly controlled by United States interests were almost as great in point of invested capital.

The operations of these companies have tended to be more profitable from year to year, but in 1933 the profits of the group represented only 4.7 per cent of the invested capital, or one per cent more than the 1930 profits. Eliminating one exceptionally profitable company, the average rate of earnings on invested capital increased from 2.2 per cent in 1930 to 3 per cent in 1933.

7. SYNTHETIC SILK MANUFACTURERS.

This division contains only two companies and is distinctly monopolistic in form. Both companies are controlled from outside of Canada and form part of very large organizations which have pioneered in the development of synthetic silk manufacture. Courtaulds (Canada), Limited, is owned by Courtaulds, Limited, of England and produces rayon from wood fibres. While the patents covering the essential parts of the chemical process have expired, the investment required to be made in plant and machinery is so large that only a company of considerable resources can enter the field. The Canadian Celanese, Limited, owned by foreign interests, produces artificial silk from cotton lintels and its processes are protected by patents, which effectively exclude competition.

The unit of operation is large, and each of these companies operates mills employing over 1,500 workers. In both cases, they are established in towns of less than 15,000 population and exercise a considerable influence upon the life of these communities.

During the past five years, there has been a phenomenal increase in the production of these companies. In spite of decreases in price during the period, sales in 1933 were more than double those of 1929, and mill employment showed an increase of more than 80 per cent. This is due in part to a drastic reduction in imports but appears to arise to some extent from the wider use of rayon yarns by textile producers in other classes. Courtaulds make only rayon yarn, which is all sold for further manufacture and purchases of such yard by the cotton companies increased during the past five years to a marked degree. The Celanese Company in the same period sold very little yarn and the increase in their business seems more closely related to the falling in imports and the popularization of their product with the buying public.

With this increase in volume, the operations have become increasingly profitable. In 1933, the combined net profits of the two companies represented earnings on the invested capital at the rate of 10.8 per cent. In view, however, of the heavy investment per dollar of sales, the net profit of Canadian Celanese, Ltd., was equivalent to over 24 cents for each sales dollar, and in the case of Courtaulds, to over 12 cents. These earnings are higher than encountered anywhere else in the textile industry and appear to have a definite relation to the absence of competition in the field.

In the matter of employment policies, both companies were found to have relatively good records.

8. KNIT GOODS MANUFACTURERS.

This group embraces 72 companies, of which 11 had in 1933 an invested capital of over \$1,000,000 each, and together represented over 70 per cent of the total for all companies. The remaining 61 companies had an average investment of only \$154,000 and included many small operators.

Of the 11 larger companies, 6 are publicly financed and include the largest single company in the group, Penman's Limited. This company operates 6 mills and accounted for over 17.5 per cent of the sales of all companies in 1933. The next largest company in point of sales volume, contributed less than 7 per cent.

The invested capital of the group in 1933, amounted to approximately \$35,500,000, of which slightly over half was represented by the 6 public companies. Privately owned companies numbered 62, and their combined capital made up most of the balance, four companies of foreign ownership contributing less than 2 per cent of the total invested capital.

The industry centres in the province of Ontario where nearly 70 per cent of the employment was found in a test period in 1934. Quebec had in the same period approximately 23 per cent and the balance was represented by mills in the Maritime Provinces (6 per cent) and in the West (2 per cent).

During the past five years, the assets of this group increased by approximately 10 per cent, but sales showed a slight decline, due to the drop in prices which took place during the period. Employment is estimated to have decreased by approximately 6 per cent from 1930 to 1933, but 1934 operations indicated substantial increases in both sales and employment.

It cannot be said that the operations of the knitting mills have been profitable since the group as a whole registered net losses in the years 1930 to 1932 inclusive. The profits in 1933 were equivalent to 2.4 per cent of the invested capital.

9. OTHER CLASSES.

Four other classes were reported upon in detail by our investigators but these represent more specialized and smaller groups than those already discussed.

Five carpet and rug manufacturers suffered a 59 per cent loss in business from 1930 to 1933 but, while their employment fell sharply, the wage rates in 1933 were higher than any other group reviewed.

Six companies were reported on in the thread and cordage group and examination of their operating statistics revealed several significant features. Nearly all these companies had an invested capital of over \$1,000,000 but the one publicly financed company, although its capital exceeded the combined investment in the next two private companies, had smaller sales in 1933 than either of them. The two privately owned thread companies were profitable and in 1933 earned 15.8 and 10.7 per cent, respectively, upon their invested capitals. The return on capital earned by the publicly financed cordage company was at the rate of only 3 per cent in 1933. Other features of this group were relatively high wage scales and sound employment policies, four out of six companies contributing to group life insurance schemes.

A miscellaneous group of manufacturers of bags, waste, cotton batting, tents, awnings, etc. was reported upon but in view of the diversity of their activities, no operating details were submitted. The wage statistics of this group are, however, referred to in chapter v.

The final group embraced 7 manufacturers of specialty fabrics. While some of these operated profitably, others encountered severe losses. The group as a whole represented no important characteristics which have not already been discussed.

10. CONCLUSION.

In the more important branches of the textile industry there have been for some years certain associations of manufacturers. A representative of several of such associations appeared before the Commission and described briefly the nature of the services performed. The principal purpose of the typical association was stated to be the keeping of statistics and credit information. In addition,

however, the association acts in the interest of its members in matters of public relations and propaganda and regularly represents the industry in its dealings with government departments and the Tariff Board.

According to the evidence, however, no attempt has so far been made to regulate wage scales or working conditions generally, the reason given being that the existing associations had not the power to control their members. We are forced to the conclusion, therefore, that while manufacturers are prepared to come together for the purpose of seeking benefits or protecting their reputations, they have not taken advantage of the existence of a permanent central organization to promote individual operating standards or prevent exploitation by their members.

In fairness to these associations, we appreciate that any attempt to discipline industry through voluntary associations might drive the less scrupulous mills out of such associations. Thus, while still sharing in any benefits secured for the industry as a whole, sub-standard mills might render more difficult any improvement in the standards of the better mills and the latter would be called upon to pay the entire cost of maintaining the trade association.

One other field in which the trade association might perform useful service is in the promotion of proper standards in consumer goods, eliminating dishonest marking and labelling, and curbing unfair competitive practices. The question of discipline, however, again appears and in its present form the typical association appears to have a very limited influence. We reserve our further discussion of textile marking and standards for the chapter dealing with the consumer.

9. THE MILLING AND BAKING INDUSTRIES

1. IMPORTANCE OF THE INDUSTRIES.

Our terms of reference called specifically for an inquiry into, and an investigation of "the relation between the flour milling industry and the bakeries of the country, and the effect of such relations upon the bakery industry." For this purpose, the actual hearings devoted to the milling and baking industries, were supplemented by a special inquiry made by our investigators. In undertaking this inquiry, the investigators circularized the flour milling and bakery companies in order to secure certain statistical and other information and also visited various milling and baking companies.

The milling and baking industries are two of the more important Canadian industries; in value of products the milling industry has been among the first six Canadian industries since the War. In 1930, the gross value of production of the flour milling industry, amounted to \$125,000,000. The value added by production, that is, deducting the cost of the raw material, was \$22,000,000. Similar figures for the bakery industry were \$74,000,000 gross, or \$37,000,000 net. Wages paid in the milling industry were approximately \$4,000,000 and in the baking industry, \$17,000,000.

2. THE MILLING INDUSTRY.

a. *Development.*

The development of the flour milling industry parallels the development of the wheat areas of the West. The extension of railways brought with it storage systems for wheat and, in conjunction with these, large flour mills designed to process the wheat en route to the Eastern and overseas markets. Prior to this development, milling had been a small local industry, largely operated on a custom basis. The farmer teamed his own wheat to the mill, and the product was sold locally.

It would give a false idea of the existing picture to imply that the development of the large mills has put the small ones out of business. The small local mill persists and appears to hold certain competitive advantages over the large. Nevertheless, in 1932, of 394 flour mills operating in Canada, 22 produced between two-thirds and three-quarters of the total flour production. Custom grinding now accounts for only about 5 per cent of the total quantity of flour produced.

The following table illustrates the present situation:—

CAPACITY OF MILLS AND NUMBER IN EACH CLASS, 1932

Daily capacity (barrels)	Number of mills	Percentage of total capacity
Over 1,200.....	22	71.4
300-800.....	16	7.6
110-275.....	46	6.8
100.....	49	4.4
6-95.....	261	9.8

The development of large-scale milling brought with it the development of equally large-scale selling organizations.

Though consolidation and expansion had been under way before the War, the demand for food supplies by the combatants from 1914 to 1918 and the high prices for wheat and flour resulted in the continuance of this policy. The milling companies made large profits and at the end of the War, found themselves possessed of extensive liquid surpluses. Milling had become a major industry. Development continued after 1918 and at the end of the year 1921, it occupied first position among Canadian manufacturing industries, with nearly 7 per cent of the value of the total Canadian industrial production.

It is now possible to say that, in 1921, the mills should have adopted the policy of applying their liquid surpluses to the writing-off of obsolete plants and to the reduction of the then existing capacity. Had this been done and capacity reduced by at least 40 per cent, it is possible that the industry might have faced the lean years which were to come on a better footing. The tendency, however, appears to have been to regard the discrepancy between capacity and markets as a temporary condition, and not until 1930 was any disposition shown to reduce capacity from the 1924-1929 level.

b. The Effect of Surplus Capacity.

The depression thus found the industry powerless to control its production or to avoid the bitter competition resulting from the desire and necessity of individual companies to operate to as large capacity as possible. This intensified competition brought general confusion which was aggravated by the fact that the larger companies, in their efforts to assure themselves of markets for the disposal of their flour, tried to secure control of the baking business in the metropolitan centres of Canada. Large investments made in bakeries carried the competitive situation which already existed in milling, into baking. Heavy losses were incurred and the mills found it necessary frequently to absorb these losses, advance further moneys or guarantee large bank loans. The condition of the milling industry is repeated in the baking industry: mill-controlled bakeries with a heavy surplus capacity, impaired capital, and extensive losses. It would appear that control of the baking organizations by the large milling units, has merely transferred to the baking industry the inherent weakness of

the milling. It may also be remarked here that, as pointed out below, the domestic demand for flour is fairly constant from year to year and that the efforts of companies to increase their sales means no total increase in consumption and therefore no utilization of excess capacity, but at the most a simple transference of business from one company to another.

We do not feel, however, that the existing unsatisfactory condition of the milling industry, as disclosed by the inquiries of the commission, can be attributed solely, or even primarily to the depression. There has been no great falling off in the consumption of flour as the demand for this commodity is almost completely inelastic. The price situation is relatively satisfactory as we shall notice later; nor has the export trade in flour declined as much as the exports of many other manufactured products. In short the present condition of the industry can largely be attributed to surplus milling capacity and to the failure to make the necessary adjustments between supply and demand.

Surplus capacity was in existence at the outbreak of the War and, though as we have seen, there was a great demand for flour during the war years, it cannot be said that over-expansion was solely the result of the effort to take care of war needs. It is equally inaccurate to state that surplus capacity was the result of steps to take care of a post-war increase in exports, which was later wiped out by changing conditions.

c. Surplus Capacity and Exports.

The volume of exports of flour in the years 1922 to 1929 was in each year approximately the same or slightly greater than in 1918 and from one to two million barrels higher than in the war year of 1917. Total capacity in 1919 was 43 million barrels, total production 18 million, total exports 10 million, total domestic consumption 8 million, and surplus of capacity over production 25 million barrels.

If this surplus capacity was built up as is sometimes stated to care for an export trade, it was for an export trade which has never existed and which there has never been any adequate reason to believe would materialize. The table below of *Capacity, Production and Exports of Flour Mills* reveals the situation very clearly. In the fourteen years shown from 1919 to 1932 inclusive actual production in nine years was less than half capacity and only in the peak year 1924 did it reach 57 per cent of capacity. Domestic consumption remained fairly constant over the whole period and exports, until 1929. In exports, however, there is shown a falling off from 10·7 million barrels in 1928 to 5·6 million in 1933.

CAPACITY, PRODUCTION, AND EXPORTS OF FLOUR MILLS IN CANADA, 1917-1934

(Millions of Barrels)

Year	No. of Mills	Yearly Capacity ¹	Wheat Flour Production	Per cent Production of Capacity	Exports	Surplus of Capacity over Production	Flour Available for Domestic Consumption ²
	1	2	3	4	5	6	7
1917 ²			17.7		8.8		8.9
1918.....			17.9		10.1		7.8
				per cent			
1919.....		42.9	17.8	41.5	10.1	25.1	7.7
1920.....		40.9	13.1	32.1	4.7	27.8	8.4
1921.....	582	39.9	15.3	38.3	7.3	24.7	8.0
1922.....	434	40.8	18.1	44.8	9.5	22.7	8.6
1923.....	560	38.7	19.1	49.4	11.2	19.6	7.9
1924.....	457	37.1	21.1	56.9	11.5	15.9	9.6
1925.....	455	36.7	17.8	48.4	10.3	18.9	7.5
1926.....	442	36.0	19.1	53.0	10.5	16.9	8.6
1927.....	431	37.0	18.8	50.8	9.3	18.2	9.5
1928.....	423	36.7	20.4	55.5	10.7	16.3	9.7
1929.....	409	37.3	19.8	53.0	9.6	17.5	10.2
1930.....	383	35.7	15.6	43.5	7.5	20.1	8.1
1931.....	372	34.1	14.9	43.7	5.7	19.2	9.2
1932.....	394	36.7	14.9	44.1	5.1	21.8	9.8
1933.....	413	32.1	15.2	47.4	5.6	16.9	9.6
1934.....	447	32.0	14.7	45.6	5.1	17.3	9.6
Total 1919-1934.....		527.5	245.6		122.9	281.0	112.7
Average 1919-1934.....		37.7	17.5	46.5	8.8	20.1	8.1

¹ Yearly Capacity if calculated on a basis of 304 days to the year.

² Capacity of mills not available for these years. Separate statistics not collected for flour mills prior to 1921. Included under flour and feed mills.

³ Flour available for domestic consumption is obtained by deducting Exports from Production.

It should be noted that while Canadian exports of flour have shown a decline of three to four million barrels annually from the high levels of the years 1923-28, world imports have decreased by 15 million barrels in the same period. The imports of the British Empire, however, have remained fairly constant throughout this period and the Canadian share of those imports has increased from 51 per cent in 1926 to 78 per cent in 1933.

The reason for this decline of exports of flour to non-Empire countries has been summarized by the Commercial Intelligence Service of the Department of Trade and Commerce and was given to us in evidence as follows:—

(a) Restrictions imposed on the mills in regard to the milling of foreign wheat, and in the general matter of blending of domestic flour; (b) the spread in prices between Canadian and other varieties at times apparent, even where imports are allowed and apart from restrictions imposed by the countries concerned; (c) prohibitive or high tariffs, (e.g. Germany); (d) difficulty in allotment of foreign exchange to pay for imports; (e) purchases from neighbouring countries through "local" clearing arrangements or other credit facilities; (f) the adoption of the quota import system by some European countries, (e.g., France); (g) the desire to protect agricultural interests under government monopolies which cover the import of flour and to impose restrictions by the setting up of syndicates or otherwise, (e.g., Czecho-Slovakia).

It is contended that the sale of Canadian flour in foreign markets creates a demand for Canadian wheat and thereby increases exports of the latter. The argument is that the demand for Canadian flour, as a result of its superior quality, forces foreign mills to meet the competition by grinding Canadian wheat. Most

Canadian flour exported, however, is blended in use with inferior flour from native wheats. The demand for Canadian wheat and flour seems rather to be a question of the amount necessary to bring the ultimate mixture up to a certain standard of baking quality. This suggests that the world demand for wheat and flour of the Canadian type is also comparatively inelastic and that barring absolute prohibition even were they more highly priced in the world market in relation to the prices of other wheats and flours, a certain minimum amount would probably be taken by foreign millers and bakers. This minimum figure, however, may not be as assured or as high as was once thought likely.

d. Surplus Capacity and Investment

Another approach to the question of surplus capacity is shown in the following table:

Company	Fixed Assets used in business plus goodwill and less reserve for depreciation (Thousands of \$)	Daily capacity	Daily Production Average barrels	Fixed Assets and Goodwill, per barrel	
				Daily Capacity	Daily Production
	\$			\$	\$
Lake of the Woods.....	6,327	19,300	7,100	327	890
Maple Leaf.....	8,610	18,700	9,000	460	957
Ogilvie.....	2,792	16,275	7,300	171	382
Robin Hood.....	3,170	9,700	6,700	327	470
Western Canada.....	3,622	9,000	5,400	400	670

The effects of over-capacity may be seen in the last column of this table which shows that the Lake of the Woods and Maple Leaf Companies have, in 1933, an investment in relation to average production of flour almost double that of Robin Hood and Ogilvie Companies.

e. Operating Characteristics.

(1) *Volume of Production.*

Eliminating the question of surplus capacity and over-investment, the position of the milling industry compared with almost any other manufacturing industry in Canada, is enviable as regards actual volume of production. This relatively fortunate position may be seen from the fairly constant annual volume of production shown in column 3 in the table on page 89—*Wheat Flour Production*. Production in 1932 was 14.9 million barrels, approximately 2.5 million less than the average of 17.5 for the period. It is true that the gross value of production has declined from \$196,000,000 in 1928 to \$85,000,000 in 1932, but this is meaningless unless compared with the cost of materials used:

	Wheat Flour Production	Gross Value of Product	Cost of Materials	Value added in milling	Total wages Paid
	(In Million barrels)	(In Millions of dollars)	(In Millions of dollars)	(In Millions of dollars)	(In Millions of dollars)
		\$	\$	\$	\$
1911.....		82.5	57.2	25.3	
1915.....		114.5	92.9	21.6	
1917.....	17.7	224.2	183.6	40.6	
1918.....	17.9	262.5	218.6	43.9	
1919.....	17.8	262.8	229.8	33.0	
1920.....	13.1	239.3	205.7	33.6	
1921.....	15.3	194.8	164.6	30.2	5.1
1922.....	18.1	166.9	136.7	30.2	4.6
1923.....	19.1	154.9	128.5	26.4	4.6
1924.....	21.1	180.8	150.0	30.8	5.0
1925.....	17.8	187.9	163.1	24.8	4.4
1926.....	19.1	189.6	163.9	25.7	4.3
1927.....	18.8	191.7	162.7	28.0	4.5
1928.....	20.4	195.7	183.0	30.7	4.7
1929.....	19.8	181.1	150.8	30.3	4.5
1930.....	15.6	144.9	119.7	25.2	4.0
1931.....	14.9	95.7	71.8	23.9	3.4
1932.....	14.9	84.7	63.2	21.5	3.1

It will be noticed from the above table that the decrease in wage costs has been proportionately greater than the decrease in the volume of production. It amounts, in fact, to an actual decrease in the wages cost per barrel of flour milled.

(2) Conversion costs.

Analysis of the cost structure of the milling industry is difficult because of the variation in accounting systems used by the various companies. The statistics derived by the auditors from the returns to questionnaires, show a surprising variation between companies in conversion cost per barrel, and particularly in the item of wages. Conversion cost for the "Big Five," including certain warehouse costs but exclusive of depreciation, appear to have been in the neighbourhood of 27 cents per barrel in 1933, with a range from 25 cents to 31 cents. Mill wage cost per barrel for the same year appears to have ranged from 11 cents or 12 cents per barrel, shown by the Maple Leaf and Robin Hood Companies, to 30 cents or 40 cents or more by some of the smaller companies, although it is not certain to what extent these figures are comparable. For the "Big Five," wage costs appear to account for somewhat over one-half of the total cost of conversion. The following table shows the breakdown of conversion costs for the year 1933:—

BREAKDOWN OF CONVERSION COSTS, 1933

"BIG FIVE"

	Percentage of conversion costs
Salaries and Wages.....	51
Taxes.....	8
Insurance on Buildings & Machinery.....	3
Repairs to Buildings and Machinery.....	9
Power, Light, Heat and Water.....	21
Insurance—General.....	1
Miscellaneous.....	7
	<hr/> 100

The importance to the mills of increasing production and the incentive to increasing sales even at low prices, arises from the fact that industry operates under conditions of decreasing costs. This is especially true of the large mill, where each additional increment of production brings a lowering of costs per unit, up to the maximum capacity of the mill. The principle is worth illustrating because of its effect on sales policy.

The following table shows the variation in overhead costs per barrel with variation in output in a hypothetical mill, which has overhead costs of \$250,000 per year and a maximum capacity of 3,000,000 barrels.

Production (barrels)	Overhead total	Overhead per barrel
	\$	cents
500,000.....	250,000	50
1,000,000.....	250,000	25
2,000,000.....	250,000	12.5
3,000,000.....	250,000	8.3

It will be seen that if this mill is selling 1,000,000 barrels annually in the domestic market and then is able to dispose of another 1,000,000 in the export trade, not only can it do so at a reduction of 12.5 cents under the domestic price, but it now has a leeway of 12.5 cents per barrel on its sales in the domestic market.

(3) Price Spreads Between Wheat, Flour and Bread.

The following table on price spreads between wheat and flour, flour and bread, and wheat and bread has been compiled from price figures provided by the Dominion Bureau of Statistics. It was argued by a representative of the milling industry that the increased spread between wheat and flour in the post-war years might be attributed to higher wages, but this seems improbable. A more important factor appears to be the amount realized from the sale of mill offals which fluctuated considerably in price during the period, amounting for example to approximately 96 cents per barrel in 1929 as against 41 cents in 1933. It may also be accounted for in part by a variation in the cost of bags and in lake and rail freight rates on wheat and flour, but as no information was presented to show the effect of these variations it is not clear what net return the mills received on an average to cover their actual expenses of milling and selling.

There was an increase in the spread between flour and bread prices from 2.33 cents per pound in 1916 to 5.13 cents per pound in 1930, which is equal to 4.2 cents per one and one-half pound loaf. This may, in part, be attributable to increased costs of other ingredients, to higher wage costs and to the expense of wrapping bread, which did not obtain in the earlier years. While the statistical information available does not make possible a definite statement, it seems likely that higher costs of selling account for a considerable part of this increase.

SPREADS BETWEEN THE AVERAGE YEARLY PRICES OF ONE POUND OF WHEAT,
 FLOUR USED IN ONE POUND OF BREAD, AND ONE POUND OF BREAD,
 1913-1933¹

Year	Spreads between		
	Wheat and Flour	Flour and Bread	Wheat and Bread
	cts.	cts.	cts.
1913.....	0-33	2-40	2-73
1914.....	0-32	2-31	2-63
1915.....	0-32	2-25	2-57
1916.....	0-37	2-33	2-70
1917.....	0-40	2-03	3-33
1918.....	0-43	3-67	4-10
1919.....	0-27	3-86	4-13
1920.....	0-39	4-36	4-75
1921.....	0-66	4-69	5-35
1922.....	0-58	4-25	4-83
1923.....	0-56	4-34	4-90
1924.....	0-44	4-34	4-78
1925.....	0-57	4-50	5-07
1926.....	0-58	4-52	5-10
1927.....	0-41	4-83	5-23
1928.....	0-40	5-04	5-45
1929.....	0-48	5-09	5-57
1930.....	0-80	5-13	5-93
1931.....	0-63	4-69	5-32
1932.....	0-63	4-34	4-97
1933.....	0-64	4-04	4-68

¹ Calculated on the basis of 270 lbs. of wheat at Fort William—196 lbs. flour, Montreal—270 lbs. bread in 69 locations.

f. Competition in the Industry

We now come to the question of competition between mills. It might reasonably have been expected that such competition would have more greatly reduced the surplus capacity that has persisted over so many years. Theoretically, it should have forced the industry to put its house in order, or by the elimination through bankruptcy of inefficient and high cost companies, have reduced the number of large mills to the point where fuller utilization of the milling facilities of the more efficient would have resulted in an economically sound industry.

The investigation by the auditors, however, indicates that despite excess capacity and the desire of mills to increase production and so lower milling costs by the fuller utilization of their capital, competition had not, prior to 1932, forced prices down as might have been anticipated under such conditions. Indeed, in spite of the fact that milling capital had been only half utilized, substantial earnings were maintained by most companies throughout this period and, in fact, until the past two or three years. Unfortunately the form of the data supplied by the millers and the diversity of accounting systems makes a comparative study impossible. The returns filed by the companies in answer to the questionnaires of the investigators include profits and losses from hedging and speculation as well as from affiliated activities such as elevators, cereal plants, bag factories and other allied enterprises, and render impossible the isolation of income from milling activities alone. It is unfortunate, to say the least, that, in connection with an industry of such vital importance as milling, complex and diverse accounting systems make it impossible to analyze satisfactorily the various factors entering into the cost of flour, and hence bread.

Although the honorary president of the Canadian National Millers' Association states in his evidence that the Combined Investigation Act, by

prohibiting price fixing, prevented the industry from getting together to improve conditions, there is evidence that free price competition between mills has not existed to the extent which might have been expected. In fact the uniformity of the price lists issued by milling companies, members of the Canadian National Millers' Association, points to the existence of some form of price understanding throughout this period.

Competition between the larger milling companies has mainly taken other forms, such as reaching out into the bakery business to secure an assured market for flour and maintaining expensive sales organizations.

Selling and administration costs for the Big Five alone amounted to nearly \$3,000,000 in 1933, a little over 35 cents a barrel or 11.3 per cent of the total costs. It has not been possible to extract the charges relating to selling alone, but it appears probable that they average about 20 cents per barrel and certainly not less than 16 cents, over both domestic and export business. When it is considered that a large proportion of the volume is export business obtained at relatively small cost, and a substantial amount is controlled bakery business obtained without any selling cost, it is apparent that the expense of selling in respect to other domestic business is relatively high—probably double the figures mentioned above. For a staple commodity such as flour this appears excessive. It is understood that the members of the Canadian National Millers' Association have established a grade relationship between their different brands, which would indicate that the development of consumer standards for flour should be a comparatively simple matter; we have therefore recommended in chapter viii that early consideration be given to the development of such standards believing that the effect will be to eliminate some of the unnecessary advertising and selling costs and stimulate price competition in the industry.

g. Hedging and Speculation

The questions of hedging and speculation are of great importance in the milling industry. The practice of hedging all transactions insures the milling company against loss should a drop in wheat prices cause a fall in the value of stocks of flour and wheat on hand. When a milling company carries any wheat without having made a sale of the same quantity for future delivery it is speculating on the probable increase in wheat prices. Similarly, if a sale of flour for future delivery is not covered by a purchase of wheat for future delivery, the mill is speculating on the probable fall in the price of wheat. In order to ascertain the practice of mills in hedging and speculation a questionnaire was circulated to a number of mills and from the data submitted it is evident that some companies, as a matter of policy, carry an open position on the market, in some cases long and in others, short. It is impossible, however, to determine to what extent these operations affected the profit or loss of mills, though information furnished by some of the mills indicated that heavy losses were sustained in 1930 and 1931 through speculation.

An extreme example of the effect market speculation may have on the financial position of shareholders' equities of a company is shown in the consolidated profit and loss account of the Maple Leaf Milling Company for the sixteen months ending July 31, 1930, in which this item appears:—

Losses from operations before providing reserves as shown below, but including losses from unauthorized speculation,
\$3,031,320.63.

It is not possible for any mill completely to cover possible losses from price fluctuations by hedging but we are confronted, in this industry, not only with a failure to hedge completely but also with actual speculation on the exchanges. We feel strongly that milling companies should not be permitted

to make unauthorized use of their shareholders' money in this way; also that some form of publicity of a company's position in the market and of its commitments should be provided for and that such information should be available at all times to the shareholders.

h. Recommendations and Conclusions

The recommendations for the improvement of conditions in the milling industry made in evidence before the Commission ranged from government control and nationalization to all forms of self control and rationalization, none of them very well worked out or coherent. The honorary president of the Canadian National Millers' Association indicated that, in his opinion, remedial measures would have to come from the industry itself, but would require some method of enforcement outside the industry. The following extracts from his evidence may be cited:

By the Chairman:

- Q. Have you any suggestions to make outside of the industry itself remedying the situation?
- A. I do not think I have, I do not know of anything I know that would be acceptable.

By Hon. Mr. Stevens:

- Q. Do you think it is possible, Mr. Short, after its efforts of the last few years to achieve a condition of unity of opinion through action by the industry itself?
- A. No, there would have to be a big stick of some sort.
- Q. Do you think that if the government or parliament erected in some form some body of reference to which resort could be had that it would be of assistance to you?
- A. I think it would, if it was a body constituted in such a fashion that the millers themselves could have confidence in it.

By the Chairman:

- Q. Mr. Short, if in the administration of the Combines Act, as it is or amended, if there was an official or a board to whom the members of an industry proposing to do something could submit their proposals and get a ruling as to whether or not it was contrary to the provisions of the Act, would that be of any assistance?
- A. It would be very welcome by the milling industry.
- Q. Would that apply to all industries?
- A. I imagine it would apply to all industries and help them a lot.
- Q. As I apprehend your evidence part of the difficulty is apprehension as to whether or not certain actions would be deemed to be an offence under the Combines Act.
- A. I would say positively that I have encountered that mentality on the part of millers, of more than one man in that position.

By Mr. Ilsley:

- Q. The course of conduct always takes the form of an attempt to fix prices?
- A. That is true.
- Q. Yes, in our practice in Canada we get together and fix prices, agree to charge the public certain uniform prices, and that is the kind of thing the Combines Act prevents them from doing, and in my judgment ought to prevent them from doing.
- A: And I go further than that, Mr. Ilsley, and say that it is problematical whether or not any agreement between the mills that did not carry with it a price-fixing provision would be satisfactory to all.

There is nothing in the above that is very clear cut or definite as a solution for the industry's difficulties. Yet some solution must be found for milling is a basic industry, supplying one of the essentials of life, and it is imperative, in the interests of the public, that it should be operated as efficiently as possible.

The evidence presented before us and the investigations carried out reveal that the condition of the industry today is serious and that its solution is not to be found in the return of additional flour export; that the large milling corporations to survive must reorganize their capital structure on a basis consistent with present demand and reasonable expectation; and that failure to take such steps can only lead, in a short time, to bankruptcy, the responsibility for which must then be borne by those directing the companies affected.

Any scheme of re-organization of the milling and baking industries, if it is to succeed, must be based on a writing-off of the capital value of surplus capacity. Such reorganization may be effected by the companies themselves or will come eventually as the result of bankruptcies. Given conditions of free price competition, the latter alternative cannot be held off much longer. The best interests of the consuming public might be served by letting this process take its course; allowing the excess capacity to be liquidated and capitalizations reduced to a reasonable amount on which interests and dividends could be paid.

When such re-organization is effected, free price competition between mills should be restored to permit the elimination of the inefficient mills and consequent reduction of surplus capacities. It is recognized that the period of adjustment would be trying, but serious ailments require drastic remedies.

We feel that any attempt to meet the problem created by surplus capacity, by the establishment of production quotas and the allocation of markets with the retention of existing mills at half capacity, apparently contemplated by some of the advocates of "rationalization," would only be to perpetuate the existing uneconomic organization of the industry. The only gain which could be anticipated from such a scheme would be the savings in selling and administration costs, a gain incommensurate in this case with the dangers inherent in the creation of a cartel or combine with a vested interest in the *status quo* and therefore committed to resisting change.

In view of the fact that the industry has maintained a tremendous surplus capacity over a twenty-year period, it is evident that the public and not the industry has been bearing the burden of its cost. There can be no possible argument for the government to take over this burden; it can best see that price competition is maintained between milling companies and allow the resulting situation to work itself out by the elimination of the inefficient.

The only possible alternative which might be considered is, not some scheme of rationalization designed to save the industry at the expense of the public, but the complete regulation and control of the industry, or at least of the large mills, by the Government. If those who direct the industry persist in maintaining present costly structures and capacities to the detriment of the shareholders and, ultimately, the general public, serious consideration would have to be given to the acceptance of this alternative. At present, however, we feel that no adequate reason has been advanced to justify government intervention, and that it is undesirable for the Government to interfere in the internal problems of these large corporations. If, and when necessary, such intervention might be achieved by pooling the resources of all large mills, forming one large company, with assets written down to the actual value of the facilities necessary for carrying on the industry, closing the high cost mills, consolidating selling and shipping organizations and allowing the industry to operate as a monopoly under government control of prices. It would be anticipated that the small mills would be able to continue in competition because of the advantages they possess in their local markets, but they might be given the option of selling out to the re-organization at a valuation based on profitably employed capital. There is

no reason why a high-cost small mill should receive more favourable treatment on account of its smallness than is given a large mill. We do not put this forward as a recommendation but as an emergency alternative. It should be adopted only with full realization of the difficulties involved.

So far as price discrimination and other unfair practices in the industry are concerned, the information that we received was scanty. It was alleged both that milling companies had sold flour at lower prices to controlled bakeries than to independents, and also that independents had secured lower prices than mill-controlled bakeries. Complaints of other forms of price discrimination were received but the evidence is not sufficient either to prove or disprove them. The control and where necessary, the prohibition of such practices can, we feel, be left to the Federal Trade and Industry Commission recommended later in this Report.

3. THE BAKING INDUSTRY

a. The Relation between the Milling and Baking Industries.

Until the end of the War, the baking industry was one of small independent establishments, with small capital operating locally, and on the whole a stable, moderately profitable enterprise. After the War the small baker encountered serious difficulties. It is not intended to imply that the local, independent bakery disappeared during this period. Many of the smaller independents had retired from, or been forced out of operation, but the bulk of the baking business (between one-half to two-thirds) continued in the hands of the independents of moderate and large size. There has always been a fairly high mortality among small bakeries, as in all small businesses.

The depression has, to some extent restored the small independent baker, although his condition is frequently desperate. Hard times brought the establishment of numerous small shops opened by bakers who were unable to obtain employment with established companies. These were frequently very crude and labour costs were cut to a mere subsistence for the owner-operator. The quantity of bread produced by any one of these would be small and their combined output in any locality moderate, but the sale of bread at the low prices necessary to dispose of their product forced the larger plants to keep their prices low to prevent an increase in the number of such establishments.

The milling industry to-day controls a majority of the large baking companies of the country and has a financial interest in a substantial number of other bakeries. The mill-controlled bakeries alone supply approximately one-third of the domestic demand for baker's bread. Bakeries absorb approximately one-third of the domestic flour production and the existence of these inter-relationships between mills and bakeries results in the removal from the competitive flour market of a substantial demand for flour.

It has been suggested to us that the existing unprofitable condition of the baking industry is to be attributed to this relationship because of the inducement to the milling industry to expand flour sales by expanding bread sales of controlled bakeries.

It is difficult to confirm or disprove this, especially as the development of chain-store bakeries (as distinct from bakery chains) amid the general confusion of the depression makes the untangling of cause and effect well-nigh impossible. On the whole, however, we feel that mill-control has been a complicating and disorganizing factor. The existing high cost of selling and delivery is also attributed to the competition engendered by the mill-controlled bakery consolidations.

b. Mill-Controlled Bakeries.

The largest chain bakery organization operating in Canada, the Canada Bread Co., Limited, was organized in 1911. Until 1925 however, bakery chains were not an important factor in the baking industry. Since that year a number have come into existence, most of them controlled by one or other of the big milling companies.

The Lake of the Woods Company operates through its subsidiaries the Inter-City Baking Company and the Inter-City Western Bakeries, and their subsidiaries, some 18 companies with plants in 14 cities, from Quebec west.

The Maple Leaf Milling Company, through its subsidiaries the Canada Bread Company, Canadian Bakeries Limited, and Eastern Bakeries Limited, operate some 38 bakeries in 33 cities across Canada and also controls Dominion Bakeries, the plants of which are leased to other companies.

Ogilvie Flour Mills controls, through its subsidiaries, the Consolidated Bakeries, the Northern Bakeries, the McGavin Companies, the National System of Baking, and three others, some 40 companies operating in 27 cities.

Western Canada Flour Mills controls, through the Purity Companies, the General Baking Company, the Brusons Companies, and 8 others, some 25 bakeries operating in 18 cities.

The chain-store bakery is an additional development. In 1929, a Toronto chain store set up its own bakery and that store has since kept its retail prices one to two cents per loaf lower than other bakeries. It also brought out a grade two bread at a substantially lower price. In the first two years of operation this bakery made substantial profits both on bread and cake. In 1932 it lost rather heavily on bread but made up the losses on cake. In 1933 it had a net loss on both.

In 1929 also, a Montreal chain-store bakery commenced operations, producing one grade of bread to sell at ten cents, or three cents below prevailing prices. When other bakeries met this competition with grade two bread at 10 cents the chain store cut its price to 8½ cents. There followed a period of competitive price cutting in which the chain store maintained its price position.

Second grade bread is, in itself, a form of price cutting, for examination of costs of production reveal that although the difference in retail price is from one to two cents a loaf, the difference in cost is not over one-half cent.

It may be said in defence of the cutting of bread prices by chain stores that they can afford to sell two or three cents per loaf below the price delivered from the bakery wagon. Cost of delivery and selling appear to be in the neighbourhood of three cents per loaf and are, of course, not incurred by the chain store. It is true that bread may be delivered together with other groceries, but the increased total delivery costs of the store are probably not appreciably increased by such delivery and a great deal of bread is sold over the counter.

The use of bread as a loss leader, and its sale below cost of production by a retail store in order to attract customers is, however, unfair, and if it were a common practice would be a serious menace to the bakery business, as the baker, producing only one type of product, is not able to attract customers by the same methods. His chief product is bread, and he has not a sufficient variety of other products on which a profit might be made to compensate for losses made on bread.

A distinction has been made between the sale of bread at retail stores, and particularly chain stores, below the price delivered from the wagon, which appears reasonable in view of the costs of delivery and selling, and bread used as a loss leader. The former, in the opinion of the Commission, is a legitimate business practice; the latter, if it should become general, will require some form of public regulation.

c. Surplus Capacity in the Baking Industry.

Surplus capacity is unfortunately as characteristic of the baking as of the milling industry. Information is not available to indicate when the condition first came into being. The Report of the Registrar of Combines into the Baking Industry, 1931, shows that a large surplus capacity existed in 1929. The nature of the baking industry makes it impossible to secure such statistics of production and capacity as were obtained for the milling industry, but as a result of certain investigations we conducted some estimates have been derived which it is believed reflect the actual situation reasonably well.

The estimates below refer to the year 1931, as this is the latest period for which the Dominion Bureau of Statistics has been able to provide complete reports. No material change has occurred up to 1933, except that the capacity of mill-controlled bakeries has been reduced by approximately 20 million pounds per annum, by the transfer of some of those bakeries back to private control and the disposal of plants by one of the mill-controlled chains. At the same time, total production of mill-controlled bakeries showed a decline of 36 million pounds, half of which might be attributed to the same circumstances.

The total capacity for 92 mill-controlled bakeries in 1931 was estimated at 1,144 million pounds per annum. The bread actually produced by these plants, however, amounted to only 305 million pounds or 27 per cent of the actual capacity. The total production of bakers bread in Canada for that year amounted to 943 million pounds. If it is assumed that the ratio of capacity to production of the mill-controlled bakeries holds for the independents and chain store bakeries, the total capacity of all bakery plants in Canada must be approximately 3,000 million pounds or between three and four times the production. This estimate is probably high and may be taken as the maximum. The method of computation has been questioned on the grounds that it is computed on the basis of 24 hours per day for 304 days per annum, and that the actual capacity of any bakery must be in excess of average production in order to cope with the bread requirements of long week-ends. On the other hand, some bakeries have stated that despite the fact that their plants are actually operating 24 hours a day throughout the week they find themselves able to meet requirements of a long week-end by forcing the plant, although at the risk of a break-down. As furnished by the mill-controlled bakeries, the estimate of "practical" capacity of all mill-controlled plants is about half that given above. This may be taken as the minimum and it may be concluded that the capacity of all bakeries in Canada is not less than 1,500 million pounds annually.

The production of bakers bread in Canada has declined slightly from the 1930 level. Figures are not available for the whole of Canada, but for Montreal and Ontario and the Western provinces there was a steady decline from 256 million pounds in 1930 to 203 million pounds in 1933 in mill-controlled plants. It is impossible to tell how much of this decline is due to the transference of trade to other bakeries and how much to home baking; possibly about half is accounted for by an increase in home baking during the depression, as there was a decline of 16 per cent in mill-controlled plants in 1932 from the 1930 amount. Whereas for all bakeries in Canada the decline in the same period was only 5.5 per cent. The evidence and statistics, although incomplete, indicate that a substantial part of the decrease in mill-controlled bakery production in Ontario and Montreal was secured by the chain-store bakeries in 1931, but was lost by them during the following year. It appears probable that by 1933 a substantial volume of business had passed from the mill-controlled and chain store bakeries into the hands of independents.

From the information available it is impossible to determine the relative importance of the influence exerted on the baking industry by the various factors already discussed, namely, surplus capacity, the introduction of chain-store

bakeries, the reappearance of small bakeries and the depression generally, but the combined effect of these and possibly other factors, during the past four years, resulted in price reductions, mainly in the lower grades of bread, which exceeded the savings that had been effected in cost through wage reductions and other economies, and eventually in the sale of bread below cost in many centres, both by chain-store and other bakeries.

d. Competition in the Baking Industry.

In addition to over-capacity the difficulties encountered by the baking industry appear to have resulted from "unfair" competition and may be summarized as follows:—

1. The payment of low wages by certain bakers.
2. The use of unsanitary premises and equipment by certain bakers.
3. The sale of bakery products below actual cost.

Recommendations made to us contemplated the licensing of all bakers, the fixing of selling prices, the prohibition of the use of premiums, etc. It will be observed, however, that practically all of these proposals are designed to insure a greater protection for the bakers' investment with no additional protection to the consumer.

The period of intense competition, which apparently commenced about 1930, resulted in the production and sale of low grades of bread at prices considerably less than those of the first grade bread (although, in general, the difference in cost and quality between the various grades was relatively small), and an entirely wrong idea of the worth of bread was established in the public mind. At present there is no uniformity in the quality of different breads on the market and, except for trade names, the purchaser has no means of distinguishing between them. We have, therefore, included in our recommendations for consumer protection in chapter viii that consumer standards be provided for bread as soon as possible.

The surplus capacity of the baking industry was not created in response to a public demand, nor can it be held to have been developed to provide for future increased demand which might result from increased population. The construction or expansion of a bakery is a matter of months, not years, and may be allowed to accompany rather than precede demand. The real reason for the creation of surplus capacity was competition amongst the bakers themselves for a relatively fixed amount of bread business. The public should not be required to support a consequent excessive investment which serves no useful purpose.

e. Selling and Delivery Costs of Bread

The heaviest burden placed on the public is the support of the very great duplication in the delivery systems of bakers. It is a common sight, particularly in the large centres, to see as many as six or even more bakers' wagons on the same street during the course of a few hours. Bread is an everyday necessity and should be available to the public at the lowest possible cost consistent with quality, reasonable service and a fair return to employees and investors. It cannot be said that the excessive duplication of bread delivery systems is a reasonable service.

In addition to the duplication mentioned, the evidence submitted to us indicates that selling and delivery costs have been burdened in recent years with increasing expenditures represented by the use of premiums, rebates, etc.; the introducing of a morning delivery service; the sale of pies, cakes and buns; all of which had the effect of raising the status of the former driver to that of a salesman and consequently reducing the size of delivery routes. These expenditures were apparently incurred as a result of the aggressive competition among

bakers for the available business. This condition is very fully and clearly set forth in the McGregor Report, (1) from which the following extract is made:—

“One effect of this factor of surplus capacity which has a bearing on the present inquiry is that it keeps before the management the constant necessity of increasing sales, and thereby leads to the aggressive sales policies which add so considerably to cost and benefit the general public so little. Most of this expensive sales effort is designed not so much to increase the consumption of bread as to persuade customers of rival concerns to “change bakers”. This can hardly be called a social benefit. The big bakery cannot be held solely responsible for the system. There is little doubt that the demand of the public, or of some portions of the public, for the development of such sales methods. This desire for change is capitalized by the shrewd sales manager: new varieties of bread are advertised under “catchy” names as being made by the latest scientific processes and as containing the last word in nutritive value; new shapes are turned out, bread ready sliced is introduced and special delivery services added, all in an effort to retain old customers and gain new ones from competitors. This is the kind of expensive competition to which we have become accustomed in connection with such articles as motor cars, radios and washing machines, with their constantly changing models, articles on which sales costs are high because of the time, ability and effort usually needed to complete a sale. There is less to be concerned about when this kind of competition is brought to bear upon non-essentials. But it is not desirable that bread, as one of the most important of the necessities of life, should be brought within this category. It does not require such selling efforts: the consumer does not need to be persuaded to buy bread, and should not be called upon to pay for one baker’s efforts to persuade the public to buy from him rather than from a competitor.”

Distinguished from other objects of distribution are certain essential staples such as bread, milk, gas, water and electricity, for which there is a continuous and regular demand, the sale of which is normally accomplished without the effort or expense involved in other lines of distribution. It is important that the consumer be protected from exploitation in the sale of these essentials by the maintenance of the price at a minimum consistent with adequate wages, reasonable service and a fair return on invested capital. These essentials are relatively more important to those with small incomes and, where income is very low, a small increase in price may seriously affect the standard of living and leave no margin for the purchasing of small comforts or luxuries.

f. Recommendations and Conclusions

Regulation of wages, labour conditions and sanitary standards of bakeries by public authorities will accomplish a great deal to improve the situation in the industry but the two major problems, surplus capacity and its consequence, excessive selling and delivery costs, will have to be solved before the industry can be regarded as satisfactory from a social point of view. No solution based on production quotas and the fixing of prices high enough to pay a return on the present capital should be tolerated. Under such conditions the elimination of competitive selling would be profitable to the bakeries with no return to the public. It would be better to tolerate the existing situation with the expectation that sooner or later competition would eliminate a number of the less efficient.

One avenue of escape might be found in the fostering of baking as a local industry. It has been argued, and there is much to support the view, that the most efficient unit of operation in the baking industry is the bakery of moderate

(1) Investigation into an Alleged Combine in the Bread-Baking Industry in Canada, Report of Registrar.

size, locally owned and operated. Certainly experience shows that a bakery of this type can operate economically, and that the gains from large-scale production, if any, are largely offset by increased delivery and selling charges.

Later in this Report we recommend the prohibition of price discrimination between customers of the same status. This should tend to prevent the practice reported of some large bakeries selling in the outside market at prices below those in the market nearer the bakery. The bakery in the small town would, therefore, to this extent, be protected against the unfair competition of his large-scale competitor.

It is clear from the evidence that baking is still a freely competitive industry. We are of the opinion that, aside from the necessary regulation of sanitary and labour conditions, the interests of the public can best be served by maintaining conditions not only of free but also fair competition. If all bakeries were forced to compete on a basis of approximate equality, we feel that the "fly-by-night" and "hole-in-the-wall" bakery, which has done so much harm in the past few years, would be eliminated, and that also the local bakery would have a fair chance to compete against the mill-controlled corporation bakeries.

Finally, we question the social or economic desirability of milling corporations controlling and operating bakeries. It has been a disorganizing development in both industries and the sooner the mills divest themselves of their controlled bakeries the better it will be for all concerned.

10. FURNITURE MANUFACTURING INDUSTRY

1. GENERAL CONDITIONS IN THE INDUSTRY

Our investigation of this industry was prompted by a number of complaints received about its depressed condition generally, and more specifically the effect of mass buying as a cause of this condition. The method of procedure followed by our investigator was to submit a form of questionnaire to the industry and to supplement the information received thereby by personal examination in plants of manufacturers. The furniture investigation was closely co-ordinated with our examination of department stores, which now are the largest customers of the industry.

According to the 1932 report of the Dominion Bureau of Statistics the industry in Canada embraced 308 plants representing an invested capital of nearly \$22,000,000. The output in 1932 was only \$12,000,000 and the 7,000 wage-earners employed received a total in wages of but \$3,250,000. These statistics reveal in a general way the depressed condition of the industry, and the indicated average annual wage of less than \$500 supports the general impression of low wages and short time employment.

The total of 308 plants included a number of very small units, 228 employing fewer than 10 employees and having a combined production of less than 10 per cent of the total output. We need only consider, therefore, the 80 remaining plants, among which the typical establishment represented in 1932 an invested capital of \$250,000, an annual output of \$135,000 and approximately 70 employees. In contrast to other industries reviewed by the Commission there appears to be among furniture manufacturers a relative freedom from monopolistic development. The industry is not dominated by any one company or group of companies and as a result of extreme competition, efforts to maintain profit margins during the past few years have been conspicuously unsuccessful. That the intensity of competition among manufacturers for the business of the few large buyers has resulted in lower wages is clear. The position of the wage-earner in this industry, however, is discussed more fully in chapter v.

The sales of the 80 largest furniture companies fell from \$29,500,000 in 1929 to a low of \$10,600,000 in 1933. An analysis of the operating statistics of

29 of these factories which in 1932 supplied a little over 50 per cent of the sales of the group indicates the major trends of the industry, as follows:—

	Sales	Working Capital	Net profit or net loss
	\$	\$	\$
1929.....	14,963,000		
1930.....	11,537,000	4,124,000	155,000 profit
1931.....	9,300,000	3,751,000	518,000 loss
1932.....	5,800,000	3,010,000	664,000 loss
1933.....	4,651,000	2,625,000	588,000 loss

The decrease in sales from 1929-1933 amounted to 69 per cent, probably because purchases of furniture are readily postponable, and, as a result of the losses, the working capital decreased sharply. The net loss in 1933 was equivalent to 12.6 per cent of sales and 10 per cent of the paid-up capital of these companies.

The physical volume of production is estimated to have decreased from 1930-1933 by 44 per cent, as compared with a decrease of 60 per cent in sales value. Even while demand was normal, the productive capacity of the furniture industry was not well balanced, so that this sudden drop in volume necessitated adjustments of the most painful kind. Surprising reductions have been accomplished in the overhead expenses, which are estimated to have declined over 40 per cent, from 1930-1933, but in spite of these economies the struggle for survival resulted in a heavy reduction in the return to labour. It was pointed out that during the depression nearly every furniture factory in the country was threatened with losses which could lead only to bankruptcy and the efforts of the individual operators to remain in business resulted in the reduction in the general level of furniture prices well below the cost of production.

2. MASS BUYING AND THE INDUSTRY

It has been suggested that the furniture industry before the depression had become seriously over-extended in the matter of productive capacity. Coincident, however, with the growth of furniture factories was a concentration in retail distribution which led to the elimination of more and more independent outlets. In the city of Winnipeg during the past 12 or 15 years approximately one furniture dealer per annum has ceased business and at the present time there remains only one dealer aside from the department stores. Many of these firms had been established for many years, but found themselves unable to compete with the department stores and went into bankruptcy. Thus, while the underlying causes of cut-throat competition were developing through over-expansion in the industry, the narrowing of the field of retail distribution was proceeding rapidly. When the purchasing power of the public decreased during the depression, therefore, it became of paramount importance to every manufacturer to sell to the department stores. The concentration of purchasing power in the hands of the latter undoubtedly intensified competition and accentuated the severity of the necessary adjustment.

As we have had occasion to say elsewhere, the effect of mass buying itself, as distinct from general economic conditions, is difficult accurately to distinguish and impossible to measure. It is only fair therefore to recognize the contention that the mass buyers—through their ability to buy in fairly large quantity if the price suits them, and by prompt cash payment—have afforded a temporary relief to certain manufacturers, who would otherwise have been forced to close down for lack of working capital and cash. The mass buyers, further, by forcing down retail furniture prices, may have increased generally the sales of furniture and therefore production and employment. But we have no informa-

tion about the extent to which a decrease in furniture prices has or would have increased consumer purchases, and we have no evidence that the mass buyers decreased their own gross profit margins on furniture sales, however they may have insisted on decreased wages for furniture workers and decreased profits for furniture manufacturers. Those manufacturers who survive the depression may, it is true, thank mass purchasers for this survival. But those, whose failure is only deferred, may thank mass purchasers for the loss of much of the equity that earlier failure might have left them.

Furniture manufacturers under present conditions are ready to accept prices which they know to be too low. The more dependent they are on one particular buyer the more inclined are they to yield on the question of prices. The harder the buyer presses, the more the manufacturer gives in. When a manufacturer is hard-pressed he has been willing to accept almost anything the buyer offers, even to the point where he fails to recover his total out-of-pocket costs of materials and wages. When a substantial part of the industry adopts this course, the general level of retail furniture prices drops to a point where it is practically impossible to operate, even on a cost basis.

3. CONCLUSIONS

In summary, this industry presents an illustration of a completely disorganized body of producers, for the most part privately financed, dominated by no one organization or group of companies. The field of retail distribution of the industry's product is, however, dominated by a few department stores, giving rise to a wide disparity in bargaining power between the producer and the distributor of furniture. The result of such disparity, combined with over-extension of productive facilities, has been to drive prices to a point well below the proper cost of production with a consequent impairment not only of the manufacturer's capital, but of the standard of living of the wage-earner.

A general adjustment in the price of manufactured commodities was, of course, necessary in view of business conditions, but there is little doubt that furniture prices have fallen more drastically than those of almost any other important industry.

The suggestion has been made that a remedy lies in granting the industry the right to impose some measure of regulation upon its members. We feel, however, that before it can reach a healthy condition some adjustment must be made in respect of surplus capacity. Self-regulation should not be permitted to operate in such a way that the cost of carrying unneeded plants should be passed on to the public through price agreements, production control, and such devices.

CHAPTER V

LABOUR AND WAGES

I. LABOUR'S SIGNIFICANCE AND THEORETICAL POSITION

1. INTRODUCTION.

This chapter contends that the problems of labour and wages are simply one aspect of the more general problem of economic organization and policy. It stresses the social and economic significance of labour's welfare, mentions the theoretical considerations that explain some of the abuses revealed by the evidence, summarizes very briefly the present status of the wage-earner in the industries investigated, and proposes certain remedial measures. Underlying these detailed proposals is the recognition of two general considerations that we should like here to emphasize:

- a. the need for greater uniformity in Canadian labour conditions, labour legislation, and labour law administration;
- b. the need for continuous study of the problems involved. These cannot be solved by any single act of legislation. Their treatment calls for flexibility both in the determination of minor matters of policy and in continuous day-to-day administration.

The terms of reference of the Commission specifically commanded the investigation of—

. . . the labour conditions prevailing in industries supplying the requirements of such chain and department store organizations, and the extent, if any, to which existing conditions have been brought about by the purchasing practices of such organizations, and the effect thereof upon the standard of living of those employed in such industries and organizations.

Labour conditions and standards of living in particular employments and places, however, are relative matters. They are relative not only to prevailing conditions and standards in other occupations and localities, but also to currently accepted notions or ideals of social decency or justice. They should be considered, also, in relation to the general problem of economic organization. It would be quite unfair, for instance, to single out certain chain and department store organizations for investigation, without emphasizing that such stores are but one manifestation of a deep-seated social tendency towards concentration—a tendency that has been facilitated by the development of the corporation and shows itself, in diverse forms, in every phase of economic life and in all modern countries. It would be impossible, further, to investigate labour conditions and wage rates in such stores without comparing them with conditions and wage rates in independent stores and without comparing both of these with manufacturing and other occupations. Moreover, it would be impracticable to investigate the influence of purchasing policies on labour conditions without giving due consideration to other economic and social forces that focus on the labour contract.

2. THE SOCIAL SIGNIFICANCE OF THE WAGE-EARNER.

Two-thirds (2,565,000) of the total working population of Canada (3,923,000) are wage-earners. If agriculture, in which over a million people are employed chiefly as proprietors, were eliminated, the proportion would be raised

to nearly five-sixths. It is unnecessary to elaborate these figures or to emphasize further the predominant part played by the wage-earner in Canada's total production, or the extent to which the welfare of the country as a whole is associated with that of the wage-earning population. Canada's production of wealth and income depends on the morale and the efficiency of her workers.

It is now a commonplace of economic thought that the significance of the wage-earner is not confined to his activities as a producer. Production cannot continue without profitable markets; business activity of every sort ceases without prosperous buyers. Despite the importance of certain export markets, our own workers constitute the biggest market for Canadian products. On the stability of their income and purchasing power depend the profits of business enterprise. On their standard of living rests the possibility of commercial prosperity.

3. THE THEORETICAL POSITION OF THE WAGE-EARNER.

The determination of wages and of labour relations is not sufficiently explained by the simple repetition of the formula "supply and demand." The forces of supply and demand are real and important but other influences—legal, sociological, technological, political—also exert their influence on the terms of any labour contract.

Mass buying, the focus of our inquiry, is one of the sociological factors. It is, however, only one manifestation of the growing development of what we have previously discussed under the name of "imperfect competition." There is a growing realization that the development of this type of competition modifies very considerably the possibility of continuing with a laissez-faire policy. Some social control of labour relations is necessary because of the usual disparity in bargaining power between employers and employees, a disparity not unlike that between the bargaining power of large department and chain store organizations with that of the small manufacturers with whom they deal. Just as a big retail organization may enjoy an advantage because it purchases 50 to 75 per cent of the output of a clothing factory, so every employer normally enjoys an advantage because he purchases 100 per cent of the "output" of every worker.

Each employer starts his negotiation of the labour contract with the bargaining advantage of a mass buyer. The employer of even as few as fifty workers cares little whether he concludes a bargain with any one worker. To the employer it means only "a little more or a little less"; to the employee, it means "all or nothing." "One job or none" means infinitely more than "49 workers or 50" or "999 workers or 1,000." For this and other reasons, the worker starts his regular bargaining under the same handicap as any distress seller. Only by a fortuitous combination of circumstances will he receive the "full product of his labour." This is particularly true in Canada where territorial specialization and great distances limit the alternative opportunities of labour. What genuine opportunity of alternative employment has a Nova Scotian steel puddler who wishes to refuse the offer of the local steel company? How frequently can the coal miner of Nanaimo run over to Lethbridge or Sydney to see if he can get better terms?

Nevertheless, the development of personnel management and changing standards of social justice have put an institutional brake on the employers' exploitation of their bargaining advantage. In the long run, the efficiency of a factory depends in large measure on the efficiency, stability, and loyalty of its working force—which depend in turn on the wage-earners' income and standard of living, and on their feelings of self-respect and security. Enlightened employers, therefore, in periods of reasonable prosperity, moved alike by equity and expediency, are learning to share with labour some of the fruits of social progress. Normally,

it is becoming exceptional in a well-managed and efficient concern to find anything but good working conditions, and fairly good wages and hours.

It is otherwise in the savage rout of a business depression. Long-run policies fall under the pressure of imminent disaster. Only the strongest and most intelligent firms can avoid the slashing of wages that losses seem to demand and widespread unemployment to permit.

There exists, too, always the continued threat to established standards from the "marginal employers." Especially in those industries, such as the manufacture of clothing, which require little capital, a swarm of small employers try to eke out an existence or to struggle upward toward security by frank exploitation of labour. Unfair cut-throat competition, found in most industries only in depression, seems to be the normal characteristics of such small-scale industries. They represent in the modern structure of large-scale production a survival from an earlier period, a survival that can threaten the foundation of the whole structure.

The bargaining advantage of the employer may be offset by the association of workers for collective bargaining. This is now recognized as necessary, proper, and almost inevitable. The modern corporation should conclude its labour contracts not with individuals, acting singly, but with individuals freely organized into correlatively strong associations, or unions, wisely led. When a corporate employer, as now commonly happens, is prepared to bargain also as a member of an employers' association which formulates a common policy, the need for trade union insistence on a "common rule" for labour, becomes even more pressing.

The balance of bargaining power can also often be restored, in certain particulars, by labour legislation. For the protection of the worker and of the fair employer against unfair competition, and for the protection of the state and society generally, most governments have found it necessary to set by law minimum standards of employment terms and conditions. These may not be able, without limit, to improve the conditions of *all* labour but, if wisely drafted, they are demonstrably able to set a bottom level below which unrestrained economic and other forces may not push labour. They are in no sense a questionable interference with "natural economic laws." They are simply a modification of the institutional framework within which these forces work. The game goes on as before, but the rules have been improved and the state, as referee, promises to enforce them.

The game, however, is often wider than the jurisdiction of any single legislature. The products of Ontario factories must compete with those of Quebec and, to the extent that trade is free, with the products of other factories throughout the world. It is necessary, therefore, in drafting and enforcing labour laws, to give due consideration to the standards of legislation and enforcement elsewhere, especially in competing jurisdictions. Some jurisdictions, in fact, by the toleration of unremedied abuses, foster what might be called unfair regional competition. Except for such proper variations as "climatic conditions and the imperfect development of industrial organization or other special circumstances" may demand, it is necessary for labour legislation and enforcement to be substantially uniform in all the different jurisdictions or regions from which employers compete. It is for this reason that we need greater uniformity of labour conditions in Canada itself and should endeavour to co-operate more effectively with the International Labour Organization which was set up to facilitate the achievement of such uniformity on a world basis.

4. THE EFFECT OF MASS BUYING ON LABOUR.

The evidence before the Commission proves that, in certain industries, the sweat shop still survives in Canada and that, more generally, unemployment and low wages have reduced many workers to a state of abject poverty. It is

difficult, however, accurately to measure the influence of mass buying on this situation. In another part of this report, special attention is given to the general range of problems which mass buying is alleged to have caused. In this discussion of labour and wages, we feel warranted in stating the conclusion that mass buyers—by their own cut-price sales, by their patronage of cut-price manufacturers, in some instances by the maintenance of oppressive working conditions in their own factories, and by their purchasing systems which force their own buyers to drive very hard bargains and to seek out distress sellers—have tended to intensify the inevitable effect of the depression on wage rates and working conditions. It is necessary to qualify this conclusion by stating also that inadequate managerial experience, ignorance of costs and unethical practices on the part of the manufacturers themselves, and the tolerance of inadequate labour legislation and administration by the community as a whole, must also share a large part of the responsibility for present deplorable conditions.

General economic forces outside the control of any individual or group—some extremists would say, outside the range of any social control at all—have produced a business collapse of almost unparalleled severity. But the resulting losses and hardships have not been shared by all alike. They have borne more heavily on certain exposed or vulnerable groups. Moreover, it is evident that some firms, even in profitable businesses, have capitalized the opportunity afforded by the depression to exploit others, and that the severity of the collapse has been intensified by certain unfair business practices and policies. We are of the opinion that, both with respect to labour and wage problems and with respect to the more general problems of business organization, some degree of remedial social control is not only desirable, but necessary.

Furthermore, it should be added that the mass buyers themselves claim that their business policies have tended to stabilize employment conditions during a difficult period. We feel, however, that on the whole, stabilization based on low and depressed wage levels in the long run causes more harm than good to labour and to industry generally.

2. PRESENT STATUS OF THE WAGE-EARNER IN THE INDUSTRIES INVESTIGATED

1. INTRODUCTION

The industries in which we have been ordered to investigate conditions fall into three main groups.¹ The first includes the needle trades, the leather boot and shoe, furniture and baking industries. In none of these has concentration developed very far. In each of them, the industry is characterized by the continuance of a large number of small plants, where the normal bargaining weakness of the worker is accentuated by the fact that the employer himself suffers a bargaining disadvantage in dealing with large-scale distributors. The group is one where cut-throat competition often rules.

The second group includes the flour milling, meat packing, fruit and vegetable canning, tobacco, agricultural implement, and rubber industries. In each of these, concentration has brought the entire industry under the dominance of a few large-scale firms, and the average unit of operation is larger than the average for manufacturing in general. In this group, the outstanding characteristic is the semi-monopolistic power of a few large firms to exploit either the primary producer or the worker.

The third group is composed of trades and industries where a few very large and powerful firms compete with a very large number of independent small-scale concerns. This group includes the textile industries and the department and chain stores.

¹ See Annex V, Tables 29 and 30 for size of establishments and average annual wages in some of the industries investigated.

Any discussion of wage and labour conditions in so many industries must, of necessity, be brief in a report of this length. However, more detailed information on these matters, as disclosed by the evidence, is to be found in the reports and memoranda collected in Annex V, to which we refer the interested reader.

One warning is necessary before proceeding further. In making comparisons of the "average annual earnings" figures, used in certain of the sections below, the following facts should be borne in mind.

In the first place, the average is greatly affected by the proportion of female workers in an industry, for in almost every case higher wages are paid to male employees. Another factor of importance is short-time employment. In the returns made to the Dominion Bureau of Statistics, manufacturers report the number of wage-earners employed on the fifteenth of each month or nearest representative date. The sum of the monthly employment figures is then divided by 12 in order to get the average annual employment. Manufacturers are also required to report the actual amount of wages paid during the year. The average annual earnings per wage-earner are then obtained by dividing total wage payments by the average number of persons employed during the year. Employees working only part of the month have, therefore, a tendency to depress the average for the plant and consequently for the industry. For this reason figures of average annual wages paid since 1930 are in most cases somewhat underestimated. Besides the limitations inherent in averages in general, average earnings are affected by both the decline in employment and the reductions in basic wage rates. In order to get a true picture of conditions, therefore, account should be taken of all the factors enumerated above.

The defects inherent in averages in general do not, however, seriously detract from their utility in comparing social and economic phenomena. These defects are more or less common to the statistics for all industries, and average figures become, therefore, convenient and substantially correct measures of the changes in one industry as compared with another.

2. NEEDLE TRADES

The first industry to which reference will be made, and which occupied much of our time and attention, is one which has always constituted a problem to those interested in the welfare of the worker, the needle trades industry.

Characterized by economic instability and excessive competition, with "contract shops" and "home workers" alongside the usual type of manufacturer, this industry, though it includes many progressive and socially minded members, has had on the whole a doubtful record. The evidence we have taken shows that in many cases this record is only too well deserved. More especially is this true of the small contract shops, where the contractor has no investment in raw materials and little in equipment, because space is rented and machines may be hired or bought on instalments.

In these small contract shops, one individual often tries to perform the functions of production manager, accountant, salesman, and, as might be expected, his standard of achievement is low. Elementary record-keeping is exceptional; cost accounting, unheard of; personnel management, unknown. Intense competition is reduced to a price-cutting basis which, in the absence of cost records, results in either business failure or the exploitation of labour, or frequently both.

Through price- and wage-cutting, these small firms maintain a precarious and temporary existence for themselves at a heavy social cost. Their low wages tend to reduce the level of wages elsewhere, to impair general purchasing power, and to increase relief costs. Their uneconomically low prices eagerly sought, if not dictated, by mass-buyers, endanger the solvency of more reputable and stable establishments and contribute to the general disorganization of the industry.

Normally, therefore, in the needle trades, even before the depression, employers suffered from unfair competition, low profits and frequent failure; employees, from irregular employment followed by rush periods of long hours and, in the absence of effective legislation or trade union control, from undesirable working conditions and low wages. All these conditions have been intensified by the depression.

The absence of adequate records of wages and hours, although the keeping of these is generally required by law, and the frequent falsification of such records as were kept, made it impossible for our investigators to present their results in any uniform fashion, or for this report to summarize the conditions of the industry as a whole in a brief statistical statement.

Ample evidence was secured, however, to support the following summary contentions:—

- (1) *There are extreme variations in wage rates;* ranging from less than 5 cents per hour in a Quebec country home-work contract shop, to 65 cents in a Toronto union factory. These variations are of two main types; variations between factory levels and, even more important, variations between provincial levels.
- (2) *There are therefore extreme and unfair differences in cost,* "unfair" because they do not result from differences in efficiency of management. For example, the making of boys' pants cost 25 cents per dozen in a Quebec country home workshop, \$1.50 in a union shop; men's suits of comparable quality varied in direct labour cost from \$2.26 (Quebec country factory) to \$4.71 (Toronto non-union). Differences resulting from efficiency are desirable and healthy. Differences that result from exploitation cannot continue to be tolerated. Humane consideration for labour's welfare, and economic consideration for the success of business enterprise alike condemn them. They produce intolerable conditions of employment and life, and create intolerable industrial chaos. In the long run, they profit not even the exploiter.
- (3) *Wage rates and earnings are often exceedingly low.* Quebec country home-workers probably cannot average 50 cents per day. Male pieceworkers in one large Montreal factory averaged 16 cents per hour, less than the minimum of 18 cents for inexperienced females. One man of ten years' experience worked 70 hours per week in a Montreal contract shop, to earn \$7 at 10 cents per hour. One man of four years' experience earned \$3 per week, or 5.5 cents per hour in a Quebec country factory. In one Montreal factory, all workers, men and women together, averaged 25 cents per hour. In 1932, out of 115 men in two thoroughly good Toronto union shops, 57 earned for the year, less than \$800; 88, less than \$1,000; only 27 over \$1,000; and only 2 over \$1,600.

It is bad enough to pay such wages as these. It is adding insult to injury to hand them to the workers, as is often done, in pay envelopes which, thoughtfully provided by banks, bear such encouraging advice as:

Think of to-morrow,
Divide your pay in two,
Take what you need to live,
Put the balance in safety.

If the clothing worker takes advantage of this helpful suggestion and "divides his pay in two," his "thoughts of to-morrow" would hardly be such as to recommend him to the consideration of a bank director.

- (4) *Hours of employment are often oppressively long.* Thirteen hours a day, 60 hours a week, are not uncommon in rush periods. One man in a Toronto ladies' cloak contract shop, for nine consecutive weeks, worked over 16 hours per day; in this same shop, a woman often worked till midnight, 2 a.m. or 5 a.m. Eighteen, out of one group of 26 Toronto factories, reported frequent overtime.
- (5) *Frank exploitation of labour's weakness has been common.* Evidence has followed evidence with monotonous regularity before the Commission to show that, in many cases, the welfare of the worker is almost the last consideration that enters into the minds of employers in this industry.
- (6) *There are frequent and continuous violations of the laws about employment conditions, hours and wages.* This, in spite of the fact that the loopholes in and unsatisfactory administration of the laws themselves, would seem to permit a sufficient opportunity for legal avoidance of their obligations. Where the law is not actually broken, these loopholes are utilized to flout its intent and purpose. This was especially noticeable in respect to the "twenty per cent exemption" clause, the exceptions for "inexperienced" workers, and the obligation to keep adequate records. Factories which, by their ownership, management and resources, should have given the lead in the intelligent and broad-minded acceptance and enforcement of minimum wage regulations, have not been above evading, or in some cases, actually infringing these regulations. Especially is this true in respect to the clothing factories investigated in Victoriaville, Quebec.
- (7) Even where the physical working conditions were reasonably satisfactory, evidence was given to show that the female operatives were sometimes forced to work at such high pressure for continuous hours that the result on health and morale was deplorable.

With a full recognition of the problems that this industry has to meet, problems which have existed for years and which have only been intensified by mass buying and depressed conditions, and, without condemning every unit in the industry, we cannot, in frankness, refrain from stating that the labour and wage conditions in this branch of Canada's industrial activity are such as to merit the most emphatic condemnation. They should not be tolerated in any state that claims to call itself civilized.

To illustrate conditions in the industry generally, evidence might be given from that division of it which manufactures men's clothing. Because it is one of the better organized and less sweated of the needle trades, we can hardly be accused of searching for the most lurid evidence for purposes of illustration.

The statistics that have been made available have shown us that the worker in the clothing industry can expect neither comfort nor security; in many cases, he can, indeed, expect only hopeless poverty.

The following paragraphs taken from evidence received and describing typical "home work" conditions in this industry, prove the validity of the above assertion:

- (1) Four women, with husbands helping at night, making men's pants for L'Amoureux at 60 cents per dozen, out of which they paid for thread at a cost of 5 cents per dozen, making net earnings of 55 cents per dozen. The daily output of these workers was from 2½ to 3 dozen.
- (2) Woman with daughter making boys' short pants for L'Amoureux at 30 cents per dozen, less 5 cents per dozen for thread. Output one dozen per day. These garments made under the union scale would cost at least \$1.50 per dozen in labour.

- (3) Woman making riding breeches at \$1.15 per dozen. Output, five garments per day. Men's four-pocket pants at 65 cents per dozen, making one dozen per day.
- (4) Woman making short pants for Blumenthal at 35 cents per dozen. Output one dozen per day.
- (5) Sub-contractor for Blumenthal receiving 80 cents to \$1.05 per dozen for men's pants. His wife and daughter were working at those garments and they stated that the work was let out to adjacent farm-houses at from 40 cents to 60 cents per dozen.

Low wage rates in this industry are accompanied by long and irregular hours. In Ontario, the legal limit is 60 hours per week, which can be exceeded by permit from the Department of Labour. The legal maximum in Quebec, for women and children, is 50 hours per week, but in the busy season hours range from 55 to 70.

In both provinces, indeed, by permission in special circumstances, workers may be given the privilege of working 72 hours per week. Although these laws are "relics of the dark ages of industrialism," and permit longer hours than any modern standard would sanction, they are often violated (especially by contractors, more especially by those in country districts) with impunity or at the cost of a slight fine. The laws do not apply to home workers, whose low rates encourage even longer hours than those above.

Summing up, we regret the necessity of reporting that wage and labour conditions in certain sections of the clothing industry can only be described as altogether deplorable. For this condition, fundamental weaknesses in the structure and methods of the industry are primarily responsible. These weaknesses have been revealed and intensified in some degree at least, by the pressure on the small manufacturers of mass buying and in a very large degree by general conditions of economic depression.

3. LEATHER BOOTS AND SHOES.

This industry employs about 13,000 wage-earners; about 60 per cent male and 40 per cent female; about 60 per cent in Quebec and 37 per cent in Ontario; about 34 per cent in Montreal and 7 per cent in Toronto. In 1931 the average annual wage was \$764, \$100 less than the average for men's clothing, \$200 less than the average for all manufacturing.

By its inquiry into price spreads in boots and shoes, we were led to investigate eight Quebec factories, from which department-store records showed large purchases to have been made. Results from such a limited number of factories may not necessarily apply to the industry as a whole; but they so effectively confirm the suspicion of low wages suggested by the average annual wage figure given above that it is impossible to avoid the conclusion that a significant part of the industry is of the "sweatshop" type.

In these eight factories, employing over 1,800 workers at the time of the investigation in March and April, 1934, female workers earned from 13 cents to 26 cents per hour, or from \$6.34 to \$12.34 per 48-hour week. In those factories from which it was possible to secure information, the earnings of male workers ranged from 11 cents to 16 cents per hour, or from \$5.09 to \$7.68 per full time week. In one factory, as many as 86 per cent of the adult men earned less than \$9, and 58 per cent earned \$4 or less per week. In three factories, many "boys," aged 14 to 20 years, were employed at 2½ cents to 6 cents per hour. In fact, there was a noticeable tendency for male workers to be paid less than female and perhaps to displace them. In six of the factories, from 2 per cent to 20 per cent of the females, but from 2 per cent to 64 per cent of the males, were paid 10 cents or less per hour. In one factory, over 50 per cent of the 180 male workers received

less than the lowest minimum for apprentice females. It may have been a decent respect for the opinion of mankind on the part of these employers that made them compel their workers to sign their wage receipts in blank.

It is no surprise, in the light of these facts, to learn that the Minimum Wage Law is flagrantly violated. Out of the eight factories, six classified an illegal proportion of their workers as "inexperienced," and five paid a large proportion of them (35 per cent to 83 per cent), even then, less than the minimum rate.

4. FURNITURE.

This is one of the industries that have suffered most heavily during the depression. Partly because of this fact and also because of the number of small competing plants in the industry, it provides one of the best examples of an industry peculiarly susceptible to mass buying pressure.

We investigated 26 factories in the industry, which together accounted for more than 40 per cent of the total output. Of the employees in these factories, 84 per cent were employed by firms where average actual weekly earnings were \$13 or less. The average weekly earnings in each factory ranged from \$3.64 to \$14.42 and averaged about \$10. This means that the average worker could earn only about \$500 in the year 1933. Twenty-four of these 26 plants employed a total of 224 "boys," generally aged 18 to 19 years, of whom nearly 25 per cent were in factories paying \$3 or less, 55 per cent in factories paying \$5 or less. Their figures ranged from \$1.68 to \$6.44 per week and averaged about \$4.50.

Part of the explanation of these low earnings lies, of course, in short-time. Although 6 plants worked from 51 to 60 hours per week and 5 others over 40 hours, the 26 plants averaged for six months only 37 hours per week.

Even on a full-time basis, earnings would still have been very low as the figures below for hourly rates show.

Hourly rates averaged 27 cents per hour, ranging from 18 cents to 45 cents. Forty-four per cent of the employees averaged less than 25 cents, and 78 per cent averaged less than 30 cents per hour. "Boys'" rates were, of course, still lower.

5. BAKING.

The baking industry, in general, combines the functions of both manufacturing and distribution, as many companies deliver their products directly to the consumer. The industry is also characterized by having a number of large corporations operating in a field in which the majority of the plants are relatively small-scale. An analysis of persons employed in mill-controlled and large independent bakeries in June, 1933, showed that 55 per cent of the employees were classed as delivery workers and 8 per cent as wrappers, packers or shippers. It will thus be seen that for the larger companies the majority of the employees are engaged in distribution.

During the period of 1929-32, average annual wages paid in this industry were \$1,015. The highest average wage for all employees in the companies investigated by the Commission's auditors, was \$24.68 per week for a company in Hamilton, while the lowest was \$16.70 for a firm in Montreal. An analysis of classes of workers for which the average wage was less than \$15 per week shows that such classes formed 47.6 per cent of the total employees of companies investigated in Quebec City, but not over 15 per cent for any other locality. Employees paid on the average less than \$15 per week formed less than 6 per cent of the total number of workers in all companies investigated.

A special analysis of the pay-rolls for August, 1934, of a number of independent bakers in Ontario was made by our investigators to determine the number of employees receiving less than \$15 per week. It was found that the pro-

portions ranged from 12.5 per cent of all employees in bakeries in Toronto to 37.2 per cent in cities and towns under 100,000 population. It would appear, therefore, that the independent bakers in the smaller cities and towns have the worst wage record.

6. FLOUR MILLING.

The average annual wage in this industry in 1933 was \$905. The average rates of wages of employees in the plants of the larger milling companies were found to compare favourably with the general level of wages in industrial undertakings. The average weekly earnings of full-time employees in one Eastern mill were found to range from \$18.40 to \$33.96 during a period of full time operations. Unskilled employees such as sweepers, oilers, helpers, etc., generally received at least 25 cents per hour. It is understood that in many cases these employees are apprentices. A number of girls are employed in some mills for the packing of small sizes of cartons of flour. The minimum rate paid to female employees is based on \$12.50 for a 60 hour week or approximately 21 cents per hour. The regular rate is 26 cents per hour, or \$15.60 per week.

All mills in Western Canada were found to be operating on three shifts of eight hours each, when on a 24 hour schedule. The Eastern mills, however, generally operate on a two-shift basis of twelve hours each. Under this schedule the mill employees work the full twelve hours, but warehousemen and packers work ten hours per day. In view of the current movement toward a shorter working week it would appear that hours of labour in Eastern flour mills are considerably out of line with accepted standards of a reasonable working day.

7. MEAT PACKING.

Though this industry, which ranks third among the industries of Canada, has been one of the most successful in the Dominion in weathering the depression, the average annual earnings declined 16.9 per cent between 1929 and 1933, from \$1,123 to \$933.

Our auditors investigated hours worked and wages paid in 6 of the largest meat-packing companies. The result of this investigation showed that the highest average wages were paid in the Toronto plants with Swift Canadian Company leading with an average weekly wage of \$22.52. The lowest average weekly wages found were \$15.89, paid in the Hull plant of Canada Packers. In this plant 39.2 per cent of the employees were paid below the legal minimum for women in Ontario, while in the Toronto plant of the same firm, only 0.7 per cent were paid below this figure. This in line with the practice of many firms of paying only such wages as are current in a locality, even though they may be operating at a profit on higher wages paid in other centres.

On the whole it may be said that while in some cases wages paid in this industry are extremely low, yet in general the workers, most of whom are male, are more fortunate in respect to wages than they are in many other industries; there is, however, no excuse whatever for any concern paying even a minority of its workers wages as low as some that were found in one plant of the largest and one of the most profitable members of the industry.

8. FRUIT AND VEGETABLE CANNING.

Hours of labour in this industry are regulated by the highly seasonal nature of the work in which packing quotas and quantity of available produce to be canned are the governing factors. Exclusive of certain jam factories the term of employment seldom runs over six weeks.

Pay-roll tests made by the investigators showed that both piece- and time-work were common, and that in each type there was wide variation in rates paid and number of hours worked.

In 1933, both male and female time-workers were paid as low as 10 cents an hour, and their hours of labour frequently ran over the maximum limit set by the Factory Act "as permissible exemptions on matters of customs or exigencies of trade."

Prior to our investigation, no records were kept of hours worked by piece-workers, and it was therefore impossible either to estimate their hourly earnings or to form any idea of the relationship between piece- and time-work earnings. Piece-work was done almost exclusively by females and rates were frequently established on the basis of the quality of produce after the operation. Examination showed in one instance that the superintendent who determined such rates discriminated against the workers with the result that many workers earned only a few cents an hour.

Although the Minimum Wage Board of Ontario detected a number of illegally low wages, and compelled restitution, infringements have not ceased and laxity continues with regard to the proper keeping of required records of the hours of piece-workers.

Home-canning presents another problem, in that employees in this branch of the industry are classed as farm labourers, to whom the Minimum Wage Acts do not apply. Among these workers the prevailing wage is 10 cents an hour or less.

Finally it should be noted that wages form a relatively small part of canning costs, and, therefore, a still smaller part of the consumer's dollar which is spent for canned goods. A break-down of the latter revealed that direct labour costs amounted to only 4 cents out of the dollar. Consequently, any increase in wages would have only a slight effect on the ultimate price paid by the consumer. In fact, direct labour and raw material costs together amount to less than the cost of the tin can itself.

9. TOBACCO.

The most striking fact revealed by our evidence on the tobacco industry is the combination of low wages and high profits.

In 1930, the average annual earnings of the workers in this industry, \$662, were the third lowest in the forty industries for which the Dominion Bureau of Statistics published data. Since that date, they have declined to as low as \$555, which can be attributed to a 17 per cent decrease in the volume of employment and to a decrease in basic wage rates. For the tobacco industry generally in 1933, wage-earners received an average of \$10.67 for a 44.7 hour week. Two manufacturers hold a predominant position in this industry and must bear the major share of the responsibility for the low wages which characterize it.

Certain figures for the Imperial Tobacco Company, which is by far the largest single unit in this industry, are of special interest. In 1931, net profits were \$5,914,079 and factory payrolls were \$3,430,952, or 58 per cent of net profits; in 1933, factory pay-rolls totalled only 52 per cent of net profits.

While workers in this company were being paid such low wages, an average of twenty-eight chief executives received in salary and bonuses \$616,318 in 1931, \$506,982 in 1932, and \$421,388 in 1933. With particular regard to the bonuses paid to these executives, the following company by-law should be noted:—

Five per cent of the net profits as above defined shall be available for distribution among the president, vice-presidents and directors in such proportion as the president and vice-presidents determine.

The extent of the reduction in earnings is shown by the fact that 517 employees in the Granby plant of this company received an average of \$10.64 per week during October, 1933, or 24 per cent below a similar period in 1931.

In the Macdonald Tobacco Company, undivided profits at the end of 1933 stood at \$594,432, notwithstanding the withdrawal of \$260,000 annually by the

president since 1930. In 1933, 1,355 male and female employees of this firm received an average weekly wage of \$12.80, 8 per cent less than the 1929 average.

Figures such as these tell their own story.

10. AGRICULTURAL IMPLEMENTS.

The depressing effect of bad conditions in this industry on labour's welfare is shown in a decline between 1929 and 1933 of 73 per cent in the total number of workers employed, and of 79 per cent in salaries and wages paid. Average wages, however, though they have decreased 32 per cent since 1929, compare favourably with the average for all manufacturing industries.

In this connection, an interesting fact—one which shines brightly in comparison with certain other industries—is that in ten small companies investigated by the auditors the percentage drop in executive salaries was greater than that of factory workers. The reverse, however, was decidedly the case in respect to the four large implement companies investigated, though it should be added that the wages paid by the four large companies were higher than those paid by the ten small ones.

Average yearly rates show a great variation, from a high of 52 cents per hour in Hamilton to a low of 30 cents in Aurora, Ontario. Six of the large firms averaged 40 cents per hour or over. On the whole, hourly rates, in comparison with certain other industries investigated, are quite good.

11. RUBBER.

The significance of the rubber industry for this particular section of the report lies in the fact that, despite a tremendous loss in business, it has been able to avoid the ruthless price- and wage-cutting that have characterized some industries previously discussed.

From 1929 to 1933, the gross value of all products decreased 58 per cent; the number of employees, 42 per cent; total pay-rolls, 54 per cent. This decline can be attributed in part to a semi-monopolistic policy of price maintenance and should be considered as one of the costs of any such system of price-control.

Wage statistics were obtained from seven tire factories, employing 1,658 men and 127 women wage-earners, and from nine rubber footwear firms employing 2,327 men, 1,676 women and about 60 youths under 18 years of age. They show that hourly rates for males ranged from 47 to 60 cents in tire factories and from 32 to 43 cents in footwear. This would mean weekly wages, on a 44 hour basis, ranging from \$20.68 to \$26.40, and \$14.08 to \$18.92, respectively.

Hourly rates for females ranged from 29 to 36 cents in the tire industry and from 24 to 34 cents in the rubber footwear.

In 1933, actual annual earnings for men averaged \$1,046 in tires, \$811 in footwear; for women, \$610 in tires, \$514 in footwear.

12. TEXTILES.

The labour and wage evidence on this industry was secured through questionnaires sent to the members of the industry by our auditors. It was obviously impossible to examine the records of the hundreds of factories in the various branches of the industry. The evidence received by the Commission is therefore not exactly the same basis as that received in respect to chain and department stores. Nevertheless, we feel it provides an authoritative and comprehensive picture of wage conditions in the industry. All the various divisions were covered, e.g., primary cotton, woollens, silk (natural), hosiery, silk (artificial), knit goods, carpets and rugs, thread and cordage, bags, waste, tents, awnings, etc., and specialty fabrics.

The average annual wage paid in all divisions of the industry in 1933 amounted to \$674. The highest was paid by the artificial silk industry, \$821, while the natural silk industry had the lowest, \$600. Primary cottons, woollens,

artificial silk and thread and cordage were the least effected by the depression, their decline in average annual earnings ranging only from 4 per cent to 8 per cent. Earnings in the carpet industry were the most affected, having declined 30 per cent. Details for each industry are given in the table following:

TEXTILE WAGES, 1930-33

(AVERAGE ANNUAL WAGES OF FACTORY WORKERS, SUPERINTENDENTS EXCLUDED, ALL PROVINCES)

Group	1933	1932	1931	1930	Percentage decrease in earnings, 1930-33
	\$	\$	\$	\$	
A. Primary cotton.....	660	690	699	692	4.6
B. Woollens.....	728	719	761	756	3.7
C. Silk, natural.....	600	636	718	691	13.2
D. Hosiery.....	702	725	768	791	11.3
E. Silk, artificial.....	821	859	900	885	7.2
F. Knit goods.....	658	674	739	772	14.8
G. Carpets and rugs.....	733	825	897	1054	30.4
H. Thread and cordage.....	804	856	842	876	8.2
I. Bags, waste, batting and wadding, tents, awnings, etc.	744	754	804	885	15.9
J. Specialty fabrics.....	767	794	863	981	21.8

The highest average hourly wages of all the textile industries was 36 cents paid in the carpet and rug division. However, due to the drop in the physical volume of production with the resulting short-time employment, this division stood only fifth in average annual earnings. The lowest hourly wages were paid by the natural silk industry, the average being 24 cents per hour. This industry paid the lowest wages in all classes from adult males down to girls under 18, whereas, in the carpet industry, both adult males and adult females received the highest rates of pay, 43 cents and 29 cents per hour, respectively. Average wages in the primary cotton industry, which is the most important of the group, were only 27 cents per hour as compared with 29 cents for woollens, 30 cents for hosiery, 29 cents for knit goods, 33 cents for artificial silk, 34 cents for thread and cordage, 30 cents for specialty fabrics and 35 cents for the miscellaneous division. In connection with these wage rates, the proportion of male employees should be noted. In the primary cotton industry the proportion was 66 per cent, for woollens 57 per cent, hosiery 42 per cent, and knit goods 39 per cent. The primary cotton industry employed the highest proportion of male wage-earners but, despite this fact, paid lower average wages than either the woollen or hosiery and knit goods industry, where the proportion of male workers was much lower.

In Ontario, the artificial silk industry, with an average of 38 cents per hour, paid the highest wages, while the lowest was paid by the natural silk industry, with 29 cents per hour. This may result from the different ratios of male to female employees in these two branches of the industry: in artificial silk 63 per cent of the employees are male; in natural silk, only 40 per cent.

In Quebec, the highest rates were received by the employees of the bag, waste, batting and wadding, tent and awning division. This was 33 cents per hour as compared with the lowest hourly rate of 23 cents paid in the natural silk industry. With one exception, average hourly wages in Quebec are lower than those prevailing in Ontario. Average rates in the other provinces were in some cases higher than those prevailing in either Ontario or Quebec.

A study of the separate auditors' reports discloses interesting and, at times, depressing labour and wage conditions in those comparatively profitable branches of Canadian industry.

The cotton textile division has, it is true, maintained a greater stability both in employment and in wage rates, than have most industries, but even

here, the average annual wage has fallen from \$721 in 1930 to \$685 in 1933. The level in the industry at best has never been a high one; indeed in 1932 it was 20 per cent below the general level of all industries. It is also interesting to note that, though there has been an actual increase in physical volume of production in the industry since 1930, there has been a decrease, apparently for technological reasons, of 6 per cent in volume of employment. In the three largest cotton companies, wage rates in February, 1934, were 5 to 7 per cent lower than in 1930.

The situation in the cotton industry is not a bad one, but it must be related to the favourable conditions under which it operates, and to the profits it has shown.

The woollen division, including carpets and rugs, has been able on the whole to resist the full force of the depression and this has reflected itself in labour and wage conditions which are comparatively good. There are, however, some firms paying wages that are fair neither to their workers nor to the more progressive members of their own industry.

The silk industries should, at least, have relieved the picture of low wages that was presented to the Commission. Here, employment, production, profits and total wage bills had increased through the depression. Notwithstanding, there was a drop of more than 8 per cent in wage rates between 1929 and 1932, for which the natural silk industry was primarily responsible. In some natural silk mills, wage conditions were deplorable.

In an industry with all the advantages that this one possesses, there should be no room for even a small factory, such as the M. E. Binz Co., Ltd., Montmagny, Que., where in February, 1934, the average wage-rate for all male workers was 10 cents per hour; where 93 per cent of all male workers in 1934 were paid less than the minimum rate for female workers; where, on a 55-hour basis, the average full time weekly earnings in 1934 for male and female employees was \$5.72.

Almost equally bad are the conditions in the Associated Textiles of Canada, Ltd., Louiseville, Que., a United States controlled company, which accounts for more than 20 per cent of all the natural silk sales in Canada; and over 19 per cent of the total employment in this group. This company has been increasingly profitable since it began operations in 1929; net profits amounting in 1933 to 11 per cent on sales or 24 per cent on invested capital. Nevertheless, average weekly wage rates in this company, based on a 55-hour week, in the two weeks ending February 25, 1934, were male employees, \$13.43, female employees, \$9.73. Ninety male and 130 female workers were paid at rates below \$8 per week.

Of the female workers, 101 out of 265, were paid below the legal minimum, though the margin of under-payment was usually slight. Another apparent infraction of the law was found in the fact that at the time of investigation, the number of inexperienced female workers was 157 out of 265, though the legal limit is 50 per cent.

As compensation for the above conditions, the employees have a social club which they support by their contributions.

The record of certain silk factories in Quebec, in respect to violations of the minimum wage laws is not unworthy to be put alongside the worst examples in the clothing industry. One profitable factory showed apparent infractions in February, 1934, for 101 out of 265 female workers.

The natural silk industry also provides a graphic illustration of the general condition of wage-level variations between Ontario and Quebec. In spite of the fact that 40 per cent only of the workers in Ontario are male, as against 60 per cent in Quebec, the average wages of all employees in the former province are 18 per cent higher than in the latter.

In the hosiery and knit goods section, labour conditions, in view of the general economic situation, are probably not much worse than could be expected,

with an average hourly rate for all employees in February, 1934, of about 29 or 30 cents. There is, however, a more than usually striking variation between mills, to be accounted for only partly by the difference in the nature of their production. For instance, the lowest rate per hour in the group was 12 cents; the highest, 40 cents. The record was, as usual, worse in Quebec than in Ontario. Average weekly full-time earnings in several firms where a special analysis of earnings was made, ranged from \$6.16 to \$13.15. All of these firms operated on a profitable basis. In the case of the lowest paying mill, The Butterfly Hosiery Co., Ltd., annual earnings dropped from \$668 in 1932 to \$349 in 1933. By a permission of the Minimum Wage Board of Quebec, dated August 11, 1933, this company was enabled to classify most of its female employees as inexperienced and pay them, with two exceptions, princely sums of \$3 and \$4 per week.

Miscellaneous textile industries present much the same picture. Conditions in the thread and cordage division were somewhat better than the average in other divisions, with an average wage-rate for all employees for all provinces of 34 cents per hour. The company in this group which paid the second highest average wage had also the second highest net profit. In the bags, waste, tents, etc., division the only unusual, indeed unique result disclosed was a higher average rate for all workers in Quebec than in Ontario. The specialty fabrics group, though employing much the largest proportion of male help, showed only the third highest average rate.

13. DEPARTMENT AND CHAIN STORES.

The Commission, through its auditors, made a thorough investigation into the wage and labour situation in department and chain stores. The results of that investigation are analysed in detail in Annex V, Tables 53-90, but some general observations may be made.

a. Department Stores

The department stores and mail order houses are among the largest employers of labour in the retail field. Slightly more than 10 per cent of the full-time male employees and almost one-third of the female employees covered by the Census of Merchandising of the Bureau of Statistics, were reported by department stores or mail order houses. These establishments employ experienced and inexperienced workers, youths and adults.

In the two Toronto department stores, as was perhaps natural under prevailing conditions, the wages of the female employees in April, 1934, tended to group around the legal minimum of \$12.50 per week. In Eaton's 54 per cent, and in Simpson's 53 per cent of the female store employees received over \$10 but less than \$13 per week. At that time more than 50 per cent of the male store employees in both firms received more than \$19 per week.

In the Montreal stores, wage rates were considerably below those in Toronto, with the following percentages of female employees receiving less than \$13 per week.

	Per cent
Dupuis Frères.....	91
Eaton's	69
Simpson's	60
Ogilvy's	56
Morgan's (less than \$50 per mo.).....	73

In Freiman's, Ottawa, only 2 per cent of the female employees received less than \$12 per week.

The proportion of male help in Montreal stores receiving \$18 or more per week was:—

	Per cent
Eaton's	39
Ogilvy's	48
Dupuis Frères	48
Simpson's	56
Morgan's (more than \$80 per mo.).....	40

In Freiman's, 79 per cent received \$15 or more per week. Wage levels in both Winnipeg and Vancouver were somewhat better than in Toronto.

Average earnings in the large stores, as in their mail order houses, while not high enough to warrant any particular satisfaction are, it would seem, at least as high, and probably somewhat higher than the average prevailing in retail distribution generally. They have, of course, decreased during the depression. Reductions between 1930 and 1934 ranged from less than 1 per cent in the case of female sales clerks in Dupuis Frères to 25 per cent for Simpson's in Montreal. The reductions for male sales clerks during this period ranged from 3 per cent for Dupuis Frères to 26 per cent for Simpson's in Toronto.

The department stores employ many part-time employees, some of whom work regular hours each day or week, while others are used at rush periods or for sales. There seems, however, to have been little tendency for the proportion of such employees to increase during the depression. In fact, in some stores their relative number decreased in recent years.

Generally, the nominal hours of labour for department store and mail order employees average 48 hours per week. In addition, however, employees are expected to be on hand from 10 to 20 minutes before the store opens and for about the same length of time after the store closes. The practice of having shorter store hours during July and August was becoming fairly well established prior to the depression, but during the past three years, some stores abandoned some features of this policy, such as all-day closing on Saturday. On the other hand, department store employees are required to work long hours during the Christmas rush. It would seem that, by common agreement among the department stores in each city, the hours of labour of their employees could be progressively shortened without seriously affecting sales volume. A progressive policy of this character would serve as an admirable guide for other branches of retail trade.

Efforts seem to have been made by several of the larger companies to establish scales of minimum earnings for married and unmarried men and to effect reductions in earnings in such a way that those with the higher earnings have borne the greater share of the decreases. On the other hand, the past four years have demonstrated that greater protection should be afforded workers in department stores against the too rigorous application of policies designed to maintain business profits or to avoid losses. The decline in business from 1929 to 1933 has caused quite large reductions in the staffs of most department stores and mail order houses, and many of the employees who were retained have not been able to secure a full year's employment. Thus, while conditions of employment are as good or better than those which prevail generally in retail trade, this is far from saying that they conform to any advanced standards of employee welfare.

b. Chain Stores

We secured evidence on wages and labour conditions in a number of the leading chain store companies. The typical chain store system of operation, with centralized control on the one hand and multiplication of branches on the other, has frequently given rise to serious labour problems. The manager of the branch

store has been held responsible for the efficient operation of his unit but has been given no power to determine merchandising policies. His responsibilities for store inventories and operating ratios are generally so onerous that, when pressure is brought to bear by the central management, the store employees often suffer.

(1) *Food Chains*

Food chains are the most important group in the chain store field. The average weekly earnings of full-time male employees (including managers) in the Ontario division of the companies investigated ranged from \$15.16 per week in the company with the lowest average, to \$23.99 per week in the company with the highest. Excluding managers the average wage was from \$9.31 per week to \$16.48. The average weekly wage of female employees in the same divisions ranged from \$10.64 to \$15.38, and was to a great extent determined by the scales set by the Minimum Wage Board of Ontario. In three of the larger companies the average weekly earnings of female clerks were higher than those for male grocery clerks.

Average weekly earnings of employees in the Quebec divisions of food chains were considerably lower than in the Ontario divisions. While three companies operating in Ontario had more than 48 per cent of their male grocery clerks receiving less than \$10 per week, only one company had more than 20 per cent of its female employees in this class. In the Quebec divisions three companies had 50 per cent or more of the male grocery clerks receiving less than \$10 per week, but three companies had also 25 per cent or more of their female employees in this class.

As the following table shows male wages ranged from \$16.48 per week in Loblaw's down to \$7.65 in the Quebec division of Dominion Stores; female wages from \$15.38 to \$9.01 in the same firms, respectively.

FOOD CHAINS, AVERAGE WEEKLY WAGE, 1934, BY COMPANY AND SEX
(ALL EMPLOYEES, EXCLUDING MANAGERS, SELECTED WEEKS IN SPRING OF 1934)

Name of Store	Ontario		Quebec	
	Male	Female	Male	Female
	\$	\$	\$	\$
Great Atlantic and Pacific Tea Company, Limited...	11.72	12.57	7.60	9.33
Carrolls Limited.....	9.31	10.64		
Dominion Stores, Limited.....	9.53	10.85	7.65	9.01
Loblaw Groceries.....	16.48	15.38		
Stop and Shop Limited.....	9.78	12.50	8.54	9.59
T. Eaton Groceries, 12 Representative Stores only.....	14.38	11.92		
Steinberg's Service Stores.....			14.55	12.04
Thrift Stores, Limited.....			7.73	9.40

We also received, by replies to voluntary questionnaires, information on wage rates and hours of labour of employees in a number of the larger independent grocery and combination stores in Ontario. While a complete comparison cannot be made between chain and independent store figures because of the differing nature of occupations in the two types of store, and because of the selective nature of the "independent" investigation, it was found that for occupations called by similar names the independent stores reporting were paying higher wages than chain stores.

Hours of labour of employees of food chains are longer than any worker should be asked to endure. They commonly exceed 60 hours per week and in many stores often reach as high as 80 to 84. Evidence was produced to show that the food chain with the worst wage record of those we investigated had also the worst hours record. The store working hours of this company averaged

70 per week, to which considerable overtime should be added. There is no excuse whatever for conditions such as these. In evidence before us, chain store officials frankly confessed that these hours were much too long. That they are unnecessary, is demonstrated in those communities which have early closing laws and provide for a weekly half-holiday for store employees.

An educational campaign is required to focus public attention on the hours of labour in retail stores. If this fails to achieve the necessary reform by municipal action, then the provincial or Dominion Government should intervene.

(2) *Variety Store Chains*

Variety store chains employ far more female than male employees and also engage a considerably higher proportion of permanent, regularly part-time female workers than is common in other fields of trade. This policy is distinct from that of bringing in a few extra workers during peak periods. It is a regular employment policy of so staggering hours that a great many workers are regularly employed only part-time. For instance, Metropolitan Stores had only 297 female sales clerks on full-time, but 937 on part-time; Woolworth's, 1,373 full-time, 936 part-time, Kresge's, 469 full-time, 527 part-time. This is the worst feature of variety store operation. Girls are kept on call, uncertain whether and when they will get work. Although they thus lose the opportunity of seeking other employment, they receive far from regular work and adequate earnings. In Metropolitan stores the part-time workers averaged only \$4.30 per week. In our considered opinion this employment policy merits emphatic condemnation and should be drastically changed.

The average earnings of all male employees (other than managers) in four variety chains ranged from \$7.34 per week for the company with the lowest average, to \$19.90 for the company with the highest. While the earnings of such employees were lower in variety chains than in department stores, they were slightly above the averages for food chains.

It was found that in three of the larger chains from 65 to 73 per cent of the female employees received between \$10 to \$15 per week. Less than 10 per cent received more than \$15, and from 22 to 24 per cent received less than \$10. One variety chain, operating almost entirely in Quebec, paid more than 10 per cent of its female employees under \$5, and 90 per cent under \$10 per week.

When the Commission expressed its feelings about the wage conditions in this chain, the president could only reply, "The girls were content." While girls were working at these wages, the company was also content. It declared an 80 per cent stock dividend.

The variety chain evidence showed in an interesting way the effect of the absence of Minimum Wage laws on sweated conditions. One chain operating across Canada paid 88 per cent of its full-time female clerks in the Maritime Provinces, and 72 per cent in Quebec below \$10 per week. There was no minimum wage order covering them at that time. In Ontario, the Prairie Provinces and British Columbia, where there were such orders, only 5, 3, and 0 per cent, respectively, of the full-time female clerks received below this figure.

In one chain 18 female clerks in Ottawa drew an average of \$10.77 per week; in Quebec, 18 in a similar sized store in the same chain drew an average of \$6.23. The president plaintively explained, "It was the minimum wage."

The excuse given by most executives of chain stores for these low wages was inability to pay more, much as they desired to. This would hardly apply to the largest variety chain. In 1932 it made a net profit of \$1,800,000. This money went to New York. A 10 per cent wage reduction went to thousands of the company's employees in Canada.

Employees in variety chains commonly work about 50 hours per week, although the auditors' reports show that some employees are employed after store hours arranging stocks or displays. In view of the sustained profits

received by the largest of these chains the continuance of long hours for its employees must be emphatically condemned. Conditions of employment in variety chains should be at least as good as they are in department stores, and a reduction in their hours of employment should not be delayed.

(3) *Drug Chains.*

Only two drug chains were investigated by the Commission. The wage rates of employees in these two companies compared fairly well with those reported by independent drug stores in Ontario from which the Commission secured voluntary statements, and also with census data on wage-earners in the drug and toilet preparations trade.

In both independent and chain drug stores the hours of employment were unduly long, generally averaging 60 or more hours per week. In part, this long working week is due to the necessity of providing the public with adequate drug services, but to a considerable degree it is due to the modern practice of making the drug store into a convenient shopping centre for all kinds of goods. The immediate remedy for long hours in drug stores would appear to lie in the extension of the shift system, so that sufficient employees are available to render it unnecessary for any worker to remain on duty for long periods.

c. General Observations on Labour and Wage Conditions in Retail Distribution.

The labour policies of many chain-store companies appear to have been characterized by close control in the matter of wage costs but a lack of sympathetic direction in the application of these wage policies to the conditions of the workers involved. The excuse that such direction could be safely entrusted to the local management has clearly been shown to be inadequate by the conditions that the investigations of the Commission have revealed. The inevitability of the development of abuses in the circumstances should have been recognized from the start by the central management. That no steps were taken to change these circumstances and guard against the results that have been revealed must, from a social viewpoint, be regarded as a dereliction of duty on the part of the executives of many chain store companies, however profitable the policy may have been to the shareholders.

We have found that the position of the worker in the department and chain store fields is a particularly defenceless one. In both, but especially in chain stores, the use of large numbers of relatively young and unskilled persons provides a labour force that has very little bargaining power.

In chain stores this weakness is accentuated by the multiplicity of units, each of which has only a few workers, and by the efforts of the central management to provide incentives for local managers, which divorce their interests from those of the workers under them.

While the considerations outlined in the preceding paragraphs apply, in the main, to workers in independent stores also, the direct relationship between owner and workers may introduce here a compensatory feature into labour relationships. The close contact between employer and employee often gives the employer an interest in the welfare of the worker and a desire to do as well by his employees as business conditions will permit. This does not imply that the independent proprietor will operate his business as a philanthropic institution, but that there is an incentive for him to pay his workers more than the minimum that the depressed state of the labour market would permit. A partial substitute for this personal relationship has been provided by the welfare policies of certain department stores—mutual benefit associations, group insurance, sick leave, pensions and other devices of this sort, sometimes at a sizeable cost to the employer, modify the impersonality of the usual contract between the individual worker and the large corporation.

The separation of ownership from management in chain stores and the direct incentive to local managers to disregard the welfare of store employees in the interest of higher profits and higher managerial earnings, means that wage rates of employees in chain stores are all too likely to be set at the lowest level for which recruits can be secured from the army of job-seekers. In fact, the absence of any personal relationship between the central management, which determines operating standards, and the employees in the stores tends to render the central management oblivious to the human element involved in their policies. This was made obvious by the evidence given before the Commission by the chief executive of one of the largest chains.

This lack of appreciation for the interests of their employees may lead the central management to focus their attention exclusively on the cost of wages in monetary terms and thus to pursue a policy of buying labour in the cheapest market. This sort of competition by the large chain companies at a time when the labour market is over-supplied, would undoubtedly drive down general wages in the retail field. Indeed, the fact that most chain companies can draw upon an army of youths and other unskilled workers enables them at almost any time to dictate the wages they are willing to pay. The absence of any organized labour groups among the workers means that these terms will be accepted by the majority of persons seeking employment.

The evidence presented to us in respect to department stores shows that, in spite of some shortcomings, the adherence to certain operating ratios can be combined with at least some consideration for the welfare of employees. The application of strict financial standards is bound to work some hardships on workers particularly in times of depression, but, pending a more satisfactory method of determining labour costs, the policy should at least be administered with as much sympathy as possible. The absence of such sympathy in many chain store companies cannot be condoned, and until their employment conditions are improved such companies must be viewed as operating against the public interest. It would seem essential that each large retail organization should have a personnel department, assured of the sympathetic support of the management, and devoted specifically to the study and improvement of conditions of work among its employees. Such a department would provide an opportunity for employees to present complaints or grievances and could suggest any necessary adjustments. This appears particularly necessary in chain stores, where employees are engaged in units scattered over wide geographical areas. In such circumstances, the personnel department would have to send its staff at intervals to examine conditions in each locality. In this way, the weak bargaining position of the worker in retail trade could be strengthened and many of the labour abuses that have been revealed could be removed.

3. PROPOSED REMEDIES

SUMMARY

Some of the startling labour conditions revealed by the evidence and investigations would seem to call for equally dramatic remedies. But sound remedies are seldom either novel or dramatic. They must be based on experience and must develop progressively. In fact, to the extent that these problems are possible of solution at all, the necessary reforms can very largely be found in the extension and improvement of agencies, policies, and methods already in some degree now operative.

Although the subject cannot be distributed neatly into unrelated compartments, it will be convenient to consider it from the following viewpoints:—

1. Recommendations primarily with respect to non-government agencies, whose activities governments may facilitate and stimulate.
 - a. Employers' and Trade Associations.
 - b. Employees and Trade Unions.

2. Recommendations for governmental action.

- a. Legal regulation of employment conditions, within the traditional interpretation of the constitution.
 - (1) Improved labour law administration.
 - (2) Amendments to present provincial laws.
 - (a) Minimum wage laws.
 - (b) Regulation of hours of labour.
 - (c) Employment records.
 - (3) New provincial labour laws.
 - (a) Collective labour agreements extension.
 - (4) Amendments to or extension of present Dominion laws and practices.
 - (a) Amendment of the Criminal Code.
 - (b) Fair wage policy.
 - (c) Industrial disputes investigations.
 - (d) Better labour statistics.
 - (e) A new Division of Research, Standards and Service in the Department of Labour.
- b. National regulation of employment conditions requiring either constitutional change or special effort to overcome constitutional obstacles.
 - (1) The need for uniformity.
 - (2) Methods of achieving uniformity.
 - (a) Dominion legislation, reservations and qualifications.
 - (b) Interprovincial co-operation to promote uniform statutes.
 - (c) Provincial legislation to enact for each province the terms of a uniform Dominion Act.
 - (3) Recommendations with respect to national uniformity.
 - (a) Thorough exploration of the possible power of the Dominion Parliament to enact labour legislation.
 - (b) If necessary, amendment of B.N.A. Act.
 - (c) The appointment of an advisory committee to the Dominion Minister of Labour.
 - (d) Regular annual Dominion-Provincial Labour Conferences.

1. RECOMMENDATIONS PRIMARILY WITH RESPECT TO NON-GOVERNMENT AGENCIES, WHOSE ACTIVITIES GOVERNMENTS MAY FACILITATE AND STIMULATE

a. Employers' and Trade Associations

The revival of business offers an excellent opportunity for the larger and more progressive employers to provide authoritative leadership in personnel relations policies. The continuance of exploitation of labour is inimical to the welfare of all business enterprise and should be exposed and fought by other employers in their own interest. But the informed employer has a wider responsibility. He should share with the community the benefits of his experience not only negatively, by discouraging the grosser forms of exploitation and resisting ill-considered reform proposals, but positively, by encouraging and stimulating the wider acceptance of sound policies. This can be done most effectively through employers' associations, or trade associations.

The whole field of personnel practice and employment standards—even in such apparently simple matters as record-keeping, for example—requires extended study, but not many Canadian companies can afford such extensive personnel research programs as are undertaken by certain American corporations. The directly relevant functions of trade associations should therefore consist chiefly of education and research into employment problems. Even if the

associations could not themselves undertake an extensive research program, they could disseminate and interpret the results of study and experience elsewhere. Much of this, of course, is already being done, but the surface of the problem in Canada has hardly been scratched. The associations might also co-operate at least in setting up, perhaps with university and other assistance, Canadian counterparts of the (American, private) Personnel Research Federation, Industrial Relations Counsellors, Inc., and National Bureau of Economic Research, or of the (British, governmental) National Institute of Industrial Psychology or Industrial Health Research Board. In Canada scientific research into the uses and treatment of materials seems to have outrun the equally profitable investigation into the uses and treatment of men.

Much can be done, also, by trade associations in developing and promoting adequate accounting, without which business drifts like a rudderless ship, and in the collection and interpretation of statistics, without which, as a compass, safe navigation is impossible. Very often the real solution to a particular "labour problem" is to be found in some phase of business management far removed from the employment office.

Special emphasis is laid on the statistical functions of trade associations because they can supplement, with greater detail, our government statistics which are necessarily general in character.

In industries where employers and employees are organized, associations can also facilitate the negotiation of wage rates and other labour conditions by representing their membership as a whole in collective bargaining. By extending to trade unions a reasonable measure of recognition and co-operation, they can go far to avoid unnecessary industrial disputes—at least, they can narrow the field of contention to those points, if any, where interests and principles come into irreconcilable conflict, and the dispute can be settled only by force or law. Before these points are reached there remains a broad field where the possible community of interest of employers and employees has not been fully explored.

Collective bargaining in Canada has up to the present time been carried on largely by individual employers and trade unions. But an increasing number of collective agreements are made by employers organized in associations according to industry. This seems a desirable development, implying as it does the successful negotiation of the terms of employment by the parties themselves without the intervention of others. In ensuring the observance of such agreements by its influence on its members, an employers' association is an important factor in stabilizing employment conditions on a satisfactory plane, thus leaving its members free to devote their energies to other problems connected with their business.

The pressure of circumstance and the development of theory alike are everywhere leading to the extension of social regulation and control not only over labour conditions but over other economic activities. It is difficult to believe that employers' associations, trade associations, and trade unions, are not going to be major agencies in the development of self-government of industry in its labour relations and important factors in any state regulation that may be necessary.

b. Employees and Trade Unions

With the development of the factory system, and still more with the general trend to corporate management and concentration, the disparity in bargaining power between the individual worker and the typical employer has grown so obvious that the abstract necessity for collective bargaining is widely accepted. On this side of the Atlantic, however, practice has not followed this recognition to the extent it has in older countries. This lag in industrial policy has been due in large measure to pioneer conditions, free land, unlimited employment opportunities, and a relatively high wage-level. With the disappearance of these

conditions, trade-union membership increased, but some employers have been reluctant to recognize the unions; and, in some industries, for various reasons, trade unionism has obtained little or no footing. It is unnecessary to recite the various war and post-war declarations, such as those of the Whitley Committee in Great Britain, the Royal Commission on Industrial Relations, Canada, 1919, or of the Treaty of Versailles itself, endorsing this method of negotiation, but it may be of interest to quote a recent statement from an outstanding Canadian employer:—

I am sure the time has come when, we, as employers, should be willing to concede to every worker in our industry the right to bargain, either on an individual basis or on a collective basis, through the medium of such representatives as the employee may select to represent him. (Mr. A. O. Dawson, Pres. Canadian Cottons, Limited, before Canadian Chamber of Commerce, Sept. 11, 1934.)

The statement does not commit its author to advocacy of trade unionism, of which in many respects he remains critical, but it does exemplify the generally growing appreciation of the need for improved industrial relations machinery, a need which has been driven home by the results of our inquiries and by evidence received.

Recent British experience with and attitude to trade unionism is excellently summarized in the following extract from the prefatory note to the British Ministry of Labour's *Report on Collective Agreements, Volume 1, 1934*:—

Collective bargaining between employers and workpeople has, for many years, been recognized in this country as the method, best adapted to the needs of industry and to the demands of the national character, for the settlement of the conditions of employment of the workpeople in industry. Although collective bargaining has thus become established as an integral part of the industrial system, it has discharged its important function, on the whole, so smoothly and efficiently and withal so unobtrusively, that the extent of its influence is apt to be, if not altogether overlooked, at least underestimated. It has produced a highly co-ordinated system of agreed working arrangements, affecting in the aggregate large numbers of workpeople and defining, often with great precision, almost every aspect of industrial relations.

The method of collective bargaining implies the right of association and the right of freedom from unwarranted interference with such associations. The trade union is, thus far, the normal agency in which workers associate together.

To enter fully into the discussion of the problems of trade union policy, organization, and law would be outside the scope of our present reference but sufficient evidence of deplorable conditions has been presented to us to suggest that the Government has a direct responsibility to encourage, so far as possible, one of the natural and most effective instruments for the protection not only of labour but also of the fair employer.

The association, on the side of the employer, must be balanced by the trade union on the side of the employee. It is not contemplated that the Government should initiate the organization of either but that it should recognize fully the important functions which, if wisely and intelligently led, they may perform in solving the problems presented before this Commission.

Mere toleration of trade unions is not sufficient. The present emergency calls for as clear a statement of national policy as that in the War Labour Policy embodied in P.C. 1743, July 11, 1918,—

That all employees have the right to organize in trade unions, and this right shall not be denied or interfered with in any manner whatsoever, and through their chosen representatives should be permitted and encouraged to negotiate with employers concerning working conditions, rates of pay, or other grievances.

Such a declaration at the present time would go far to overcome some of the hesitations and fears that impede effective organization on the part of both employers and employees.

More adequate recognition of trade unions both by governments and employers would have a significance wider than that of merely facilitating collective negotiation of wage contracts. As long as the trade union movement is only tolerated, and we have received evidence to show that this is often the case, it will continue to pursue defensive tactics—a prominent official calls them “snarling dog” tactics—which are not likely to be constructive. To the extent that the trade union is recognized as a necessary instrument of economic organization and control, to that extent the energies and intelligence of the movement can be fully released for constructive co-operation in the improvement of social conditions. It is the defensive psychology imposed upon unions by experience and circumstance that develops those policies and practices to which objection may sometimes fairly be taken, but which are often utilized by their opponents to create misunderstanding and prejudice.

It should also be realized that the enforcement of our present labour laws depends in large measure upon the assistance of trade unions. For the effective administration of any such laws, even an army of official inspectors would need to be supplemented by the day-to-day policing of the jobs by the workers themselves. Without an organization to take up complaints and to protect the complainants, many infractions pass without effective protest or action.

2. RECOMMENDATIONS FOR GOVERNMENT ACTION

a. Legal Regulation of Employment Conditions within the Traditional Interpretation of the Constitution

The self-interest of far-sighted employers as well as of workers' organizations, often, for the maintenance of desirable conditions, require to be supplemented by legislation designed, by establishing minimum standards of working conditions, to make competitive conditions relatively uniform and to foster certain general conditions of social well-being. But, unfortunately, any discussion of this phase of the problem must follow two classifications that cut across one another—legislative standards and administrative enforcement, on the one hand, dominion and provincial competence or jurisdiction, on the other.

(1) *Improved Labour Law Administration*

Even the simplest legislation is not self-enforcing; still less is labour legislation. By the very nature of the problems it is designed to meet, labour legislation must often be complex and technical and must always be expertly administered by officials whose competence and understanding compel the respect and co-operation of those with whom they have to deal. The job is not simply one of detecting and punishing offences. It is primarily one of education. The factory inspector should be also the factory consultant, willing and able to spread the knowledge and appreciation of better factory “housekeeping,” better employment technique, and better labour conditions.

Quite apart from the improvement by new legislation of legal standards of employment conditions, the first step toward better conditions is the more effective administration of those laws now on the books. There is clear evidence that many of them are not effectively enforced, and cannot be made effective without some reorganization of both Dominion and provincial enforcement agencies, with more nearly adequate appropriations, and an increased personnel of higher qualifications.

This contention is reinforced by our analysis of the expenditures, personnel and activities of the provincial Departments of Labour.

The general inadequacy of provincial appropriations for labour law administration is shown by the fact that all the provinces together in 1933 spent for

general factory inspection and minimum wage enforcement only \$238,000.¹ This was only slightly more than one-third of the amount spent for comparable purposes in the State of Illinois,² which has approximately the same number of gainful workers, excluding agriculture, as Canada. While we spent only 2·3 cents per inhabitant, or 8·5 cents per non-agricultural worker, in the United States² they spent 4·7 cents or 14·9 cents respectively. In comparison with our 8·5 cents, New York, which ranks fourth among the States in its relative expenditures for those purposes, spent 25·6 cents; and Massachusetts, which ranks twentieth, spent 14·1 cents; and New Hampshire, which ranks thirty-fourth, spent 9·7 cents. The differences in fact are greater than these figures indicate, for the Canadian figures include the cost of almost all phases of labour regulation except workmen's compensation, while the American figures exclude not only workmen's compensation, but also the administration of minimum wage laws and other labour laws relating to the employment of women and children.

In all Canada there are only seventy³ general factory or minimum wage inspectors of whom sixteen at least have had only an elementary public school education or less, of whom none seems to have had university training. (It is not suggested, of course, that every university graduate could qualify as a factory inspector, or that all factory inspectors should have a university education).

It would appear from such facts as these, that labour law administration in Canada must be improved by the increase of appropriations and by increased staffs of inspectors with the energy, education, and practical experience required for the satisfactory regulation of modern industry.

We urge consideration of the possibility of giving trade association and trade union executives, in industries which are well-organized and anxious to experiment with "industrial self-government," authority to make official inspections of employment and wage conditions. The extension of any such privilege should, of course, be surrounded with all necessary protection against its possible abuse. Such authorized inspectors should be required to report regularly, on approved forms to provincial Departments of Labour, the number and character of their inspections and full details of any other related activities.

(2) *Amendments to Present Provincial Labour Laws.*

We realize that in this section we may seem to transgress the letter of our order of reference, but we are persuaded that the satisfactory solution of these common problems calls for the utmost co-operation between all related Canadian agencies, both Provincial and Dominion. For emphasis and brevity some of the following recommendations are couched in very positive language, but, while not in any way desiring to be dictatorial, we should like to see the suggestions given very careful and sympathetic consideration.

(a) *Minimum Wage Laws.*—There are seven minimum wage laws now in force in Canada. In broad outline they are similar but there are important variations in details and in administrative policies or regulations, and certain weaknesses seem to have limited their effectiveness. Consideration of the following amendments, where not already made, is recommended to the provincial governments and minimum wage boards:—

- (i) The acts must be **enforced**. This requires a staff of specially qualified **inspectors**. Present methods, in some provinces, of reliance on unskilled co-operation from safety inspectors, on employer's reports of wage payments and on employee's complaints, are quite inadequate.

¹ This and similar facts from questionnaires sent to the provincial departments of labour, for the Commission, by the Dominion Department of Labour.

² U.S. Department of Commerce, Financial Statistics of States, Table II, excluding "regulation of labour—all other."

³ Not including boiler or mines inspectors, but including six persons whose full time is not devoted to this work.

- (ii) **Penalties** for violation should be increased. They should be more severe for second and subsequent offences, should include jail sentences and should be more nearly uniform throughout the provinces. Underpayment of each employee in any one week should be a separate offence. Enforcement by punitive methods should, of course, be the last resort of the Minimum Wage Boards, but since there is likely always to be a recalcitrant minority the penalties should be severe enough to make violation unprofitable.
- (iii) It should be the duty of Minimum Wage Boards and they should have power to order **restitution** when underpayment is discovered and to bring civil suit when necessary for the collection on behalf of the aggrieved worker of double the amount of any deficiency in wage payment which results from a breach of the minimum wage law. The worker should have a similar right to bring a suit for such collection with the payment of court costs, etc. To rely, however, for adequate enforcement on suit by the employee or informal pressure from the Boards, is not sufficient.
- (iv) All general **exemptions to firms** for "exceptional conditions" should be abolished. To permit them raises problems of insuperable administrative difficulty, may easily divert the attention of officials from enforcement to exemption, and tends ultimately to defeat the whole purpose of the law. An employer who cannot afford to pay the minimum wage is in the long run a detriment rather than a benefit to any community.
- (v) Similarly, the **eighty per cent clause** should be abolished. This recognizes as conformable to law, piece rates under which only eighty per cent of the workers earn (or are paid) the minimum rate. This permits the abuses of "special money" and discriminatory "bonuses," facilitates evasion, and increases the difficulty of detecting violations. The main purpose of this provision can be sufficiently secured by a system of **individual** permits for handicapped workers, which is provided for in most of the acts.
- (vi) The practice of **averaging** should also be abolished. This recognizes, as conformable to the law, wage payments which equal the legal minimum when averaged over a given period, often four weeks. The worker cannot tell, save in retrospect, whether the law is being observed, and a disproportionate amount of any investigator's time has to be spent on unnecessary arithmetic.
- (vii) The method of dealing with **inexperienced workers** should be revised. For most factory jobs a "learning" period of two years is unnecessarily long. If special rates must be set for learners, the proportion of them to the total force must be more rigorously limited. "Inexperienced" should be so defined—if necessary, new record or permit systems should be devised to prevent any newly hired employees being classified as "learners," despite previous experience in the trade. Actual experience in the trade, not length of service with any one firm, should be the criterion. The present practice encourages labour turnover by permitting the employer to replace workers eligible for the experienced rate by experienced, but new, workers at lower rates.
- (viii) The policy of setting **different hourly wage rates in different sections** of a province or in communities of different sizes should be carefully reconsidered. The lower wage costs in country towns are tending to undermine established rates elsewhere.

The alleged differences in costs of living are not always demonstrable. Even if living costs are lower in small places, the difference

can easily be regarded as compensation for the loss of some of the amenities of life in larger communities. Alleged differences in the efficiency of labour are irrelevant in setting a wage supposed to be based on cost of living, are not always demonstrable and may frequently be offset by differences in such other costs as rent and taxes.

- (ix) Careful and sympathetic consideration should be given to the possibility of providing for **minimum wage laws for men**. Otherwise the practice, so often illustrated in the evidence, will continue of substituting men and boys for women at wages below the legal rate that must be paid the latter. Even if minimum wages for men are not established there should be some general provision that no male worker may be employed at less than the legal minimum wage for a female worker in the same class of employment. The recent Quebec amendment of this sort seems defective in that it applies only to occupations and puts on the Board the problem of determining which occupations are customarily restricted to women.
- (x) Finally, the **administrative personnel** of minimum wage boards should never include partisan representatives of special interests. Otherwise, the situation may easily arise in which the personal interest of an individual, say as a manufacturer, may come into conflict with his interest and duty as an officer of the Minimum Wage Board.

Minimum wage laws do not attempt to fix wages but only to set levels below which wages may not fall. Nevertheless, the difficulties of practical administration are very real. Concessions to and compromises with these difficulties seem to have led to generally undesirable complexity. When, as in one order, provision is made for different rates in six classes of communities and for six classes of workers; when the hours for which these rates are payable vary according to both the size of the community and also the regular hours normally worked by the firm; when the minimum wage may be averaged over four weeks; when the minimum wage is payable only to eighty per cent of the workers; when the major instrument of investigation and enforcement consists of the employers' own reports of wage payments for sample weeks, then the law and its administration begin to develop technicalities which defeat its purpose. Whether the A.B.C. firm violated the law by paying Miss Smith 15 cents an hour during a particular week is not now an easily answerable question. It has become a question of law, custom, history, geography, accounting and arithmetic. Probably the ABC firm does not itself know. Certainly Miss Smith will never know. Only the most expert and unhurried inspector could ever find out.

It may well be that some of these complexities betray an underlying inadequacy in "cost of living" as a basis for minimum wage determination and that the economic purpose of the minimum wage law should be broadened to include, as in laws passed recently by several American states, other criteria of "fairness." Some of these might be the prevention of "oppressive" wage levels, or of wage levels that engender "cut-throat competition," or of wage rates that are substantially lower than representative firms pay in the same or similar industries, or of wage rates that are "less than the reasonable value of service rendered." The attempt to differentiate between the experienced and inexperienced workers and between large and small communities suggests that there may be a real need for the supplementing of minimum wage determination with some attempt to fix basic differentials, for skill, etc., above the minimum. The possibility of such a program, however, despite the apparent tendency in this direction, is so uncertain from the point of view both of policy and of administrability, that exploration of the whole problem should be one of the first tasks of the new Division of Standards, the creation of which in the Department of Labour, we recommend below.

It will later appear that we recommend also the consideration of bringing minimum wages, as well as other labour laws, under Dominion jurisdiction. We cannot do so without making passing mention of the standard argument that the minimum wage will tend to become the maximum.

We are advised that the reports of every special investigation into the effects of minimum wage laws, and the regular reports of all established and reasonably effective minimum wage boards demonstrate, first, that minimum wage laws have raised the wages of the lowest paid workers and, second, that a substantial proportion of the workers in all affected industries have continued to receive more than the minimum. This general experience is confirmed by certain of our investigations, even in this period of depression. In retail trade, for example, it is quite clear that the fixing of a minimum wage rate for women of about \$12.50 per week, has not prevented a substantial proportion of employees from receiving more than this minimum. At least 44 per cent of the female store employees in T. Eaton Co., Toronto, and 43 per cent in the Robert Simpson Company, Toronto, are receiving more than the legal minimum. In mercantile trades generally, in Ontario and British Columbia, 47 per cent and 32 per cent of the workers, respectively, receive more than the minimum wage. Further, such figures as these do not mean that all of these getting more than the minimum are getting only a few cents more. In Ontario, for example, according to the report of the Ontario Minimum Wage Board, 1930, 20 per cent of the female employees in retail stores received from 50 cents to \$2.50 per week more than the minimum wage; 24 per cent received from \$2.50 to \$5 more; 18 per cent received more than \$5 in excess of the minimum. In 1933, because of generally depressed conditions, the percentages receiving more than the minimum were, of course, much smaller.

The consensus of opinion among students of the subject, appears to be that the passage of a minimum wage law does not give employers any power that they would not otherwise possess to cut higher wages, and that, after the passage of a minimum wage law, all the usual wage differentials resulting from chance, skill, bargaining power, etc., continue to be maintained.

It is conceded that, if any given scale of wage rates is being maintained only by inertia, the injection of any new feature into the labour market situation, might occasion a reconsideration and readjustment of basic wage rates and wage differentials. The passage of a minimum wage law might be such a new factor, tending to disturb the inertia of customary rates; but it does not follow that, after the passage of a minimum wage law, such readjustments would always take place; or if they did take place, that they would be *caused* by the law; or that they would always be downward; or that, if downward, they would always bring the maximum and minimum together. It is conceded further that, in times of depression, the minimum may sometimes tend to become the maximum but this does not seem to be a conclusive argument against minimum wage laws. This simply means that the pressure of economic forces pushes the flexible maximum down to the level of the relatively inflexible legal minimum. This has happened recently in some degree, in certain of our most depressed industries, but it should be emphasized that, even under such conditions, all the workers are still absolutely better off than they would have been without the minimum wage, although some of them do not continue to enjoy their usual differential advantage.

Minimum wage laws are not intended to raise *the general level of all wage rates*. They are intended to raise wages only of the lowest-paid group of workers, who are so circumstanced that they cannot help themselves. The consensus of opinion seems to be that this objective can be accomplished without impairing the higher earnings of the more skilled or more fortunate workers.

We should like here to stress our opinion that minimum wage laws do not and are not intended to set wage rates that could be regarded as fair for all workers, and further that we cannot now regard most established minimum rates as fair or adequate for workers generally.

It is possible that a minimum wage law, unwisely drafted and administered might, in the long run, adversely affect economic welfare, but any such contention would have to rest on a much firmer theoretical foundation than the current fear that minimum wage law would reduce all to a low level of uniformity.

We are compelled, however, to admit that the minimum wage law has been used by some employers as a whip to speed up production beyond the limits of reasonable tolerance. Evidence to this effect, especially in the needle and leather shoe industries, was presented to us with monotonous regularity. We deplore such anti-social industrial relations policy, whether found in the factory of a large department store or in the sweatshop of an almost bankrupt employer.

But, apart from the defects of the minimum wage administration to which we have previously referred, we cannot attribute this speeding-up to the law itself. It could easily be demonstrated that similar speeding-up obtains in industries for which there are no minimum wage decrees, and that this abuse develops partly from the ways in which unscrupulous or desperate employers use the device of payment by piece rates, partly from the general competitive pressure for lower monetary costs at any price of increased human costs.

(b) *Regulation of Hours of Labour.*—Many provincial hours of labour laws, such as those in Quebec and Ontario, which permit women to work normally 55 to 60 hours per week and as much as 72 hours under certain circumstances, are so obsolete that revision is badly needed. To suggest the necessary changes in the several laws, which vary greatly in coverage, standards and administration, would exceed the scope of this report. Several general principles, however, can be suggested for consideration when revision is undertaken.

- (i) The same agency that administers the minimum or other wage laws should have and exercise the authority, as in British Columbia, to determine both the hours for which the minimum wage is payable and the maximum hours which may usually be worked. Changing economic conditions demand a more flexible procedure than the ordinary legislative process for the setting of hours and other conditions of labour. A board of commission which can be trusted with the task of translating the general wage policy of the legislature into concrete and specific regulations, would be equally competent to determine the hours of labour.
- (ii) Maximum hours of labour for men as well as for women should be established by law.
- (iii) The standard hours of labour should be greatly shortened and should not exceed forty-four per week. The possibility of long hours of labour in rush seasons encourages hand-to-mouth buying, rush orders, and other purchasing policies which hamper the regularization of employment. There is no reasonable excuse for excessively long hours, followed by short-time or unemployment, no good reason for one plant working overtime, while many others stand idle.
- (iv) Occasionally there do arise special circumstances that require flexibility in the hours of labour, but the system of frequent permits to work overtime is impossible to administer equitably. It is recommended, therefore, that the laws be amended to state the length of a normal week, with a provision that time and a half be paid for all overtime up to, say, 55 hours and double time thereafter. Permit long hours but penalize them. Under such a provision most employers would discover a means of avoiding the situations which now seem to necessitate overtime. Rush orders would be properly more expensive and would decrease. Production would not be limited, but be only

more orderly. Nevertheless there would be sufficient elasticity in the law to permit the adjustment of hours to any real emergency or very profitable opportunity.

(c) *Employment Records*.—Minimum wage laws usually require employers to keep records of the hours worked by, and the wages paid to all female workers, but it is surprising how many employers, usually in small firms, comply, if at all, with the minimum letter of the law only.

The first requirement of a sound industrial relations policy is that each worker should know definitely the terms and conditions of his employment and should know exactly how much he has earned in any given period, etc. Any intelligent employer, of course, would wish this for his own information, and such information should be readily available not only to labour law officials but, in statistical summary, to all agencies which attempt to formulate business or industrial policy. Without adequate plant records, there is missing the whole foundation of factual knowledge, which must support efficient business management, sound industrial relations, effective law enforcement, useful business, economic, or social research, and intelligent policy.

The record-keeping provisions of minimum wage laws should therefore, be generalized to require every employer to keep, in either French or English, for every employee a simple set of basic records, including such elementary facts as name, address, sex, age, wage rate, hours worked and earnings. The provincial departments of labour or perhaps the recommended "Division of Standards," could devise simple record systems for those employers who need such assistance.

Other required revisions of our provincial labour laws may perhaps be sufficiently indicated by the later indication in Annex V, Chart VIII, of Canada's relation to the International Labour Organization.

At the risk of tiresome repetition, it must be emphasized again that the first step toward improved conditions is better administration of such laws as we already have. Many of their administrative provisions could be improved, many of the standards they set could be raised; but no amendment, however far reaching, will obviate the basic necessity for improved administrative personnel—non-political, professionally trained, experienced and permanent—backed by intelligent public understanding and co-operation.

(3) *New Provincial Labour Laws.*

The emphasis previously placed on the necessity for improving the standards in the administration of the laws we already have, does not exclude the desirability of new legislation.

We have previously recommended the more adequate recognition of trade unionism as a major agency not only to equalize bargaining power but also to assist in the development of industrial policy.

Such recognition as indicated above could be accomplished by a positive declaration of public policy. This, in turn, could be supplemented by legislation patterned after either the *British Cotton Manufacturing Industry (Temporary Provisions) Act, 1934*, the *Quebec Collective Labour Agreements Extension Act, 1934*, or certain parts of the *American National Industrial Recovery Act, 1933*.

While the British and Quebec Acts differ in some important details, they seek essentially the same ends by roughly similar methods. The British Act makes binding, after hearing by a special Board and an order by the Minister of Labour, upon all employers and workers in the cotton-weaving industry, the wage provisions of any trade agreements entered into by the employers controlling a majority of the looms. Under the Quebec Act, the Lieutenant-Governor in Council may, after petition and hearing, order the extension, to the entire industry in any economic region, of the wage and hour provisions of any

collective trade agreement, which has "acquired a preponderant significance and importance for the establishment of conditions of labour in a trade or industry. . . ." The contract thus extended is legally enforceable and is to be administered by a joint-committee set up by the parties to the collective agreement. Except by express provision and agreement, this extension, however, may not modify any existing contracts to the disadvantage of those workers who enjoy better terms than those of the collective agreement.

So little time has passed since these laws have gone into operation that it is too early to expect any demonstrable proof of their effectiveness. However, since they have been developed out of experience and represent only an extension of current practice, there is every reason to anticipate that they may achieve considerable success in restraining uneconomic wage-cutting. Their particular merit seems to lie in the opportunity they give for genuine self-government in industrial relations, under government supervision, supported by public law, but without the development of bureaucracy that more direct governmental regulation might necessitate. It should perhaps be noted that this method of extending trade agreements is not unlike that of Section 7 (b) of the American NIRA, which seems, however, to have been little used, in comparison with the more usual method of code drafting and approval.

We recommend serious consideration of laws extending collective labour agreements but we suspect that further experience will reveal possible undesired and undesirable results that may follow their careless drafting or enforcement. We recommend the adoption by other provinces of laws similar to the Quebec Law only if they can be drafted to cover the four following points:

- (i) The right to strike must not be impaired in any degree by such a law.
- (ii) The circumstances in which an agreement would be eligible for extension and enforcement must be more specifically defined than by any such general phrase as "preponderant significance."
- (iii) The law must be drafted and enforced in such a way as to avoid, under colour of an approved agreement, the crystallization or "freezing" of low wage rates.
- (iv) The law must further be very carefully drafted and administered to protect the public interest against the possible dangers of a monopolistic combination of employers and workers.

(4) *Amendment to or extension of present Dominion laws and practices.*

Within the traditional interpretation of the constitution, our possible recommendations for Dominion action are limited to the four following:

(a) *Amendment to the Criminal Code.*—Certain industrial relations policies and practices are so obviously undesirable and so clearly "fraudulent" that some remedial action might be directed against them through the amendment of the Criminal Code. Without entering into either technicalities or details, we recommend that the paying of less than a determined minimum wage rate, or knowingly permitting employees to work beyond the maximum hours fixed by law, or the falsification of any employment record required to be kept by law, or the punching of time clocks with intent to deceive, or the putting of the pay of more than one worker in the same envelope, with intent to evade the provisions of any minimum wage law, or the making of unwarranted deductions from an employee's earnings for any purpose not approved by competent public authority or the illegal employment of children, and other similar practices, be declared indictable offences punishable by very heavy fines and or imprisonment.

(b) *Fair Wage Policy.*—The Dominion's present fair wage policy is embodied in a series of Parliamentary Resolutions and Orders in Council supplemented by the *Fair Wages and Eight-hour Day Act, 1930*. The Act applies only

to Government construction work and the present policy, therefore, with respect particularly to work other than construction work, seems to be defective in three respects:—

- (i) "Fair" is defined as "prevailing" although many currently prevailing wage rates are clearly unfair, when compared with rates in other places, cost of living, or the employer's ability to pay. This defect is evident in the terms of Order in Council P.C. 3271, December 31, 1934, which seems to give Government sanction to wage rates lower than we should regard as reasonable.
- (ii) The inclusion of a fair-wage clause in a contract seems to be not absolutely mandatory and may sometimes be omitted, either by mischance or at the discretion of the contracting department. The policy also seems not to be automatically applicable to those contracts for relief supplies which are let by provincial administrations but paid for in part by Dominion funds.
- (iii) In administering this policy the Department of Labour seems to have received an excellent measure of co-operation, both from contracting departments and from provincial minimum wage boards, but it is hampered by not having complete initiative and authority to administer the policy.

We recommend, therefore, that the Act of 1930 be amended:

- (i) To cover all Dominion contracts and all contracts to be financed, even if only in part, by Dominion funds;
- (ii) To authorize the Department of Labour to determine and define "fair wages and conditions" for the industries or occupation affected;
- (iii) To restrict the bidding on such contracts to those firms which, after investigation, are listed by the Department of Labour as regularly maintaining fair wages and other conditions. The continual preparation and revision of a list of eligible bidders would be more economical than our present system of *ad hoc* investigation and would have the auxiliary advantages both of publicizing approved employment standards and of building up in the Department of Labour greatly increased knowledge of wage rates and conditions. It should be mandatory for the Department of Labour to place on this list any eligible applicant, and new firms, which of course have no previous record of employment standards, should be automatically eligible for inclusion until their employment conditions prove unsatisfactory.

(c) *Industrial Disputes Investigation*.—If the Government is prepared to declare a public policy with respect to the right of labour organization and collective bargaining, as recommended previously in this report, it should implement this policy by *four amendments* either to the I.D.I.A. and its administration, or to government policy in setting up boards of inquiry under the Public Inquiries Act:—

- (i) The appointment of Boards of Investigation should be encouraged not only when an industrial dispute threatens but also when complaint is made that improper intimidation or discriminatory action has been taken either by employers or workers.
- (ii) Without extending the restriction of the right to strike as in public utilities, a wider range of industries and occupations should be brought within scope of the Industrial Disputes Investigation Act, or some related Inquiries Act. The Dominion should have authority to investigate any industrial situation which may either endanger general economic welfare or create avoidable social unrest.

- (iii) There seems to have developed a policy of appointing as chairmen of the boards only persons with judicial experience. Such experience and training, however valuable, is no assurance of effectiveness in **negotiating** a settlement. Chairmen should be selected, not for their judicial capacity to define and emphasize **differences of opinion and interest**, but for their ability to strengthen **points of agreement** and to conciliate the differences.
- (iv) The machinery of conciliation should be set in motion, without waiting for a formal request, whenever it is learned that an industrial dispute impends.

(d) *Better labour statistics.*—It has been emphasized above that labour legislation is neither self-generating nor self-administering. Accurate information about industrial and employment conditions is necessary, not only as a guide to the determination of legislative policy, but also as a criterion of the effectiveness of administrative technique and as a stimulus to administrative industry and integrity. Despite the excellent work of the Dominion Bureau of Statistics, within the range of its authority and the possibilities of its appropriation and staff, all the problems presented to this Commission have been complicated by a general lack of economic facts of critical significance. The Commission has had to spend much of its own time and much money on the unearthing of facts which should have been readily available. We have unfortunately, therefore, had to become more of a fact-finding than of a deliberative body. Before Canada can act intelligently with respect to most of the problems now under consideration, it is essential to have more factual information about such basic economic data as wage rates, earnings, cost of living, unemployment, labour turnover, etc. Accounting and statistics may seem dull and pedestrian proposals, but they are the only keys that will unlock the first barriers to better conditions. It is often alleged, for instance, that regional differences in wage rates are no more than sufficient to offset regional differences in the cost of living and the efficiency of industrial workers. Such matters should be settled by the arbitration of fact and not left in the realm of speculative opinion and belief.

We recommend that the collection of all labour statistics be centralized in the Dominion Bureau of Statistics, that such wage statistics as are now collected by the Department of Labour be expanded, if necessary, to produce weighted average wage-rates by industry, occupation, and locality, and that they be supplemented by the renewed collection of wage statistics by the Census of Manufacturing and Distribution.

We recommend also that the present Canadian indexes of retail prices, which are supposed to provide also an index of changes in the cost of living, be supplemented by a national investigation, such as the Bureau has recently made on a very small scale for civil servants, into cost of living budgets. These would provide an estimate of the cost of living in absolute figures for different localities, would provide a measuring rod for the present adequacy of earnings, would clarify the problem of regional differences in wage rates, and would facilitate the determination of wage policy by individual employers or other agencies. It is perhaps relevant to remark that the same range of problems in the United States, especially in connection with the Recovery program, has created a recognized need for such a study, which has already been started in several representative localities. Such a study further would provide a more adequate basis than any we now have for a periodical index of changes in the cost of living.

This special mention of the basic industrial facts of wage rates, earnings and cost of living, does not restrict the generality of the foregoing recommendation for extended and improved labour statistics. It should be unnecessary to

argue the need for similar statistics of labour turnover and labour productivity, etc. We should set as our objective and should spare no reasonable cost to achieve, the same volume and quality of fact-finding work that the Statistics and Intelligence Branch of the British Ministry of Labour has done since 1896. It is difficult now to realize that in 1900 this was supposed to be the model for our own Department of Labour!

(e) *New Machinery for Publicity and Education—A Division of Service and Standard in the Federal Department of Labour.*—Facts, however adequate, do not always come to public attention or tell their own story in language intelligible to the average worker, employer, or citizen. It is necessary, therefore, to supplement the work of fact-finding by education and publicity about the significance of facts. The publications both of the Dominion Bureau of Statistics and of the Department of Labour need to be supplemented by many more popular newspaper releases and bulletins. These agencies are dealing with problems which are of vital importance not only to the national economy of Canada, but to the life and well-being of every individual resident. Their publications should be as widely accessible and as interesting as the current reports of murder and divorce cases.

Publicity and education should not only be directed to the general public, to develop an appreciation of existing conditions and problems, but should also be directed to administrative officials and employers to inform them about the development of new techniques, devices, and standards. Every governmental labour official, whether Federal or provincial, and every trade association and trade union officer should, of course, be an agent for such education and publicity, but it is necessary also to have a central research and publicity staff.

The logical location for this is in the Federal Department of Labour. The terms of its original constitution would seem to have conceived this work as one of its two main functions, but it has been so burdened in succeeding years with miscellaneous administrative duties, that the central purpose seems to have been lost sight of. It is not to be expected that over-burdened administrators will have much time or opportunity for research or reflective thinking. All too quickly they get swamped by the pressure of immediate responsibilities.

We recommend, therefore, that there be created in the Federal Department of Labour an entirely new division under thoroughly competent super-*visors*, adequately staffed and financed, called the *Division of Research, Standards and Service* having the following functions:—

- (i) General research into industrial relations problems. If such research should necessitate also statistical investigation, the study should be planned by this division and done at its request by the Dominion Bureau of Statistics.
- (ii) The provision of information, advice, and service to provincial departments of labour, employers and workers.
- (iii) The drafting of model labour statutes with explanatory memoranda for legislative committees, etc.
- (iv) The planning and management of Dominion-Provincial Conferences on matters such as international labour conventions, or uniform provincial labour laws.

The creation of such a division would multiply many times the present usefulness and significance of the Federal Department of Labour, would stimulate the work of all Provincial Departments of Labour and would develop a widespread public awareness of economic conditions and industrial problems. Incidentally, it might be mentioned that, within the last three months, such a new division has been formally created in the United States Department of Labour, although this Department, like ours, has always attempted to perform this function in a limited and informal fashion.

b. National Regulation of Employment Conditions, Requiring either Constitutional Change or Special Effort to Overcome Constitutional Obstacles.

(1) *The Need for National Uniformity.*

In a federal state, differences in legal standards for employment conditions under different jurisdictions and, in a large state, differences in actual employment conditions in different regions, often engender a form of unfair regional competition, which prevents any stabilization of the labour market.

That labour laws differ from province to province needs no demonstration. Some of the major variations are indicated in Annex V, Table 122. This includes for comparative purposes also a digest of the laws in four American States, each roughly comparable with certain Canadian provinces. The differences in general standards are, however, less important than differences in details, which often determine the exact scope and meaning of each law; and are much less important than differences in the respective efficiencies with which the several administrations enforce their laws.

Labour legislation, typically, sets only minimum conditions. Actual employment conditions may vary even more than minimum standards. Annex V, Table 122, shows some of these variations between the different provinces in hourly wage rates, weekly earnings and hours of labour.

Wage rates for common labour in factories varied from 88 per cent to 132 per cent of the Dominion average; weekly earnings of all male workers in manufacturing, from 59 per cent to 109 per cent of the average; average hours of labour in factories from 111 per cent to 95 per cent of the average. For purposes of more detailed comparison, there are included figures for machinists and female sewers. The first is a skilled, more or less well-unionized, occupation; the second is semi-skilled and probably chiefly unorganized. The range of variation in the first, 93 per cent to 109 per cent, is much less than that in the second, 72 per cent to 112 per cent.

Since most Canadian manufacturing is concentrated in Quebec and Ontario, particular attention should be directed to the differing conditions in these two provinces. It has often been alleged before this Commission that the generally lower wage rates and longer hours in Quebec are making it impossible to maintain the higher levels in Ontario. The same sort of complaint is made also about small-town competition in both provinces, with the larger cities such as Toronto and Montreal. We have received some evidence that tends to confirm this allegation.

There can be little doubt that there is growing public recognition of the need for uniformity in labour legislation. It is interesting to note that the advocacy of Dominion jurisdiction in this field dates almost from the very first realization that the British North America Act was interpreted as not providing for the national regulation of employment conditions. The Ontario Manufacturers Association in 1885, the Canadian Trades and Labour Congress in 1887, and frequently since then to date, the Royal Commission on the Relations of Capital and Labour 1889, and the Dominion Commission to inquire into the sweating system in 1895, all recommended that the regulation of employment conditions should be a function of the Dominion Parliament. The National Industrial Conference, 1919, likewise recognized the advantage of uniformity in the Labour Laws of the Dominion and passed the following resolution:—

That the advantage of uniformity in the laws relating to the welfare of those engaged in industrial work in the several provinces of the Dominion of Canada be brought to the attention of the Government of Canada and of the Governments of the several provinces, respectively....

The Dominion-Provincial Commission, 1920, appointed as a result of this resolution, represented a useful approach to the solution of this problem which, unfortunately, has not since been followed up with sufficient vigour.

(2) *Methods of Achieving Uniformity.*

Uniformity in labour standards can be achieved by one of two methods: directly, by Dominion Legislation; indirectly, by inter-provincial co-operation under the leadership of the Federal Department of Labour in the enactment of uniform legislation, or by the method in which the Dominion Parliament enacts legislation which goes into force only on the passage of concurrent provincial legislation.

(a) *Dominion Legislation.—Reservations and Qualifications.*—It would seem that Dominion labour legislation, if feasible and constitutional, would best achieve the objective of substantial uniformity in labour standards, but we realize that, even if the constitution is interpreted or amended to give the Federal Parliament jurisdiction over labour and wage matters, uniform or national legislation setting minimum standards of employment conditions does not necessarily imply centralization of administration and enforcement and absolute uniformity of actual employment conditions. In a country such as Canada, with great geographical distances and significant differences in regional conditions, it will be necessary to reconcile the need for general competitive equality with the recognition of appropriate, permissible, regional variations.

Under present arrangements, provincial legislatures enact minimum wage laws in very general terms which minimum wage commissions thereafter supplement by detailed orders, rules and regulations, applicable to different sections of the province. In the same way, the Dominion Parliament might, within the limit of its competence, enact legislation, general in its terms and coverage, which provincial departments of labour or other decentralized agencies would supplement with particular orders applicable to district or provincial conditions. These national laws and the orders or regulations thereunder should then be administered decentrally under Federal supervision and in accordance with defined standards of administrative efficiency.

We appreciate a possible danger in that the enactment of Dominion labour legislation may discourage more progressive provinces from experimenting with higher labour standards. If it is constitutionally possible under some arrangement similar to that provided in Section 95 of the British North America Act, we should like to recommend Dominion legislation, with the reservation that any Dominion law should be so phrased as to permit and encourage the establishment of higher standards by concurrent Provincial legislation. In other words, we should like to see any Dominion minimum wage law, for example, first, administered decentrally under federal supervision, second, with a reasonable but not more than reasonable regional variation in wage rates, and third, with an express provision that the minimum wage rate in any province should be either the rate thus provided or the rate set by a competent provincial authority; whichever is higher.

The constitutional question of the competence of the Dominion Parliament in this field is one that should be explored and settled by the proper authorities. If the competence of the Dominion Parliament is so circumscribed that it is impossible to enact Dominion legislation, then we recommend that the British North America Act be constitutionally amended as soon as possible to settle this question.

(b) *Interprovincial Co-operation.*—Pending the settlement of the constitutional problem, it may be necessary to seek uniformity by alternative methods. The first of these is interprovincial co-operation in the enactment of uniform legislation.

The possibilities of this method have been demonstrated in Canada to mention only a few illustrations, by the success of the Dominion Bureau of Statistics in achieving uniformity in the collecting of vital statistics and by

the work of the Association of Workmen's Compensation Boards of Canada, the Association of Provincial Insurance Superintendents, and the Conference of Commissioners on Uniformity of Legislation. It has been similarly demonstrated in the United States by the work of the National Conference of Commissioners on Uniform State Laws and by the recent development of Interstate Compacts Affecting Labour and Industries.

Mere willingness to co-operate, however, will not of itself draft or enact uniform laws. Interprovincial co-operation requires continued leadership and hard work. The machinery for co-operation already exists in the Dominion-Provincial Conference, but if this work is to be effective, the agenda for each meeting must be restricted at the most to not more than one or two concrete problems, and the work of the conference must be planned in advance with prior circulation of memoranda of information and tentative draft legislation. The outcome of the conferences must consist not of resolutions but of uniform bills drafted, re-drafted, and amended until agreement on their terms is obtained; and thereafter the delegates should return to their respective jurisdictions under a recognized obligation to stimulate legislative acceptance of the bills as drafted.

One essential condition of effective Dominion-Provincial Conferences on industrial and labour questions is that their personnel should consist not merely of political heads of departments, but also of technical experts. The work of such conferences is not so much the determination of policy as the determination of detailed methods by which generally accepted policies may be put into effectively uniform operation. The task, therefore, is one for technical experts in co-operation with their department heads. Unless the provinces are already in substantial agreement on policy, the subject is not one for a Dominion-Provincial Labour Conference although it may properly be considered at some more general conference of this same sort.

In the very difficulties that confront the achievement of uniformity by interprovincial co-operation may be found the greatest value of this method. It is much easier to enact one Dominion law than to agree upon the terms of and enact nine uniform Provincial laws. It will be correspondingly easier to overlook the critical problem of administration and to assume that the passage, by itself, of a Dominion law will solve a problem. The painful process of hammering out an agreement on details by the representatives of nine jurisdictions is likely to remind all those concerned with the problem that the law is not operative until it is effectually enforced.

The necessary stimulus and leadership for effective interprovincial co-operation in these matters can normally be expected to come from the only agency which considers those problems from a national point of view. It is for this reason, among others, that we have already recommended the creation in the Dominion Department of Labour of a new division which would assume the responsibility for preparatory and technical work of this kind.

Another alternative to Dominion legislation is the delegation of specific authority to the agencies of the Dominion Government by provincial enabling or concurrent legislation. This is the method used for the creation of uniformity in employment office legislation, the handling of industrial disputes, old age pensions and, more recently, the marketing of natural products. The problems presented to the Commission are too complex and intricate to be solved satisfactorily as a whole by this rather cumbersome procedure, but there are undoubtedly many individual phases of these problems that, if more adequate treatment is not now possible, might be partially dealt with by this method.

(3) *Recommendations with Respect to National Uniformity.*—

We attach such importance to national uniformity in employment standards and conditions that we regard the following self-explanatory recommendations as the heart of this section of our report. In comparison with these, our other proposals, expressed and implied above, though we regard them as important, are only incidental. We recommend:

- (a) Thorough exploration of the constitutional possibility of the enactment of Dominion labour legislation.
- (b) If such legislation is now precluded by insuperable constitutional obstacles, the necessary amendment of the B. N. A. Act.
- (c) The creation of an unpaid, permanent, representative, rotating, and non-partisan, Advisory Council to the Dominion Minister of Labour, for the following purposes:
 - (i) To work out the general principles and procedure of effecting the necessary readjustments after the Dominion legislation is enacted.
 - (ii) To plan for decentralized but uniformly efficient administration, through provincial Departments of Labour, if possible.
 - (iii) Regardless of the enactment of Dominion labour legislation, generally to encourage and promote public understanding of the problems of labour relations, legislation and administration.
 - (iv) And for such other purposes as the Governor in Council or Minister may determine.
- (d) Pending the settlement of the constitution question of dominion or provincial competence, annual convocation of a Dominion-Provincial *Labour Conference* to consider:
 - (i) Methods of harmonizing provincial labour legislation.
 - (ii) The implementing of International Labour Draft Conventions.

We recommend also in this connection that the agenda for such Dominion-Provincial Labour Conferences and all memoranda be drafted and circulated by the proposed Division of Service and Standards of the Dominion Department of Labour.

We suffer no illusions about the difficulty of the task before us and we are well aware of the limited possibilities of immediate and complete social reform. We wish to arouse no hopes that even the forthright and complete acceptance of all our recommendations will effect a permanent solution of the riddle of social justice. But we urge grave consideration of the possibility that a refusal to take these first steps on the road we are venturing to point out may have disastrous consequences.