CHAPTER VI

THE PRIMARY PRODUCER

1. INTRODUCTION

This chapter summarizes our investigations into the plight of the primary producer. These can be epitomized at once by saying that the prices of the primary products, into which we have made inquiry, have fallen far below the point that would permit the maintenance either of operating efficiency or of a reasonable Canadian standard of living. Yet, it is the most obvious platitude to state that, unless the primary producer in this country is restored to a position where he has purchasing power commensurate with his importance, there can be no stable basis for prosperity. Though the truth of this statement is admitted by all, the fact remains that, as stated in our opening chapter, the primary producer has borne the brunt of the depression. He was the first, and the greatest sufferer. Other groups in the community were able, to some degree at least, to protect themselves from the full effects of the storm, but the farmer has been defenceless, or almost so, throughout. The manufacturer, the middleman, the distributor—all have attempted and, in some cases, have successfully attempted, to operate on a cost-plus basis. What the farmer secured as the price of his labour often had no relation whatever even to direct costs. He, too often, has taken what was left after other interests have secured their share of the consumers' dollar.

In this chapter, as with the chapter on industry, we will have to treat the problems presented in different ways. This is due to the fact that our investigations were of necessity not always conducted along exactly the same lines. Therefore, no exactly similar approach can be made to the problems of the four groups of primary producers who have been brought to our attention; the live stock producer, the fruit and vegetable grower, the tobacco grower, and the fisherman. One unifying idea, however, runs throughout this whole discussion of the plight of the primary producer in whichever of the above four fields he operates, the idea of exploitation.

The term, exploitation, is used in two senses. In popular use, the word means unfair utilization of others for one's own selfish ends. This is what is meant by saying that certain workers are sometimes "exploited" by grasping employers, or certain primary producers "exploited" by over-reaching buyers. This meaning carries an implication about ultimate standards of social justice and an appeal to social sympathy. It carries, also, an implied condemnation of the "exploiters." The evidence leads us to believe that many primary producers have definitely been thus exploited.

But, this idea of "exploitation" is not a very satisfactory device for further economic analysis. We, therefore, restrict the use of the word in this chapter to a technical economic meaning which has been recently developed, chiefly by English economists. Exploitation, in this narrower sense, exists where producers are paid less than the buyers are prepared to pay for the *whole quantity on the market.* This use of the term does not imply any standard of justice. It does not cover all the cases of low earnings which may appeal to one's sense of justice as demanding redress. It simply accepts as proper and fair the price which would be established if simple competition obtained, even though that price may be undesirably low. When many competing sellers are faced by a few buyers who act in concert or who tacitly agree to follow the lead of the

larger buyers, then exploitation becomes possible. The buyers may get the whole supply at a price less than they would be prepared to pay under conditions of simple competition. This price is then "unfair" as a result of inequality in bargaining power between buyers and sellers. The latter have been "exploited."

Such a situation may be remediable. Although it may be impossible really to restore competition among the buyers, it may be possible to improve the bargaining position of the weak sellers. The exact measures which this will necessitate vary according to the particular characteristics of the occupation. Few measures are likely to be equally applicable to fish and tobacco, to wheat and live stock. Fundamentally, however, the problems are similar in that they grow out of imperfect competition.

Remedial proposals must, however, be viewed with caution. Price-fixing, for example, may be dangerous in that, although one may fix the price by authority, one cannot force people to buy at that price. The fixed price may be too high to "clear the market" and, unless the supply is pooled, some unlucky sellers may be left with their stock unsold. The fixing of price, further may have unintended effects on future production and supply. Too high a price may stimulate increased production and ultimately thus defeat itself. This danger is particularly serious, if the increased production, as that which resulted from the British plan for rubber "valorization," takes place in some producing region outside the control of the price-fixing authority. Price-fixing must, therefore, be associated with production control. This, however, may at times become an exceedingly complex problem. If, under a pooled marketing scheme, the price is fixed too high to clear the market, the unsold surplus must be carried over, dumped or destroyed. All three procedures have serious disadvantages. The possibility of successful price control is further diminished by any dependence on export outlets. Effective price control of an export commodity may involve some sort of discrimination or dumping, which may provoke retaliation from abroad.

Other remedial proposals—the diversion of production to more profitable alternative lines, improved marketing machinery to cut the cost of distribution or to increase the bargaining power of the sellers, the stimulation of consumer demand by advertising or improved quality—are more difficult to initiate but, if carried through, may produce more durable results. Whatever the remedy finally selected, there is sound theoretical justification for state intervention and leadership in any situation where imperfect competition produces exploitation.

The strongest case for such intervention arises when the sole (or concerted) buyer of raw material is also a monopolist in the sale of the finished product. As a monopolist, he will tend to limit his sales to that amount which will yield the maximum net profit. This implies a restriction of his purchases of the raw material, no matter how low its price may fall. His operation is doubly disadvantageous to the primary producer, first, by depressing the price below the point that free competition would establish and, second, by absolutely limiting the total amount of raw material purchased.

It is clear that the fundamental problem of the primary producer is finding profitable markets. The difficulty is not that he cannot produce enough goods. Nor is it that, having regard to potential demand and consumption, he produces too much. Neither is it that his products are not needed and desired. It is simply that they cannot be sold at a price sufficiently high to maintain a reasonable standard of living for the producer nor, paradoxically, bought at a price sufficiently low to permit necessary consumption by all in need. Competition might, it is true, "in the long run," adjust this situation. But the short-run starvation of the primary producer may well diminish his vital interest in the successful functioning of economic laws in the long run. At the same time,

free competition in the international market, is checked on every hand by tariffs, quotas, exchange restrictions, and embargoes. The primary producer is therefore denied the possible benefits of free competition in the buying markets of the world; is exposed to all the rigours of free competition in production at home, and finally, is subjected to exploitation by outright monopoly or imperfect competition among the domestic purchasers of his products.

Apart from government control of production and prices, which is discussed later in this section, only two remedies are available for the immediate emergency: enlarged markets, and the utilization of improved marketing machinery to prevent exploitation.

The possibility of increased exports must continue to be vigorously explored by government through reciprocal trade agreements and by educating the producer in the requirements, the idiosyncrasies perhaps, of foreign markets. It involves also a flexible tariff policy. But no government can do as much for the producer as he can do for himself in co-operation with his fellows. The utmost effort of government in trade promotion must be backed up by co-operative exploration of every marketing technique to meet foreign or other requirements.

The same principle obtains in the utilization of marketing machinery for domestic purposes. This machinery has been provided by the Natural Products Marketing Act, 1934, whereby Canada joined those countries, now 38 in number, which have passed legislation designed to facilitate collective bargaining by primary producers. When the small producer faces the big buyer, the government cannot directly prevent exploitation; but it can point the way to self-protection for such producers by encouraging co-operation even, possibly, to the extent of coercing a small and recalcitrant minority.

There is danger, of course, as we have indicated above. The danger is that by co-operative restriction of supply, the primary producer may so raise price that he not only protects himself from exploitation, but becomes in turn an "exploiter" of the consuming public. But the persistence of uncooperative individualism among primary producers, and legislative safeguards serve to neutralize this danger.

Something also can be done to lower the price of the things the primary producer buys. But in a world of growing monopoly and increasingly imperfect competition, the immediate results of such a policy may be limited. In any event, every effort should be made to raise the price that the producer receives for his product. The problem here is essentially a marketing one. One approach towards its solution is, as indicated above, by developing and encouraging co-operation among the producers themselves.

The activities of governmental bodies, whether Federal or Provincial, have heretofore been chiefly concerned with assisting the farmer by experimenting in respect to better and cheaper methods of production, rather than with the equally important problem of marketing what he produces. Emphasis now might well be placed on the latter.

Between the farmer and the consumer there is an immense gap bridged by a chain of middlemen, each of whom exacts a proportion of the consumer's dollar. In many instances the amount received by the farmer for his product is only a fraction of that realized by this array of middlemen. The problem of how to raise the farmer's price is complicated, as we saw in chapter ii, by the fact that domestic consumption does not account for his total production. The following figures from the Dominion Bureau of Statistics show the relation of domestic consumption in 1933 to production:

Wheat	35.9%
Dairy products	95.4%
Butter	98.5%
Cheese	31.4%
Cattle (Beef and Veal) (estimated by pound)	95.0%
Hogs	90.8%
Eggs	99.1%
Fruit—	
Apples	31.0%
Peaches	100.0%
Strawberries	99.3%
Vegetables—	
Potatoes	96.0%
Turnips	97.3%
Sugar beets	96.9%

It will be noted from this table that, with the exception of wheat, cheese, and apples, over ninety per cent of the production of these commodities is consumed in Canada. The surplus enters into foreign markets where it has to compete with the production, sometimes the cheap production, of other countries. The price received for this exportable surplus, however, under present conditions becomes the basis of the domestic price; one result of which, during the last few years, has been extremely low prices for agricultural products in Canada. These prices, indeed, have often reached a level far below the cost of production.

This means that the agricultural population, which constitutes a large proportion of the total population of the country and consumes large quantities of manufactured goods, has had little or no buying power. This, in turn, has restricted the consumption and hence the manufacture of manufactured goods.

If the necessity for increasing the farmer's buying power is admitted and if world conditions prevent this being accomplished by international action, the question arises whether domestic prices are to continue to be controlled by the price of the small exportable surplus. The alternative is to maintain a domestic price, if necessary by governmental action, in keeping with the domestic cost of production and allowing the exportable surplus to get what it can. Suggestions to this end have been made from time to time. The difficulties and dangers connected with them we have already pointed out. They have been frowned upon as being contrary to sound economic policy, and as in practice impossible of success, because control of prices would be useless without control of production, and control of production, to be effective, would have to extend to all primary products.

The fact remains, however, that arrangements and efforts for such control have become increasingly popular and have attained at least some measure of success in the fields to which they have been applied. We cite, in our own country, the tobacco marketing agreement, and the potato marketing agreement, though these are yet too recent to warrant any considered judgment as to their results. We would mention also in somewhat more detail, Canadian milk marketing schemes. At the beginning of this investigation, the Evidence and the Report of the Select Standing Committee of the House of Commons on Agriculture and Colonization respecting the fluid milk industry, which was presented to the House in 1933, was filed as an exhibit for consideration. In that Report it was recommended that provincial Boards should be established with definite powers of control. Already five of the provinces have followed the procedure recommended. Milk Boards have been set up in the provinces of Ontario and Quebec, while Manitoba, British Columbia, and Alberta have placed the distribution of fluid milk under the supervision of their respective utilities commissions. The result of this action has been to maintain in each province a price to the primary producer which, it has been argued, could not have been realized otherwise.

The regulation of milk prices and production is complicated by the fact that milk enters into a number of avenues of processing; cheese, butter, condensed or powdered milk, etc. It is admitted that the most profitable way to dispose of our surplus milk production is in the form of cheese. Canadian cheese has, for many years, enjoyed an enviable reputation in the United Kingdom, and has commanded a premium over the production of other countries in that market. Cheese, like other farm products, meets competition in the British market with similar goods produced in New Zealand, Denmark, and other countries, and although it enjoys a premium, has been unduly depressed in price because of this competition. Normally, 7 per cent or 8 per cent of our total milk production has been manufactured into cheese, but because of prevailing low prices for this produce, more milk is being diverted into the manufacture of butter and other milk products, while our exports of cheese are

diminishing. At the same time there is grave danger of an abnormal surplus of butter appearing on our Canadian market, which in turn will have the effect of further depressing butter prices. Steps, therefore, should be taken to stimulate cheese production and at the same time keep our butter production within the range of domestic consumption. Several schemes have been advanced to accomplish this very desirable end, and we urge that immediate action be taken, as the situation is critical.

Later in this chapter we make specific marketing recommendations in respect to specific commodities. We state here, however, our general conclusion that every effort should be made to explore the possibility of utilizing the Natural Products Marketing Act to ensure a fair price for farm products, especially those of which we have a negligible export surplus.

2. THE TOBACCO GROWER

1. Introduction

We received evidence on all phases of the production of tobacco as well as many documents filed on the same subject. Witnesses examined included six growers, four representatives of grower co-operatives, five officials of the Imperial Tobacco Company, a former tobacco buyer of this company, and five independent manufacturers, distributors and dealers in the manufactured article.

Possibly the clearest example of exploitation of the primary producer that came before us was that provided by the relationship between the tobacco manufacturers, especially the Imperial Tobacco Company of Canada, Limited, and the tobacco grower during the period preceding 1934. This example also provides an excellent instance of the degree to which a monopolistic buyer can disturb the ordinary workings of economic law in the fixation of prices.

There can be no better proof of the fact that under certain circumstances market forces cannot determine values with absolute precision, than that found in the experience of the tobacco growers of Western Ontario during 1931 and 1932. On the side of the producer there was lack of adequate information as to general market conditions and crop values, inability to adjust output to demand, and lack of effective marketing organization. In turn, the manufacturer used the power that comes from monopolistic control to limit domestic competition, and high protective tariffs restricted the competition of manufactured goods from abroad. The combination of weakness on the part of the grower and power on the part of the buyer made it possible, if not easy, for the Imperial Tobacco Company to force prices to the lowest point in what the economists call the "zone of indeterminateness," to the consequent distress of the producer. We do not suggest here or elsewhere in this chapter, that a monopolistic organization even as powerful as the Imperial Tobacco Company can permanently control the law of supply and demand. Notwithstanding present hindrances to the free play of competitive forces, in the long run this law will prevail. We suggest, however, that while it is working, prices may be interfered with to the detriment of the producer in such a way that chaos and demoralization follow and some form of social control is necessary.

2. Tobacco Production in Canada

In Canada the growing of tobacco is limited to well-defined areas in the provinces of Ontario, Quebec, and British Columbia. The 1933 production figures indicate the relative position of these provinces. In that year Ontario produced 35·5 million, Quebec 6 million, and British Columbia 300,000 pounds. Six different types of tobacco are grown in Canada, namely, bright flue-cured, Burley, cigar leaf, dark, large pipe, and small pipe. Of the total of 45 million pounds produced commercially in 1933, over 25 million pounds were of the

bright flue-cured type, 9·5 million of Burley, 4 million of cigar leaf, and the balance in the other types. The growth of flue-cured tobacco in Ontario has been the outstanding feature of the industry since the War, and it is this kind of tobacco production that we are more particularly concerned with in this section.

Approximately three-quarters of the flue-cured crop in Ontario and a portion of the Burley are grown on the share-plan basis; the remainder is produced by farmer owners. Under the share-plan system the owner of the farm provides all the essentials for growing and conditioning the crop, takes care of other charges and expenses, and usually divides the proceeds from the sale equally between himself and the tenant-operator. Of the total flue-cured crop, approximately one-third is produced on farms owned by incorporated companies. In addition, there are several large independent growers operating ten or more farms. The usual crop unit for this type of tobacco is between 25 to 35 acres per share-man.

The method whereby the tobacco crop is marketed in Canada is known as "barn buying." When the market opens, the tobacco buyer visits the farm and offers an average price per pound, which is supposed to be based on the top price fixed for the finest crop of the type concerned.

This barn-buying system is considered by some as unsatisfactory, yet both producers and domestic buyers appear loath to abandon it. The alternative is the "auction-floor" system as used in the Southern United States. Under this method, the farmer grades his crop and sells it through the medium of an auction warehouse. These warehouses are independently owned and there is no direct contact between grower and buyer. This method of selling obviates the necessity of field inspection staffs, permits the grower to obtain cash at any time during the market by delivering his tobacco for sale at the warehouse, and in general allows similar prices to be paid for similar leaf. On the other hand, the grower is put to the extra expense incurred by grading and by the payment of a selling commission and other charges to the warehouse. Finally, the auction-floor system has not been able to prevent such practices as "under-cover buying" and "holding off" the market, which are features of the barn-buying method. Properly supervised and controlled, however, the auction system would appear to be the more logical method of marketing.

3. Grower Organization

In recent years some development of grower organization for the marketing of the crop has been attempted. In 1934 there were four growers' associations in existence in the East, two in Ontario and two in Quebec. In the latter province one association which has operated since 1913 now controls around 80 per cent of the cigar leaf grown in its district, whereas the other handles about 25 per cent of all tobacco grown in its particular area. These two organizations are of the usual co-operative or pool type, and members are compelled to market their tobacco through the medium of the respective associations.

The associations in Ontario were limited, in 1934, to the flue-cured tobacco districts. One of them, with headquarters at Simcoe, is primarily a service organization, although it has a marketing subsidiary through which members may market their crops on a voluntary basis. The other organization is of a more orthodox co-operative type. Both furnish a crop appraisal service to members in order to assist in the sale of their product. Co-operative marketing operations were not attempted until early in 1933 when a joint marketing committee was set up to control the sale of tobaccos delivered to either organization. Late in 1934 a third association was formed in connection with the organization of the flue-cured growers under the Natural Products Marketing Act. Two service associations subsequently were organized by the Burley growers.

4. Flue-cured Marketing in Ontario

An examination of the evidence with respect to the marketing of bright flue-cured tobacco in Ontario in recent years shows clearly that a basic cause of distress amongst producers has been the too rapid expansion of the industry. High prices, of course, were the main reason for this expansion but the Imperial Tobacco Company was also partly responsible for it by maintaining an insufficient spread between the better and the poorer crops, which resulted in inexperienced and inefficient producers rushing in to grow tobacco on unsuitable land. Expansion was further encouraged by the absence of carry-overs, which created a false impression of the potential size of the market.

During this period of expansion many new growers commenced operations. Production increased from about 4 million pounds in 1926 to about 12 million in 1930. Despite this rapid increase, prices only fell from an average of 33·9 cents in 1927, to 29 cents in 1929. This season of 1930 proved to be the culmination of the policy of high prices as a means of encouraging expansion. In that year, despite a crop one-third greater than that of 1929 and of inferior quality, the average price actually increased to 32 cents.

The effect of this price soon became apparent in a tremendous expansion of the planted area in 1931. Although this expansion was to some extent due to the opening up of an overseas outlet in the United Kingdom during 1930, the high prices paid for the 1930 crop was the chief governing factor. The planted area was increased from 17,200 to 27,345 acres, and as a result of an extremely favourable season, production increased from 12,384,000 to 24,500,000 pounds. The leaf was admittedly the best in general quality yet produced in Ontario, partly as a result of weather conditions and partly in consequence of the change from the stalk-cut to the priming method of harvesting. Following the advice of the Imperial of Canada, about a million pounds were harvested by the latter method. A short time before the opening of the market, prospects of increased orders from the United Kingdom were diminished by the departure of that country from the gold standard.

The market was opened by the Imperial of Canada on October 6th, with a top price of 30 cents, coupled with instructions to its buyers to reach an average of about 22 to 23 cents. As is usually the case, the other buying companies followed the lead of Imperial Tobacco Company in the matter of price. The opinion of the New York officials of the parent organization, the British American Tobacco Company, Limited, that prices should be about 25 per cent below those of 1930 was apparently a factor in determining the price to be paid. A new company official was sent from Montreal to take charge of buying operations and as a result of his tactics, prices were driven ruthlessly down and both buyers and producers were demoralized. The final result of buying operations was that the crop was purchased at an average price of about 21 cents, as compared with 32 cents in 1930.

An examination of the crop inspection books of this Company clearly shows that deliberate advantage was taken of conditions to break the market. After the first week, the prices paid bore little relation to relative quality on the basis of the 30-cent top. Crops valued at 25 cents on that basis were bought for 15 to 18 cents. This was in sharp contrast to the buying policy in previous years and was made possible by the fact that the growers were completely at the mercy of the buyers.

The fact that these growers " took their medicine like men," to use the expression of the Company's head buyer, was inadequate consolation for the resulting distress. The predecessor of this official alleged that it was " a panicky market " and " very improperly conducted " and that he was " ashamed of conditions." We feel that these expressions of opinion are comparatively mild in view of all the

circumstances. The possession of great power necessarily implies equally great responsibility. There is no indication that this fact influenced the Imperial Tobacco Company at this time.

We are aware of the fact that some fall in price in 1931 was inevitable in view of conditions. We also received evidence from the Imperial of Canada that over-production was the basic reason for this fall and that the Company had advised against expansion. In this connection, however, it should be pointed out that the growers, lacking statistical information as to leaf stocks held by manufacturers, were not in a position to plan production accordingly. Furthermore, although the Imperial of Canada had warned against over-production, the effectiveness of these warnings was largely negatived by the action of the Company in purchasing tobacco from new growers who had ignored the warnings.

The final result of these operations was that the entire crop was purchased at an average 35 per cent below the 1930 price level. Some decline, we repeat, there had to be because of over-production. The buying policy of the Imperial of Canada did not cause it, but that policy did exaggerate it, forcing the price to a point lower than the Company had been prepared to pay at the beginning of the market season.

Despite the sad experience of the previous year and warnings against over-production, the planted acreage in 1932 was again increased. It was the old story of the grower hoping to neutralize the effects of falling prices by greater production. Satisfactory growing conditions resulted in the largest crop on record. General adoption of "priming" in place of stalk-cutting in harvesting, first introduced in 1931, coupled with improved varieties, resulted in a crop of the finest quality. The total crop amounted to 27·5 million pounds, an increase of 12·7 per cent over that of 1931.

As in previous years, the market was opened by the Imperial Tobacco Company and it is quite aparent that advantage was again taken of conditions surrounding the marketing of the crop unduly to depress the price. Apprehension and subsequent panic was caused amongst the growers by, first, unnecessarily delaying the opening of the market and later, by deliberately slowing down buying operations.

Opening of the market was held off until October 26th, three weeks later than in 1931, despite a crop maturing two weeks earlier. Evidence of the slowness of purchase is furnished by the fact that, whereas in 1931 the Company acquired 87 per cent of its total purchases in the first two weeks, for the same period in 1932, it acquired only 53 per cent. The reasons given by the Company for these delays are not impressive and we are forced to the conclusion that the deliberate motive was to increase the anxiety of the growers. By so doing, the growers would be in a submissive frame of mind which would facilitate the forcing of prices to the lowest possible level. Officials of the Company have stated that such allegations are "absurd and malicious."

The top price paid was 24 cents as compared with 30 cents in 1931. Even this lower basic price was not maintained, however, and the average was rapidly reduced from 22·5 cents on the opening day to about 12 cents on the eleventh day. Guarantees of financial assistance to the growers from the Ontario Government, coupled with increased orders from England, subsequently stiffened prices. Ultimately the entire crop was again absorbed, despite claims of over-production, but at an average of 16 cents per pound, representing a 20 per cent drop from the 1931 level.

The following year, 1933, again saw an increase of planted acreage but extended drought conditions resulted in a yield of only 25 million pounds and a crop much inferior in quality. The market was opened by the Imperial Tobacco Company with the same top price of 24 cents. Buying was even slower than in 1932, only 60 per cent of the crop being sold after six weeks of operation. The

unsold balance was packed chiefly by the co-operatives with the financial assistance of the Ontario Government and was finally sold in the autumn of 1934 at somewhat enhanced prices occasioned mainly by prospects of a short crop. The average secured for the 1933 crop was about 19·5 cents.

The panic conditions of the two previous years were absent from the 1933 markets. This was due to the strongly organized position of the growers backed by the financial support of the provincial government. In other words, the relatively stronger position of the growers prevented the buyers from exploiting them.

It is apparent from the evidence that in the past there has been a distinct tendency on the part of certain of the buyers, especially the Imperial Tobacco Company, to attempt such exploitation. It may be argued that this is ordinary business practice, but we question its soundness, either in ethics or economics.

5. The Tobacco Grower in Quebec

In describing the plight of the Canadian tobacco grower during the recent years, the situation in the province of Quebec should not be ignored. Stress so far has been placed on conditions in Ontario, principally because flue-cured production in that province offers a well-defined problem which admits of remedial treatment. Generally speaking, the position of the Quebec tobacco farmer has been even worse than that of the Ontario producer, but for different reasons.

In Ontario, each season's apparent over-production up to 1933 eventually found its market, while in Quebec, there has been a yearly carry-over. With declining domestic consumption and with no export market to fall back on, conditions in Quebec may well be described as the worst in the industry. Wherever better than average prices were received, such as by the Yamaska Valley Co-operative, they have been due either to a special relationship that existed with the Imperial Tobacco Company, or to co-operative control of production and marketing.

One of the features of the Quebec industry that differentiates it from other producing areas is the retail trade in leaf tobacco. Unmanufactured domestic leaf is free of excise duty and a considerable volume of business in this line is carried on, either direct from farmer, or through the medium of pedlars, small dealers and retail merchants. The value of this business is problematical. On the one hand, it is claimed that such tobacco competes with the manufactured product and lessens the demand for the leaf by the manufacturer. On the other hand, it has been submitted that the Quebec consumer prefers the raw leaf to the finished product, and that the limiting of this trade would divert his purchases toward Burley and flue-cured from the pipe types grown in Quebec. From the evidence submitted, it would appear that the latter contention is the more probable.

It appears that the chief reason for the drastic fall of prices in Quebec has been caused by declining consumer demand in products containing Quebec-grown tobacco. Coupled with this, there has been a lack of organization among the majority of the growers, and a corresponding failure to co-operate in the improvement of the quality of leaf produced. It is probable, however, that the low prices of recent years have not offered sufficient inducement for the grower to spend time and money on measures of improvement.

Viewing the situation as a whole, it is of importance to note that, apart from the immediate effect on the tobacco grower of prices that give him little or no profit, the whole business community with which the farmer deals also suffers. Provision merchants, farm implement companies, fertilizer manufacturers and others, find their sales volume reduced and their old accounts difficult, if not impossible, to collect. Fertilizer companies are reported to have had $200,000 worth of unpaid accounts in the Ontario tobacco-growing area alone, and sales in Quebec had been reduced to almost nothing as a result of low crop returns.

Owners of syndicate farms have been forced to finance their share-growers and, in many cases, have not been able to collect their advances. The general effect has been to produce a lower scale of business activity throughout the whole of the tobacco-growing districts.

6. The Flue-Cured Marketing Agreement, 1934

Since we received evidence on the tobacco industry in May, 1934, the plight of the grower of flue-cured tobacco in Ontario has greatly improved. This is due to the general improvement of conditions in Canada and indirectly to the increase in tobacco prices in the United States. It is due also to the adoption of a price agreement between grower and manufacturer following upon the inauguration of a tobacco marketing scheme under the provisions of the Natural Products Marketing Act.

The representative of the Ontario Flue-Cured Growers' Association who appeared before us explained the arrangements that had been made to bring about a fair and orderly marketing of the 1934 crop. In respect to these arrangements it should be noted that tobacco is peculiarly suited for co-operative marketing and price agreements between grower and manufacturer. The land that can be utilized for production is limited, substitute commodities are virtually non-existent, and foreign competition is not important. At the same time, it is probably pertinent to state that the ultimate success of any such marketing agreement, even under such favourable conditions, depends on the two sides to the agreement, grower and manufacturer, recognizing that any attempt to exploit the consumer and to fix prices at a higher level than those which would result from a moderately free competitive market will result in ultimate collapse of the whole scheme.

The present flue-cured tobacco marketing scheme grew out of negotiations begun shortly after evidence on the tobacco industry was received by us in May, 1934. These were crystallized into an agreement between the Ontario growers, the five principal manufacturing buyers, and the two principal merchant packers of tobacco, wherein machinery was devised and set up for the operation of the flue-cured tobacco market for 1934 and the following two years.

In June, another agreement was made covering 1934 alone. First the price was agreed upon, then methods were adopted for the proper distribution of this price to the individual grower. In order to determine price, the growers and manufacturers were to operate jointly an appraisal system. After making quality a prime consideration, prices were based on this appraised value. W. C. Macdonald, Inc., declined to sign this agreement and the growers moved to bring the industry under the provisions of the Natural Products Marketing Act. Since this Act permits any group of agricultural producers, properly organized, a certain measure of regulation and control over the marketing of their product, it was, therefore, logical that the growers and manufacturers should seek to incorporate their arrangements under the terms of the Act.

Developing from the above agreement, therefore, is the Ontario Flue-Cured Tobacco Scheme approved on the 26th of October, 1934, and applying to flue-cured tobacco grown in the province of Ontario. The purpose of the scheme is to ensure more adequate returns to the producers and to place the manufacturers and packers on a fairer basis of competition.

The scheme in its final form was the result of extended negotiations and thorough study; it was endorsed by 71 per cent of the growers, representing approximately 80 per cent of the land devoted to tobacco production. Before the scheme was approved, responsible manufacturers and packers of flue-cured tobacco met in conference with the Board and representatives of producers, and as a result certain amendments were made to the original scheme prepared by the growers.

The scheme is administered by a Local Board on which, although the growers have a majority control, the packers and manufacturers also have a representation. The Local Board has power to register producers, to license buyers, to fix

appraised values on all crops in relation to a negotiated average appraisal for the entire flue-cured tobacco production, and generally to regulate the primary marketing of such tobacco. Provision is made for the compensation of producers whose marketable leaf may be withheld from sale because of the exigencies of the situation. The scheme is self-supporting and requires no contributions from the public treasury. Under a Board of fourteen members, with headquarters at Simcoe, the greater part of the 1934 crop of over 21,000,000 pounds was marketed at an average price of approximately 25 cents a pound, an increase of 40 per cent over that of the previous year. General satisfaction over this new state of affairs has been expressed by both producers and buyers.

3. THE FRUIT AND VEGETABLE GROWER

1. Low Prices Received by the Growers

In the chapter dealing with the canning industry in its manufacturing and distributive aspects it was stated that this industry is characterized by imperfect competition and dominated by one large company which has certain definite competitive advantages over all other companies in the industry. It was also stated that in the face of the dominating buyer the growers had little bargaining power and that during the last few years they had suffered severely from low prices. In this section of the present chapter we relate in more detail how such factors as those indicated above reacted against the interests of the grower.

Two of the features of this industry (apart, of course, from general economic conditions) which have the most direct bearing upon the grower, are the proportion that the cost of his product bears to other costs and the contractual relationship between himself and the canning company for the supply and sale of his produce.

We received considerable information on the first point, namely, the amount paid the growers and its relation to other costs and to total sales and earnings of the canner. The grower's share of prices received from Canadian Canners, Limited, for eight important products during 1933 (tomatoes, peas, corn, pears, cherries, beans, plums, peaches) as determined from the company's records, revealed that the growers received on the average, 18 per cent of the sales value. For the 62 months ended February 28, 1934, 21 per cent of the sales paid for the total produce purchased by the company. Earnings, with non-recurring profits eliminated and before bond interest and depreciation for this period, came to 43 per cent of the total cost of the produce. Over the last five years the cost of the produce ranged from 25·2 per cent to 34·6 per cent of the total cost, and in the last year was less than the cost of the containers. The situation in respect to tomatoes, the most important of canned goods, is illustrated in the following table:

COST OF PACKING AND SELLING ONE DOZEN CANS OF TOMATOES, No. 2½ SIZE CAN AND AVERAGE SELLING PRICE

—	1929	1930	1931	1932	1933
	$	$	$	$	$
Cost of Produce	.256	.288	.205	.151	.141
Prime Cost	.781	.804	.670	.594	.594
Indirect Labour	.048	.045	.048	.079	.038
Overhead	.077	.109	.092	.105	.086
Selling	.033	.030	.026	.023	.027
Fixed Charges	.414	.297	.348	.416	.444
Average Cost	1.353	1.285	1.184	1.217	1.189
Average Selling Price	1.312	1.175	.81	.84	.84
Average Price Paid Growers per bushel	.42	.44	.35	.26	.25
Percentage of Selling Price to Grower	*19.4*	*24.5*	*25.3*	*17.9*	*16.8*

It will be noted from the above table that the year 1933 was that in which the lowest price was paid the producer for tomatoes, namely 25 cents per bushel. This was the same year that the company gave a bonus to holders of Second Preferred Stock, the major portion of which was owned or controlled by the officers and directors of the company.

It will also be noted from the above table that in each of the above years, the average selling price of canned tomatoes was below cost. In the last three years the disparity was most striking. The sale of tomatoes constantly below cost has not only had a demoralizing effect throughout the trade in general but has helped to depress prices to the producer.

The relation between selling price and cost of the produce is strikingly indicated by the fact that if in 1933 the consumer had paid one cent more for a can of tomatoes, this increase, divided into three parts, could have been passed on as follows: 24 per cent in gross profit to the company, 20 per cent increase in wages to the employees, and 40 per cent greater return to the grower for his product.

The trend of contract prices paid for produce shows a consistent decline in amounts received by growers over the years 1929 to 1933. The following table is taken from our investigation of Canadian Canners, Limited:—

AVERAGE CONTRACT PRICE PAID GROWERS

Farm Produce	Unit	Year of Pack		
		1929	1931	1933
		$	$	$
Tomatoes	bushel	.42	.35	.25
Peas	ton	49.52	39.72	28.56
Beans (green and wax)	ton	75.00	50.00	40.54
Asparagus	pound	.14	.11	.08
Peaches	pound	.04	.02	.02
Pears (bartlett)	pound	.03	.02	.02
Strawberries	qt. box	.10	.10	.03
Raspberries	qt. box	.12	.15	.06
Cherries (red)	pound	.05	.03	.02

In addition to being governed by the volume of produce and probable demand for the finished product, contract prices are influenced by the price the canner received for his previous pack, by an estimate of the price the canner hopes he will be able to receive for the processed goods, and by the size of the carry-over from previous seasons.

2. The Canner-grower Contract

The relationship between the grower and the canning company which establishes the prices which the grower receives is generally covered by a written contract. This contract among other things deals with the acreage to be planted, the supply of suitable seed, the report of crop conditions, the maximum quantities of produce per acre that is to be accepted, the quality of produce, penalties for lack of quality, the dates for beginning and ending delivery, limitation of deliveries, price to be paid for the produce, and the terms of payment.

There is conflicting evidence as to the fairness to growers of some of the provisions of the various contract forms. In approaching this subject it should be mentioned that the grower has very little to say in the preparation of the contract. It is not one prepared at the request of an organized group of growers by its legal adviser, but one that has been drawn up primarily for the protection and in the interests of the canning company. There is no evidence indicating that contracts have been submitted for approval to the growers as a group through a representative or otherwise.

The head of one of the largest canning companies stated that while the terms of a contract appear to be very rigid, they are in fact in favour of the grower, in that it is more practicable for the grower to sue under the contract than it would be for the company to sue the grower. A further statement in support of the fairness of the contract was to the effect that it is the grower who seeks it, thereby inferring that if the terms were unfair, this would not be so. It is evident that under the terms of the contract the canner accepts certain responsibility and that these contracts insure to the grower a market close at hand, at a definite price for so much produce, and regardless of changes that may occur between planting and harvesting. Furthermore, in respect to the limitation of quantity contracted for and which often leaves the grower with large amounts of produce still in his fields, it is claimed that the purchaser cannot accept all that might be grown in years of abundant crops, without fear of financial embarrassment. Finally it was stated by the companies investigated that they have never actually been sued under the terms of the contracts. In this connection, however, we received evidence from the tomato growers in the Niagara District to the effect that there was sufficient breach of contract in the matter of dockage to have carried the case to the courts if they had been in a position to do so.

It is contended on behalf of the growers that the contract is all in favour of the company; that under it the grower was bound to deliver, but that the canner may escape its terms, and either not accept amounts stipulated or vary them according to his interests. No provision is made for arbitration and the canner is the sole judge as to quality, delivery time, and conditions permitting limitation of deliveries. There was the further contention that, whatever the form of contract may be, the grower's financial position is such that he is often obliged to accept it, even at prices below production costs.

In the last ten years, clauses have been inserted in these contracts prohibiting growers from supplying other than the contracting canning companies. These have caused considerable dissatisfaction since they prevent the grower from contracting an additional acreage with a second company either in the same or in a distant location, though this might in no way interfere with his delivering a full measure of produce under the first contract.

Under the prevailing terms of exclusive contracts, the grower is often left with large quantities of produce on hand at the end of the canning season. He feels that in this regard the contract is most unfair.

3. Dockage.

We also received numerous complaints from growers about excessive "dockage." Practically all products delivered to the canning factory are paid for by weight and on any deliveries not up to standard, adjustment is made by an arbitrary deduction from the delivered weight. This adjustment is known as dockage. The justification of the growers' complaints cannot be determined even with approximate accuracy, because of the incompleteness of records. The companies whose records were examined did not maintain a compilation which showed the degree to which dockage had been applied to any particular pack. There were kept, however, for the purpose of paying growers, memorandum records indicating the dockage, if any, on each delivery.

Associated Quality Canners, Limited, stated that despite complaints of local growers, its dockage on tomatoes for one year at its Trenton plant, as checked by pay slips, amounted to only one-half per cent of the total delivered weight. A check on 680 deliveries of tomatoes from 31st of August to 30th of September, 1932, to Factory 254 of the Canadian Canners, Limited, showed that 291 deliveries had been docked a percentage ranging from 0·36 to 6·06 and averaging 2·58 of total delivered weight.

The contract determines the date at which deliveries of product to the factory are to begin. If this is at variance with the proper time at which the crop is ripe and should be harvested, the quality of deliveries will suffer and dockage will be made accordingly, though the grower is not to blame. Complaints were also received as to other methods whereby it was claimed that the canning companies made unfair dockages from deliveries which, in their opinion, did not measure up to contract standards.

Canners have denied such practices and have submitted evidence to show that the grower has been generously treated. While we are unable from lack of complete evidence, to come to any conclusion as to whether dockages generally have been excessive or unfair, it would appear that complaints of excess dockage have been most common when trade conditions were unsatisfactory. We would emphasize that the amount of dockage should be strictly in accordance with considerations of quality and should have nothing whatever to do with general trade conditions.

We are informed that in 1934, either through the request of the canners or growers, or both, twelve inspectors of the Federal Department of Agriculture were stationed at seven canning factories to check each individual delivery of tomatoes for quality, grading and weight. Both the growers and the canners were apparently well satisfied with this inspection service, which was voluntary and experimental. It was restricted to tomatoes because of the importance of that product and the prevalence of dispute between canners and growers in respect to its grading and dockage. The canners bore the cost of the service which was roughly $4.50 per day for each inspector's services.

We recommend the extension of this service eventually to cover all factories and all fruit and vegetable products received at the factories. The question of whether the canner or the government should bear the cost of the extended services might be left to the decision of the competent authorities of the government.

4. Home Canning.

One result of the dissatisfaction among the producers as to conditions in the canning industry, has been the increase in recent years of home-canning as an activity which might offer more profitable returns to the grower. Home-canning is not new, having existed many years ago among the farmers of Quebec, who were accustomed to convey their own canned goods to the local market. Later, producers began to co-operate in the growing and to pay others to process, occasionally to supply cans and cases, and to look after sales. A third development was one in which an individual or an organization would sell the farmer's home-canned produce on a commission basis. Finally, a fourth method was introduced wherein an organization contracted with individual farmers to have them grow and can their produce and would itself purchase the processed article at a price specified in advance.

The Commission investigated the activities of an organization of this last type, namely, King and Rankin, Limited, which operates in Ontario. This company supplies the farmer with the necessary canning equipment, cans, and other supplies, and provides technical assistance and delivery services. Operations are comparatively small and output is mainly of canned tomatoes which require only a limited capital outlay for equipment.

It was claimed that certain benefits accrue to the farmer-canner from home-canning in that spoilage in hauling and dockage are eliminated and surpluses are not left in the fields. With regard to the latter, however, if home-canning once limits the number of cans to be accepted, the problem of surplus crops will be present here as well. The grower, generally, is satisfied because unfair dockage cannot occur and a home-canning contract permits him to use his own judgment as to dates of operations and in no way restricts him from supplying other companies with his produce. In addition, he is exempt from sales tax, and

from inspection of his product if sold by him to the trade within the province of production.

This method of canning tends to lessen overhead, administration, and investment expenses; yet there was no evidence to show that the farmer benefits from such savings. In fact, under this form of operation, he receives no more per bushel for his produce than from the regular type of canning company and the absurdly low average of ten cents an hour for his labour. Finally, it may be said that the growth of home-canning is primarily due to the farmer's antagonism to canners' contracts and to the opportunity now afforded him to market his full crop.

There is evidence indicating that regular canning companies view the presence of home-canning with some anxiety, particularly because it will increase the present glut of canned tomatoes and may drive prices further downward.

5. Recommendations for Remedial Action

Home-canning, we feel, may afford the farmer release from certain practices not in his favour, but it is not necessarily a solution for his basic problem, that of uneconomically low prices. It may be held that such a solution is to be found in other directions, first, by a general improvement in conditions, and along with this by co-operative organization on the part of the grower in order to increase his bargaining strength against the large canners. Proposals to this end were presented to the Commission by the representative of the Ontario Growers' Market Council, who outlined to us a scheme submitted for the approval of the Dominion Marketing Board under the Natural Products Marketing Act. This scheme contemplates:—

a. Improvement of the standards of jams, preserves, processed fruits or vegetables, promotion of ordinary marketing of the primary products used in the manufacture of jams, preserves, processed fruits or vegetables, and promotion of fair trade practices in the marketing of jams, preserves, processed fruits or vegetables.

b. The establishment of a minimum price for each primary product through a price negotiation board.

c. The establishment of standards of jams, preserves, processed fruits or vegetables through a committee of standards.

d. The establishment of a committee of fair practices.

e. The licensing of all processors who shall retain their licences while they observe the rulings of the local board; purchasing under the terms set by the price negotiation committee, manufacturing according to the standards set by the committee of standards, and selling the processed article under the code of fair practices established by the committee of fair practices.

The Ontario Growers' Market Council is also in favour of:

a. Establishment of a quota basis by growers and canners to get rid of present carry-overs.

b. Official disclosure to growers and others of canned stocks on hand.

c. Control over production of tomatoes exercised through purchases on a grading basis supervised by federal inspectors.

d. A new form of contract and assistance in its development.

e. Inspection and regulation of canning factories.

f. Increased tariffs on fresh fruits and vegetables and a revision of seasonal regional tariffs.

g. Legislation against use of fresh fruits and vegetables and canned goods as loss leaders.

Canadian Canners Limited also furnished us with certain observations on conditions in the industry and recommendations to remove some of the difficulties disclosed. They sum these up as follows:—

a. . . . As far as our company is concerned, we are in favour of a committee with equal representation of growers and canners, to discuss prices and contracts and also any other matters that may be the cause of differences between growers and canners.

b. As set out in our brief, we are willing to adopt the growers contract submitted, subject to a few alterations to be decided in committee.

c. Inasmuch as the home canners who grow their own vegetables are paying no sales tax on canned vegetables, this is penalizing the grower who is supplying the commercial canners, and inasmuch as there are indications that the packs this year will be in excess of the country's ability to consume, every possible encouragement should be given to the merchandising of these goods so that they can reach the consumer at reasonably low prices and in this way increase consumption.

Our suggestion is that the commercial canners and the home-canners be placed on exactly the same basis as far as sales tax is concerned and that the sales tax be cancelled.

If the government is of the opinion that the grower is entitled to consideration before the consumer, then we suggest that the equivalent of this sales tax, which it is proposed to cancel, be returned to the grower as an increase in his price for his produce. It would not be very difficult to work out a plan which would carry out this suggestion.

A study of the above proposals made both by the Ontario Growers' Association and the largest canning company would indicate a desire on the part of the various phases of the industry to co-operate with a view to solving their mutual problems. Indeed, concrete steps to this end have already been taken. We urge that the government make every effort to facilitate these steps and to utilize the machinery of the Natural Products Marketing Act for the purpose of concluding an arrangement that will ensure for the grower a more reasonable price for his product than he now receives.

4. THE LIVE STOCK PRODUCER

1. Condition of the Live Stock Industry.

We received much evidence on the conditions obtaining in respect to the production and marketing of live stock in this country. Thirty-three witnesses appeared before us on this subject, who represented the following branches of the industry: Co-operative Live Stock Associations, Ranchers, Drovers, Wholesale Butchers, Meat Packers and Live Stock Exchanges.

We received evidence also from the Ministers of Agriculture of Manitoba, Saskatchewan and Alberta, as well as from members of the Committee on Agriculture and Colonization in the Ontario Legislative Assembly. The Animal Products Trade Commissioner of the Department of Trade and Commerce, stationed in London, England, also appeared before us, as well as officers of the Department of Agriculture.

Finally, the Commissioner of Marketing for the Province of Ontario was instructed by us to report on the evidence already submitted and to conduct any further inquiries which he considered necessary. His report was received by the Commission and examined in detail.

In the introductory section to this chapter we stated that the primary producer has borne a disproportionate share of the burden of falling price levels during the depression and that in many cases he had beeen the victim of exploitation. The live stock industry provides a notable example of this situation.

During the recent depression, the live stock industry has suffered particularly through lack of profitable markets. The farmer producing grain has some alternatives in its disposal—he may sell it, feed it or hold it—but when a steer or hog is "finished," it must be sold, as it rapidly deteriorates. Thus the farmer producing live stock is more completely at the mercy of the buyers than farmers producing other farm commodities and it is essential that extra precautions be taken to preserve his interests. There is no gainsaying the fact that criticism of the existing marketing system has been particularly rife during the past few years. The general dissatisfaction was expressed by many witnesses who appeared before us.

During the years 1932, 1933, and most of 1934, cattle numbers were increasing, due largely to the earlier loss of the United States market which forced farmers to hold back animals which ordinarily would have been disposed of across the line. This increase in the number of cattle undoubtedly led to heavier marketings and forced prices lower. It was not until late in 1934 that the effect of lower prices became evident and that the rate of increase diminished.

Thus the price of good and choice steers over 1,050 pounds at Toronto fell almost steadily for four years and, in 1933, averaged $4.63 per cwt.—less than one-half the comparable price for 1929. The low point was reached in February, 1933 when this grade sold at $3.60 per cwt. in Toronto. Prices to western farmers and for lower grade animals actually reached a level where, in some instances, they were insufficient to pay freight and stockyard charges. The price of good and choice steers over 1,050 pounds at Calgary fell to $2.25 per cwt. in September, October and November, 1933.

A similar situation occurred in hogs, although the quota established for Canadian bacon in the United Kingdom market began to correct the prices after the low in January, 1933. This correction did not take place until bacon hogs at Toronto established a low level of $3.50 per cwt. in January, 1933. Although 18 months of relatively favourable hog prices have now passed, farmers still have little confidence in a system in which violent and sudden price fluctuations occur, unexpectedly and without adequate explanation.

Again, it is very evident that the full lowering of prices was not carried through to the consumer so that consumption could be improved. If consumption was at a maximum under the low retail prices which existed, then consumers' purchasing power was not reflected in prices paid to the producer. The packer, the wholesaler and the retailer protected their margins on a falling market and since their costs and charges form a high proportion of wholesale and retail prices, this operated to prevent the commensurate decline of meat prices. A study of price indices clearly reveals this situation and also proves that these middlemen's margins are promptly, if slightly, increased as soon as rising prices permit.

The problems of the live stock industry are largely confined to cattle and hogs. Sheep and lambs are produced in relatively small volume, their meat products form only a small fraction (about 5 per cent) of our meat consumption, and are barely sufficient to meet our domestic requirements. Pork and beef, on the other hand, form 95 per cent of our meat consumption and Canadian production is in excess of domestic requirements so that the prices of these products are subject to the vagaries of foreign demand.

During the calendar year 1934, it is estimated that the percentages of our total live stock production exported alive or as meat, amounted to—

Hogs (pork)	14.8 per cent
Cattle and calves (beef and veal)	4.9 per cent
Sheep and lambs (mutton and lamb)	0.7 per cent

These percentages, as a matter of fact, are higher than they have been in recent years because of the improvement in foreign live stock markets which featured the year 1934 and which promises to continue during 1935. Our domestic consumption of meat (absolutely and per capita) declined during the depression

years, decreases in pork and mutton and lamb more than offsetting the increase in beef. Imports of all classes of meats, but particularly mutton and lamb, have been reduced. Despite the limitation of the Canadian market to the domestic product, surpluses have been accumulated and have not found a profitable market.

The value of live stock on Canadian farms in 1934 was estimated at $413,-837,000, made up as follows:—

Horses	$168,132,000
Milch cows	110,721,000
Other cattle	84,657,000
Swine	36,029,000
Sheep	14,298,000

The value of live stock sold off farms in 1934 (excluding horses) amounted to approximately $99 million, consisting of $36·7 million for cattle and calves, $55·2 million for swine, and $7·1 million for sheep and lambs. This combined figure was as low as $65 million in 1932 and the increase to $89 million in 1933 was due to heavier marketings and the increased price of hogs.

The numbers of live stock entering commercial markets in 1934 amounted to 5,711,488 head, consisting of 1,058,389 cattle, 698,432 calves, 928,989 sheep and lambs, and 3,025,678 swine. In addition, a large volume of live stock is slaughtered on farms. The decennial census enumerated such data for the year 1930, disclosing that 447,773 head of cattle and calves, 195,095 sheep and lambs and 1,023,502 swine were disposed of by farm slaughter. These figures represent the following percentages of commercial marketings in 1930:—

Cattle and calves	33.5 per cent
Sheep and lambs	23.1 per cent
Swine	44.4 per cent

The importance of live stock in Canadian agriculture is further demonstrated by the number of farmers reporting the various classes. According to the census of 1931, there were 728,623 farms in Canada. Of this number, 582,089 reported horses, 552,204 reported cows in milk, 528,283 had "other" cattle, 437,837 farms reported swine and 130,084 sheep. Bringing these figures to clearer terms, about 74 per cent of our farmers have cattle on their farms, 60 per cent have hogs and 18 per cent sheep.

We feel that governmental endeavours in the interests of the Canadian farmer during the next few years should be directed to the rehabilitation of the live stock industry in all its stages—the growth of suitable forage and grain crops, the breeding of desired types, the regulation of supply, the provision of adequate marketing facilities and the final disposal at a fair price. Such a concentration of effort would fit logically into the adaptation of Canadian agriculture to changed world conditions. The bacon quota in the United Kingdom market is a very important factor in developing this new direction of Canadian agriculture. Emphasis should also be laid upon securing an increased export of Canadian live cattle or beef to the United Kingdom.

Live stock is an important intermediary for the disposal of our grain and forage crops. About 80 per cent of our oat crop and 70 per cent of our barley crop are normally fed to live stock. Recently, however, these percentages have been higher. In the 1933-34 season—the last for which marketing records are complete—85 per cent of our oat crop and 80 per cent of our barley crop were fed in this country, 261 and 51 million bushels, respectively. Seventeen million bushels (or 6 per cent) of our wheat crop were fed in the same year. All but a small fraction of 1 per cent of the hay and clover crop was fed to Canadian live stock. Large quantities of straw, roots and roughage were utilized in the same way. This is a country of great distances and, despite recent advances in transportation, it is still an economic proposition to reduce our farm production to commodities having the highest possible value per unit of weight or bulk. The live stock industry (including dairying) is the most important factor in this process.

In the re-direction of Canadian agriculture to changed world conditions, one of the important considerations must be the careful planning of crop production to the needs of our live-stock population. This definitely involves greater emphasis on the production and economical distribution of coarse grains and concentrates. Such a policy should lead to the production of more hogs of the best quality and bring Canada nearer to filling the annual quota of 280 million pounds of bacon in the United Kingdom market. Any increase of poor quality would be harmful.

We emphasize this because there is an apparent indifference of large numbers of farmers to improvement of quality through breeding and feeding. This is regrettable, but is a real factor in the troubles that beset the live stock industry. It may be due to the lack or insufficiency of premiums for quality, or to unstable prices or to other causes, but it has a decided effect in lowering the farmer's returns for his live stock. If the confidence of the producer in methods of marketing and price determination be established by correction of proven abuses, then some of these producers must realize their duties in the improvement of quality. Evidence shows that they are becoming increasingly aware of this fact.

The percentage of select and bacon hogs has steadily increased for the past fifteen years and continued through the years of depression. This indicates that there are many farmers who have realized the importance of quality and have steadily improved their herds, notwithstanding the ruinous prices prevailing. In the year 1929, selects and bacons were 27 per cent of the hogs graded and, in 1933, 57 per cent.

2. Stockyards and Public Markets.

For the protection of the farming community, Departments of Agriculture encouraged the establishment of the open market place, known as the public stock yards, and have adopted regulations for its management and control. This is the place to which it was expected all buyers would come, and to which, naturally, all sellers should come. For many years the public stock yards functioned in just this manner. Stock was accumulated by drovers, shippers or producers at country points, sent by rail to public stock yards, where numerous buyers in open competition bought their live stock, and thus the market price was fixed. In those days, there were numerous packers, butchers, exporters, feeders and others competing for the stock which arrived. The law of supply and demand had a fair field of operation and the producer was always ensured of getting a market price definitely fixed by active competition.

a. Lack of Competition in Purchasing:

In recent years, this situation has completely changed. This change has been brought about, mainly, by two factors. First, the elimination of the small packing company and the wholesale butcher, either by merger and absorption or by cut-throat competition. To-day, as we saw in Chapter IV, the Meat Packing Industry has been concentrated in very few hands. Canada Packers, Ltd., is the dominating unit with a business greater than the next five packing companies combined. This development has reduced competition to the detriment of the producer. Canada Packers' buyers are to be found on the chief stockyards in Canada, and all are instructed as to price, methods and practices from a single office in Toronto. Swift Canadian Company, with plants at six centres in Canada, has its buyers on the same stockyards, directed from head office at Toronto. Burns, Limited, with plants at Calgary, Vancouver and Edmonton, has its buyers on all western yards, all directed from Calgary. Live stock purchasing is thus concentrated, with a result, as our evidence shows, of lack of price competition among packer-buyers.

There was uncontradicted evidence given to us by a former official of Canada Packers, Limited, that in Toronto it was the usual practice for this firm to arrange with Swifts, before the market opened, as to the prices to be paid for purchases of live stock. Also, the manager of the Western Stock Growers' Association, one of the largest ranchers in Alberta, gave evidence that if a packers' buyer gave an offer for cattle on the ranch, it would not be raised by any other packer-buyer either on the ranch or in the stock yards.

Another method adopted by the packers, which has reduced competition on the open market, is the practice of selling to the wholesale butcher carcasses on the rail, at cost price plus killing charges, and thus removing the wholesale butcher from competition on the public stock yards.

b. Direct Shipments.

The third factor which has affected competition is the fact that the packing companies have very vigorously developed a system of direct shipment of live stock to the packing plant, instead of to the stock yards. This direct shipment business has also been largely increased by the use of trucks, instead of rail, to carry live stock to market. With the development of good roads, there has been a very great increase in such shipments by truck. The trucker is not usually a stockman, nor an experienced salesman. He is chiefly interested in securing a remuneration for his service in trucking. The more trips he can make to market, the greater will be his returns.

It is not unnatural, therefore, that many truckers have adopted the practice of delivering the stock direct to the packing plant. If delivered to the stockyards, the trucker would require to remain on the yards until the live stock was sold, in order to take back the returns to the farmer.

As a result of these factors—the vigorous effort of the packers to push direct shipments, the virtual elimination of the wholesale butcher, and the truckers' advantage in direct shipments—the quantity of live stock delivered direct to the packing plants has steadily increased and has assumed very large proportions.

It should be noted that:

(1) All live stock when delivered direct to the packer, are paid for on the packers' own weights, as shown by his own scales. In the public stock yards, all scales are operated by the Government. The weight is automatically punched upon the ticket, and the scale registers every five pounds, while some packers' scales register only every ten pounds.

(2) When live stock other than hogs is delivered direct to the packers, it is graded by the packers themselves, and the price is fixed by the packer, according to the grade in which he may place the live stock.

From the foregoing, it will be observed that the producer shipping direct is largely in the hands of the packer as to weights, grades and prices to be paid for his live stock. Such a producer, in effect, delivers his live stock to the packer and trusts that he will be treated fairly, as to weight, grade and price. He is unprotected by an agent or by any regulations except in the grading of hogs. In these circumstances, it is not difficult to see who is in the strong and who in the weak position.

The prices paid for live stock shipped direct is said by the packers to be the market price. That market price is the price set where there is a competitive market, namely, on the public stock yards. The evidence submitted to us showed quite conclusively that the packer with his large supplies shipped direct, frequently abstained from buying upon the public stock yards. He was not a keen buyer because such a substantial portion of his demands were already met by direct shipment. These direct shipments, therefore, have the effect of breaking down the price upon the public stock yards, and when this price has been so broken down to a level satisfactory to the packer, then

he secures his necessary supply. Not unnaturally, it follows that on a slow or draggy market, prices are easily depressed.

The two largest packing companies have their head offices at Toronto, and their chief packing unit located there. The Toronto market, therefore, is the leading cattle market in Canada. The Union Stock Yards located there have two principal market days, Monday and Thursday, in each week. The market opens at nine o'clock, with, possibly, thousands of head of cattle. If buying is brisk and competition is keen, the producer is assured of better price conditions. If the packers' buyers remain off the market by reason of their supplies secured direct, then the market becomes heavy and depressed. One hour after the opening of the Toronto market, the Dominion Live Stock Commissioner forwards from his Toronto office to the markets of the West, which open one hour later than in the East, telegraphic information as to the conditions prevailing upon the Toronto market. If the buying is brisk at Toronto, it helps to sustain the western markets; if buying is dull, it helps to depress the western markets. If the buyers for the large packing plants remain off the market at Toronto, the telegraphic report of its draggy condition may enable the buyers of those same packing plants on western markets to secure their supplies at less than a fair price. If any western markets break, for any reason whatsoever, that information is immediately telegraphed to the Toronto market, and usually this has the effect of forcing the Toronto market into line with the western markets at lower levels. It will, therefore, be seen that direct shipments are of a distinct advantage to the packers, not only in leaving weights, grades and prices substantially within their own control, but also as a lever to use upon the open market at the stock yards to settle the price at which they will pay for the stock required. Then this price is used to pay for the direct shipments which have helped to establish it.

The effect of direct shipments was emphasized in the Evidence as follows:—

By *Mr. John M. McCallum, Chief of the Marketing Service of the Live Stock Branch of the Dominion Department of Agriculture:*

Producers lose the benefit of competition.

By *Hon. D. G. Mackenzie, Minister of Agriculture for the Province of Manitoba:*

Q. What would be the effect upon the public stock yards if direct shipments continue to increase for the next five years in the same proportion as they have during the last five years?

A. I think that there you are getting at the very crux of the situation; recognizing the trend of the last five years. The fact that the trend is so definitely to the packing plants means that if it continues for another five years in the same proportion as at present, I think at the end of another five years our public stock yards would be put out of business.

Q. What effect would that have upon the industry?

A. Absolutely disastrous to the producer.

Q. Why?

A. Because it would eliminate the only competitive market he has.

Q. But the loss of the public stock yard you think would be a calamity to the industry?

A. Absolutely—I have no hesitation in saying that.

Q. Perhaps through your knowledge and experience you could give the committee an answer to the riddle as to why the farmer continues to ship to the buyer who weighs, grades and fixes the prices; what is the dominating factor there?

A. Well, I would say that the dominating factor, if we can so describe it, is the truck driver.

Q. Why?

A. The truck driver goes into the farmers' yards. His business primarily is getting freight for transportation purposes. He goes into the farmer's yard and gives service to the farmer in that he loads up perhaps in the evening and removes from the farmer the necessity of delivering his stock to the shipping point; and the farmer ordinarily is not concerned as to where he delivers it, and he leaves it largely to the trucker himself to determine where he goes. I do not want to leave the impression there that all truckers go to the packing plant.

The Minister of Agriculture for the Province of Alberta, who appeared before us, recommended very strongly legislation requiring all live stock to be sold through stockyards. Also, the Chairman of the Agricultural Committee of the Legislature of the province of Ontario, submitted upwards of thirty resolutions from farmers' clubs throughout Ontario deprecating the growth of direct shipments and urging that all live stock be shipped and sold on a competitive public market.

We recommend, therefore, that all shipments of live stock should be made to the public market where reasonably possible, to give all buyers an opportunity of competing for them, and to prevent direct shipments being used as a club in the hands of the packers to break down prices on the public stockyards.

We would further recommend that direct shipments to packers' yards be subject to the same rules of weighing, grading, publication of prices, deliveries, sales competition and supervision as shipments are in the public stock yards.

c. Stock Yard Fees and Auction Selling.

The stock yard is the public market place for the sale of live stock. It exists for the purpose of receiving, keeping, feeding and delivering live stock. Its fees are received for the service thus rendered. It is alleged that these fees are too high. On the other hand, it is stated that the withdrawal of large quantities of live stock, through direct shipment to packers, leaves the stockyard with relatively the same overhead in land, plant, buildings and equipment. We believe that stockyard charges can be very materially decreased if an increased number of live stock passed through these yards.

Auction selling might also be an improved method. Evidence was submitted that at Edmonton live stock producers and commission men were anxious to try the auction method of selling, but that it was blocked by packer representatives. We recommend, therefore, that in cases where producers desire to sell stock by auction on the public stockyards, they be enabled to do so, and that regulations be passed to this effect.

d. Commission Agents.

On every stockyard there are certain live stock commission agents. Their sole function is to act as salesmen for the producer in disposing of his stock when consigned to him. They are under heavy bonds required by the Dominion Government and maintain shippers' trust accounts for all moneys belonging to their shippers. They are experienced salesmen, with a knowledge of the grades and quality of live stock. Their fees as commission agents are based upon a fixed sum per car or per head. We believe that the basis of charge should consist of a lower specific charge per car plus a commission reckoned on the value of the live stock sold. A combination of both car and percentage basis would be a further incentive to the commission agent to secure the highest possible price.

While the number of commission firms operating on any market form a competitive selling force, there seems to be no doubt that there is a heavy duplication of effort upon the part of these numerous firms, thereby adding to the expense of marketing, to the injury alike of the producer and the commission agent. For

example, the evidence disclosed that at Toronto it costs the firms operating there $20,000 per year in the aggregate, to maintain representatives at the gate soliciting the business of various truckers who come to the market. It costs another $20,000 for disseminating information as to markets over the long distance telephone, a service which is largely duplicated to the same people by various firms.

The licensing of commission agents directly by the Dominion Government and a clear definition of their responsibilities would be a step forward. The number of agents operating on a yard could then be controlled.

c. Truckers.

Careful attention must also be paid to the regulation of truckers' activities. Licensing, bonding and the use of standard bills of lading are strongly recommended. It is definitely not in the interests of the farmer to allow truckers to sell stock themselves and this practice should be prohibited. The evidence showed definitely that trucked-in stock brought the farmers generally a much lower price than that sold otherwise. It has however a bad effect far beyond the lower prices actually received for the trucked-in stock.

3. Marketing of Hogs.

In the marketing of hogs a system prevails in Canada which is not to be found in any other country in the world. With a view to improving the quality of our hogs, the regulations of the Federal Department of Agriculture require that $1 per head premium be paid on all which come up to the grade called "select." By this means the price of select hogs is automatically fixed at $1 per head above the grade known as "bacon."

Prior to 1927, the premium paid for selects was $2 per head, based upon a grade of hog known as "thick smooth." In that year the packers endeavoured to have the premium entirely wiped out, but failed. They compromised at $1 per head. In September, 1929, the grade known as "thick smooth" was abolished and divided into two grades known as "bacon" and "butcher" hogs. The bacon hog was made the standard grade upon which prices were quoted. Fifty cents a hundredweight differential below the bacon hog was fixed for that class of hog formerly included in "thick smooth," but now segregated as a "butcher" hog. This division was made possible by an improvement in the quality of hogs. The records show that in the division of this grade from "thick smooth," the majority of the hogs fell into the class now called "butcher," and accordingly a deduction was made in the price of these hogs, equal to the premium paid on "selects." As the number of "butchers" produced largely exceeds the number of "selects," the division was to the advantage of the packers, owing, first, to the use of "butchers" for the production of bacon for export to Great Britain, and, secondly, to their use in the fresh meat trade, where they often command a price equal to that of "selects" and "bacons."

The various grades of hogs adopted by the packers and now recognized by the Department of Agriculture are as follows: select, bacon, butcher, light, heavy, light sows, heavy sows.

Though the government have fixed this premium of $1 per head on selects, the packers generally refuse to purchase any hogs of any kind unless they buy them upon the basis of a fixed differential in price. This differential is fixed by themselves. The producer has nothing whatever to say about it. This differential means that the packer deducts from the price paid for the "bacon" grade certain definite fixed amounts for each of the grades lower than "bacon" grades, and will only pay for these grades on the basis of these reduced prices. For example, in a load of hogs containing these various grades, payment will be made on the following basis:

Select—Bacon price plus $1 per head.
Bacon—Possibly $5 per cwt.

Butcher—$4.50 per cwt.
Light—$4 per cwt.
Heavy—$4 per cwt.
Light sows—$3 per cwt.
Heavy sows—$2.50 per cwt.

These grades, however, exist only for the purpose of making settlement with the producer. As soon as he is paid, the hogs lose their identity as grades, and thus you find all classes used equally for the domestic trade, and most of the classes used for export purposes. No such differential exists when the packer sells the product of the various grades.

We believe that this is not in the interests of the producer, who should be able to sell his hogs grade by grade, and that the packing companies should be willing to buy according to grade. If the producer or his agent were able to separate the grades and sell them by such a method, there would be greater competition among buyers for many of these grades. For example, lights and heavies are used in the fresh meat trade, just as are bacon hogs. Indeed, all packers admitted that the products of lights, heavies and butchers were sold for the fresh pork trade as well as Wiltshire sides, and were also cured as bacons and hams for the export market. We have no doubt that there are many buyers who would be willing to purchase butcher hogs, light or heavy hogs for their particular trade, but could not handle the entire load, and pay the premium necessary for selects.

The manager for Swifts, who appeared before us, admitted that if the fixed differential was abolished the butcher hog "might sell against the bacon hog and then you have two men bringing in hogs of different quality, both getting the same price for some reason or other." For the same reason, we believe that lights, heavies and sows would bring a better price if sold in separate grades than if sold at the fixed differential.

We recommend, therefore, that the system of sale of hogs by fixed differentials be discontinued with the exception of the premium on selects, and that each grade of hogs should be sold separately at whatever price it will bring. We are definitely of the opinion that this will tend to lessen the differential, as it will make competition possible from wholesale butchers and order buyers who are now unable to secure their supplies owing to the fact that they are in the market for one or possibly two grades of hogs.

4. Grading: Hogs and Cattle.

The system of grading by representatives of the Federal Department of Agriculture, has been a big factor in improving the quality of Canadian hogs. Of recent years, there has been introduced a system of grading on the rail, that is, grading the carcass. This system has some advantages and is popular in some places. It requires the marking of hogs to make possible the identification of each hog slaughtered after it is dressed. No such system of marking, however, has been worked out that would enable rail grading to be used generally in Canada. True, it is the system used in Denmark, but there the packing plants are scattered in small units throughout the country and they have no problem arising out of the shipment of live stock for hundreds or thousands of miles such as we have in Canada. It is our opinion that grading of live hogs by the Department of Agriculture officials has been done efficiently, with a small percentage of errors, and should be continued. Rail grading should be introduced, and developed where conditions make it possible, and producers desire it.

In the sale of cattle, no official grades have been established by the Government. The packers have their own grades, the commission men sell according to their grades, and the price is paid according to that grade. It is important, therefore, that there should be some definite official government grade, so that producers may be better protected on the grades of cattle marketed by

them. We believe further, that when packers have bought cattle and paid for them according to a grade, even such as they establish themselves, such cattle, when killed, should be sold to the consumer by the same grade.

We recommend, therefore, that cattle be graded and sold on grades.

5. Retailing of Meat Products.

Chain store activities and packer connections with the same have been investigated, and we believe that they are not in the interests of the producers. Weaknesses in the present system of retailing are, however, due also to other and deep-rooted causes. There is, for instance, great abuse existing in the retail trade in regard to the matter of quality for price, and great injury done to the consumer and indirectly to the producer by the non-recognition of quality. Poor meat is sold for good meat, and meat not inspected for tuberculosis comes into competition with inspected meat. In London, Ontario, conditions were so unsatisfactory that the sale of boneless veal was prohibited by a municipal regulation. One witness stated that the low-grade veal is mixed with a few pieces of better-class veal and worked into rolls. Such practices cannot help but destroy the market for meat. There has been developed, in advertising, it is true, the use of such phrases as "Baby beef," "Milk-fed veal," etc. These phrases, however, mean little except as a method of deceiving the public.

Cutters, canners, bolognas, and bulls all provide a low-quality beef. The meat from these animals should not be sold under conditions that make it possible to have it passed as beef from better class animals. These practices, in our opinion, definitely point to the need for meat grading, so that the customer will be able to determine what he is getting.

The increasing demand for red and blue label beef is an indication of the consumers' appreciation of quality, when sure of that quality. As one witness who appeared before us stated:—

> That the public are receptive to suggestions of this kind is shown in the results of the beef grading policy which, as you are aware, was inaugurated by the federal government in 1928. This policy established two grades, red label and blue label, and provided grading services in abattoirs.
>
> In spite of the puny effort placed behind the publicization of this policy, increases in graded beef consumption were spectacular. Here are the figures:—

Year	Red label	Blue label	Total lbs.
1931	6,346,558	10,894,190	17,240,748
1932	7,534,881	14,213,887	21,748,768
1933	9,885,635	20,796,974	30,682,609

> The cattlemen's criticism of this policy is that no adequate effort has been made to explain it to the buying public (with the result that in every city in Canada certain butchers, exhibiting the health of animals branch stamp of approval and indicating it is as the blue brand, have fraudulently capitalized on the policy) and that no adequate return has been made to the producer of branded beef. I might say that beef killed and medically inspected in a medically inspected abattoir have a blue stamp on them, that is approving the health of the cow. The average housewife will point to this, and she does not know anything different. The prices paid for cattle qualified for the red and blue label when hung on the rail and those not suitable for grading, choice though they may be, are one and the same. No premium is paid for quality, that is, has never been returned to the primary producer as a premium.[1]

Abundant evidence was furnished us that cattle of the lowest grade known in the trade as "cutters and canners," purchased at prices below one dollar per hundred, found their way into the fresh meat trade, and were sold by the packers

[1] Evidence of the Committee, page 738-9.

at as high as eight cents per pound. The effect of the sale of such low quality product is to prevent the producer of better grades from getting a fair price for his product.

It was alleged by certain witnesses for the packers that the low price paid for the highest quality of cattle was due to the over-supply. In previous years it is stated this surplus was taken off the market by export trade, to the extent of about 10 per cent per year, thereby maintaining fair market prices for the remaining 90 per cent consumed in Canada. We believe that if all that class of cattle known as "cutters and canners" which bring a price of less than 1½ cents per pound, on the Toronto markets, were prohibited from entering the fresh meat trade, the effect would be to remove all surplus by removing the lowest grade, and thereby to maintain a fairer market return for the better grades of cattle. This would be in the interests of the consumers as well as the producers.

Prices charged for canner beef would indicate that better quality should be supplied. The Commission received evidence that prices quoted on such beef by packers ranged from 5½ to 10 cents per pound.

It is difficult to believe that there is need for selling beef from animals of this type and it is recommended that a percentage of them be removed from the beef trade and diverted to other uses, such as fertilizer, tankage, etc.

Municipal and smaller abattoirs, not inspected at present, should be placed under the Health of Animals Branch. This extension of authority should be instituted immediately, in co-operation with provincial and municipal officials. Cattle infected with tuberculosis should be absolutely excluded from the country killings wherever possible, as well as from the commercial slaughterings. Diseased, old and thin stock should be kept off the market entirely; they should be used for tankage or fertilizer or consigned to the graveyard.

6. The Export Trade.

The handling of live stock and meat products for the export trade needs a greater measure of supervision, particularly in bacon and pork products. A satisfactory solution can only be obtained by co-operation of all the interested parties—producers' and marketing organizations, shipping companies, and Government departments interested.

a. Cattle Exports.

Live cattle should be graded before export to Great Britain. There are no more critical cattle men, or butchers, in the world than those of Great Britain, where cattle herds are as fine as any in the world. For years, Canada has tried to secure access to the British market for her live stock, and now that it is open, every effort should be made to ensure that only cattle of the right quality reach that market from this country. Careless individual shippers should not be allowed to damage the reputation of Canadian cattle in the British Isles.

b. Export of Pig Products.

The export of bacon and pig products to Great Britain is not satisfactory and we are satisfied that an improvement is, and has been, possible. It has been pointed out by witnesses that the price of bacon hogs (the basic hog in Canada) is determined by the price paid for bacon in Great Britain. The Canadian Government and the Canadian packers have carried on an intensive campaign for over fifteen years to persuade farmers to improve the quality of hogs in Canada, so that Canadian bacon might compete with Danish bacon in the British market. As a result there was a distinct improvement in the quality of hogs and, for a time, Canadian bacon was selling for almost the same price on the British market as the Danish product. During the last two years, however, the spread between Danish and Canadian bacon has widened; the average spread being about ten shillings for 112 pounds. Packer witnesses

have said that this is due to the poor quality of Canadian hogs. This does not appear to be a correct answer, as Canadian bacon and select hogs have improved steadily in quality, as well as in percentage over the last fifteen years. Neither is it due to a scarcity of bacons and selects. Thirty-five per cent of our Canadian hogs grade bacon or selects, and our exports of hogs to Great Britain are only about ten per cent of our total production.

Packer witnesses have admitted that there are five grades of hogs from which bacon shipped to the British market is made, viz: selects, bacons, butchers, lights and heavies. Butchers, lights and heavies are all subject to a fixed differential of 50 cents to $1 per one hundred pounds below bacon hogs when purchased by the packers, because they are regarded as inferior hogs. Therefore, it seems altogether wrong that bacon from these hogs should be included in shipments to Great Britain and in that grade of bacon that sets, to the advantage of the packer, the basic price in Great Britain and hence the price of bacon hogs in Canada.

The A grade bacon should be composed of sides from select and bacon hogs only, and should be carefully graded to ensure that any inferior sides from selects or bacon hogs are excluded, as well as any inferior from the standpoint of dressing or cure. Canada's total exports to Great Britain have not exceeded thirty per cent of the selects or bacons marketed. Lights, heavies and butchers should be absolutely excluded from A grade. It seems reasonable to expect that those farmers who have responded to the call for better quality should be assured that the bacon from the best of their product should set the price, especially as they produce sufficient of that best to fully meet the demand.

The present grading system is not satisfactory. Grading of bacon for export is done in Canada by the packers and evidence shows that in some cases it was not properly done. Grading of bacon, and also hams, should be done in Canada by qualified Government inspectors. Farmers have a right to expect that such grading be as rigidly enforced by the Government through its own inspectors as is the case with live hogs.

This whole subject is of such importance to the primary producer that we feel some quotations from the evidence concerning it are justified.

J. S. MacLean, President, Canada Packers Ltd. (Page 251 of the Evidence of the Committee)

> You see if the market advances, the Canadian price here goes up immediately, and if the market declines, the Canadian price goes down immediately; and the hogs are bought on the basis of the English market practically all the time. Remember that is not an absolute rule, because there are a hundred variations to it. But the variation from the export basis is always small, so that if the hogs, if the bacon were select, it would bring six shillings more, and the farmer would benefit correspondingly. I hope I have made that clear, Mr. Factor, so that, if throughout this year, bacon had sold all the time at a price of six shillings higher than it actually did, the Canadian farmer would have received a cent a pound, two dollars a hog, or $12,000,000 more for his hogs this year.

Mr. Senn:

Q. Practically ten per cent of our production of hogs, they tell me, is exported?

A. Yes.

Q. Can you tell me what proportion of hogs which come to the abattoirs are select? What percentage?

A. They get about 20 per cent.

Q. How do you account for the fact that we can't send ten per cent of first-class select bacon overseas?

A. For many reasons, the two principal ones are the select hogs don't all go to the export packers, which cuts it down, I suppose, about fifty or sixty per cent, and these hogs are killed by packing houses, which are not in the export trade; and of the actual select hogs that are killed in the packing houses, about 25 per cent are bruised in such a way that they are not suitable for Wiltshire sides. Then besides that, these packing houses that export bacon also have a domestic trade; they can't divert all their good hogs from their domestic trade to their export trade.

By the Chairman (page 275 of the Committee Evidence):

Q. No, I do not misunderstand. I understand very clearly two points: one is, that complaints came from Great Britain during the past six months, because of the inferior class of bacon that we have been sending over there, not our best, not our select, but our second grade. There have been a lot of complaints. I am stating that definitely, and knowing what I am talking about?

A. It is possible you do not understand all those complaints.

Q. That is one statement. The second is this, that one of your representatives said they preferred to send a certain proportion, and he said a very substantial proportion of what he called seconds.....

Q. If we were raising all bacon or all select hogs, there would not be any seconds shipped.....

A. Selects are about 20 per cent and bacons about 30.....

A. Bacon hogs I mean—out of the 50 per cent, there would not be anything of that lower 50 go to England.

E. J. Smith, representative of White Packing Co., Stratford (Page 1115 of the Committee Evidence):

Q. You have made a specialty of buying Canadian hams in your business and you have a large demand for them?

A. Yes.

Q. Out of your hogs you make your Wiltshire sides from both the select, the bacons, the butchers, and the lights?

A. Yes.

Q. Then they are sent over to the Old Country in the form of Wiltshire sides?

A. Yes.

Mr. Sommerville:

Q. Would you just look over that list and tell me if that is not a list of the requirements of weights and grades of the British Market?

A. These are the selections and leanness of No. 1 selection, fifty to fifty-five pounds; fifty-five to sixty pounds; sixty to sixty-five pounds; and sixty-five to seventy pounds. Perhaps the greater proportion of the sides will come within these ranges. There are some at times that are less than fifty pounds and some at times more than seventy pounds.

Q. Yes, but we will keep to this range at this time. I observe that No. 1 selection consists of four different classes, weight fifty to fifty-five pounds; that could be made from a light hog?

A. A light hog.

Q. And fifty-five to sixty pounds could be made from a select or bacon?

A. Yes.

Q. And sixty to sixty-five pounds from a select or bacon, and sixty-five to seventy pounds could also be made from a heavy?

A. Yes.

Q. So that you may have in the first grade of hogs that range from fifty to seventy pounds, Wiltshire sides, that may be made from either selects, bacons, butchers, lights or heavies?

A. Yes.

Q. Then prices are affected by the weights of the sides, are they not?

A. To a certain extent they are.

Q. And the most desirable sides are from fifty-five to sixty and sixty to sixty-five pounds?

A. Yes, sir.

Mr. Wilson, Animal Products Trade Commissioner in England (p. 1129 of the Committee Evidence):

Referring to Canadian bacon itself, and relating to its quality, the exports expanded so rapidly that it was inevitable the variation in the types of side, trim and general quality would be wider. I presume, too, it was only human that each Canadian exporter was anxious in the changed relative positions of foreign import bacon, to develop his clientele in the Old Country as rapidly as possible, with a view to bettering his selling connection in the future; and that may have led to leniency in shipping qualities of bacon such as were described by Mr. Smith this afternoon. Might I also mention, that there were several Canadian packing houses who started to export bacon as well, and, not being familiar with conditions in the United Kingdom, they had something to learn. Within the short period of from eight to fifteen months in which these respective new shippers have been sending forward their bacon, they have made very nice progress in improving its quality.

W. W. Kennedy (Acting Chairman):

Q. Has the fact that a certain amount of inferior bacon has gone over there, destroyed to any extent the reputation of Canadian bacon?

A. It has affected it, there is no doubt about that; because, irrespective of merits of particular brands, all our bacon is looked on as Canadian bacon, and the higher the percentage is of, shall we say, No. 2 bacon, because some of it goes over—and the greater the irregularity in the type of sides, the greater will be the depressing effect upon Canadian bacon prices.

Summing up, we feel that the system at present in vogue in handling Canadian bacon on the British market operates primarily to the advantage of the packer exporter and the distributor concerns on the British market, and that there is insufficient consideration given to the interest of the primary producer. If, however, as the President of Canada Packers has declared, the price of bacon in Great Britain fixes the price of hogs in Canada, it is obviously of vital importance to the producer of hogs that the marketing of Canadian bacon should be on a fair and equitable basis.

Evidence given us has shown that it was possible to secure for high-class Canadian bacon a price substantially in advance of the prevailing price and a figure practically equivalent to that of Danish bacon. This, however, was secured only through British marketing agencies other than those included in the British Bacon Committee. It was also pointed out that predatory action had been taken by the Bacon Committee to discourage independent dealers from handling Canadian bacon, such as the "Big 'O' Brand," at a price above the "official" price.

The fact that the packing companies include in Grade "A," bacon made from several classes of hogs, including "selects," "butcher," "light," "heavies," and that the Bacon Committee in Great Britain is composed of British distributors who work in close co-operation with the Canadian packers, discloses, in our

opinion, a condition in the marketing of Canadian bacon in Great Britain which demands the attention of an independent body with government authority in order that the producers' interests may be properly protected.

Elsewhere in this Report we recommend that a board be set up to supervise the live stock and meat production industry. This board should, in our opinion, immediately on its appointment 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.

7. Freight Rates and the Live Stock Producer.

The place of the railway companies in the development of a better live stock policy, is important. The matter of freight rates, whether referring to stock for export, feeding in transit or for domestic slaughter, requires adjustment.

More respect should be paid to the basic fact that cattle are vitally necessary to a permanent agriculture. Drastic steps are justified to support this industry in a reasonably profitable state. When a prospective market for feed wheat in the United States loomed up during the past winter, there was a prompt reduction of freight rates to facilitate the Canadian movement. Similar action on export live stock rates is justifiable. In regard to "feeding in transit" rates, a shift in the areas of finishing of beef cattle, produced on the ranches of the West on farms in Alberta and Saskatchewan and Manitoba, has developed in recent years. Feed in transit rates were established to encourage feeding of western cattle in Ontario. It would seem that they are equally justified and necessary to facilitate movement of feeder cattle to Prairie points.

8. Conclusion.

There is need for organization of the marketing of live stock, and especially cattle, in this country, to ensure for the producer a fair price; something which he certainly does not receive at present.

While we are confident that our recommendations, if carried out, will do much to help the live stock industry, we believe that very few of these matters are capable of automatic operation. They require constant supervision and study. Live stock producers are attempting to organize under the Natural Products Marketing Act. The United States market is again taking some cattle from this country. Markets are changing, and these changes will bring problems as well as advantages.

It is true that the price of hogs has been raised in Canada due to the Ottawa Agreements and the British Pig Scheme, and that during this past year they were at a fair level. In respect to cattle, however, prices ruling during 1933 and 1934 were at about one-third to one-half the cost of production. The situation, therefore, is still acute.

As a step toward the solution of some at least of the problems which we have outlined, we recommend the establishment of a Live Stock Board, under appropriate jurisdiction. The duties of the Board should include, among others, the following:—

(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.

5. THE FISHING INDUSTRY

1. General Conditions in the Industry.

a. Introductory.

We now come to an occupation which is important, not merely to the primary producer engaged in it, but to the whole economic life of Canada's Maritime provinces. We deal with it here in somewhat greater detail than we have done with the other aspects of primary production brought to our notice. This is primarily due to the fact that the whole industry is treated in the one chapter; not merely that phase of it which concerns the producer. If we had followed the order of our other investigations we would have dealt with the processing and distributing phase of the industry in Chapter IV and with the fishermen alone here. It is extremely difficult, however, to separate the various phases of this industry, and we have, therefore, adopted the plan of consolidating our consideration of this important branch of our national economy in one section.

It should perhaps be added that our investigations covered merely the fisheries of the Atlantic Ocean and did not touch upon fresh water or Pacific fisheries.

With these reservations, we inquired carefully into the position of the primary producer in the fishing industry. The opportunity was given to a number of practical fishermen to appear before us and to give us valuable evidence based on an intimate knowledge of the industry. Of these witnesses representing the fishermen six were from the province of Nova Scotia, six from New Brunswick, two from Prince Edward Island and three from the province of Quebec.

Witnesses representing the distributing and marketing phases of the industry appeared before us. We also received evidence from our auditor who had conducted an inquiry into the records of the largest fresh fish distributing company on the Atlantic Coast. Finally, we received a report from our investigator who had been especially commissioned to conduct an inquiry into the fishing industry.

b. Extent and Importance of the Industry.

It is desirable, in the first place, to refer to the nature and extent of this industry which is one of Canada's great natural resources.

Adjacent to the Maritime Provinces there is an ocean fishing area of approximately 200,000 square miles, and in addition there are 15,000 square miles of in-shore fishing waters directly under the control of the Government of Canada.

The principal products of this large area are cod, haddock, hake, herring, halibut, pollock, mackerel, sardines, salmon, smelts, swordfish, tuna, lobsters, oysters and clams.

The average yearly market value of the catch in the Maritime Provinces from 1927 to 1933 inclusive, was over $14,500,000, or over 35 per cent of the total value of all fish taken in Canada during that period. In 1933 the market value of the catch was $9,914,068.

The average yearly value of the catch in Quebec of sea fish only during the period 1920-1932 was $1,990,000. In 1932 the market value of sea fish caught was $1,362,979.

The capital investment of the fisheries of the Maritime Provinces in 1933 amounted to over $14,000,000, as follows:—

—	Vessels, Boats, Gear, etc.	Canning and Curing Establishments	Total
	$	$	$
Nova Scotia	5,837,660	2,383,448	8,221,108
New Brunswick	3,265,812	1,911,960	5,177,772
Prince Edward Island	927,152	182,725	1,109,877
	10,030,624	4,478,133	14,508,757

The number of fishermen in the Maritime Provinces in 1933 and in Quebec in 1932 was as follows:—

Nova Scotia	17,133
New Brunswick	12,289
Prince Edward Island	3,194
Quebec	11,866
Total	44,482

These figures indicate an increase of 7,220 over the 1927 figures, which were:—

Nova Scotia	16,131
New Brunswick	9,701
Prince Edward Island	2,675
Quebec	8,755
Total	37,262

In addition to actual fishermen there are a large number of shore workers directly engaged in the industry. In 1927 and 1933 the number of these shore workers in the Maritime Provinces and Quebec, were as follows:—

	1933	1927
Nova Scotia	3,420	3,616
New Brunswick	2,340	2,146
Prince Edward Island	1,504	1,461
Quebec (1932)	1,073	1,288
Total	8,337	8,511

It will be noticed that the increased number of fishermen as reflected in the comparative figures for the years 1927 and 1933 is not reflected in a similar increase among shore workers, which has remained practically the same. The increase in fishermen is probably due to more men turning to the fisheries for employment in a period of depression and this, in many instances, did not involve more shore workers.

The fisheries of the Maritimes and Quebec are as widely diversified as they are prolific and extensive. Instead of being referred to as one industry, the fisheries of this section of Canada might well be considered as a number of separate industries bearing similarity only in so far as the product marketed is secured by the fishermen from the waters of the seacoast and the inland lakes and rivers of Eastern Canada. Not only is there great variety in the species of fish caught, but there is even greater diversity in the manner and forms in which the fish is processed and marketed. Even in the case of a particular variety of fish, there are rapidly changing conditions during different seasons of the year, and different market conditions obtain from month to month.

The fishing industry of Eastern Canada is, therefore, a most complex one, and any inquiry must proceed to examine the industry in its component parts rather than to proceed along general lines toward a general solution.

c. Fisheries and the Depression.

It is unfortunately true that general conditions in the fishing industry have not improved since 1927, with the result that the present situation, and certainly the position of the individual fisherman, is less favourable than it was in 1927, when the report of the Royal Commission investigating the Fisheries of the Maritime Provinces and the Magdalene Islands revealed the existence of conditions in the whole industry which were not warranted by the economic conditions then prevailing in Canada and in the world. It is worthy of note, in this connection, that our investigation has found a continuation of these conditions, though perhaps in a more accentuated form. The findings of the 1927 Commission, however, clearly indicate that the condition of the industry to-day is not the direct result of the depression alone. Its problems, therefore, will not be solved merely by a general improvement of economic conditions.

The total annual marketed value of all fish landed in the Eastern Division of the Department of Fisheries, comprising the provinces of Nova Scotia, New Brunswick and Prince Edward Island and the Magdalene Islands of Quebec for the past eight years was as follows:—

1926	$19,823,557
1927	17,280,216
1928	18,524,697
1929	19,334,431
1930	17,026,070
1931	13,680,034
1932	10,914,306
1933	10,266,474

This table shows how the industry declined even during a period of general prosperity.

d. Concentration in the Industry.

One of the most important problems is the trend, apparent for many years, toward centralization in the distributing end of the industry.

It appears that formerly there were a number of small companies or dealers purchasing fish from the producers in practically every fishing centre along the Atlantic Coast. Gradually, consolidations and amalgamations took place; some of the dealers were forced out of business; larger companies arose. For a time these larger units maintained plants along the sea coast, but later the plants located at remoter points were closed and there became apparent a general trend towards centralization. Even in communities where dealers and companies continued to operate, this trend toward centralization had its effect through a decrease in the number of those offering to purchase fish. In other words there was a local "centralization" even in instances where this did not extend to provincial "centralization."

About this period, too, there seems to have arisen a somewhat extraordinary form of business relationships between the distributing companies and dealers.

It appears that while these companies would at times co-operate with one another in so far as the purchasing of fish from the producer was concerned, the same companies and dealers would engage in keen and sometimes cut-throat competition in the marketing of the very product in the purchase of which they had co-operated.

This lack of consistent and properly directed co-ordination (which will be discussed later) seems to have been reflected throughout most of the distributing and marketing end of the industry. Uneconomic and unsound trade practices have thereby arisen and have become too firmly established.

These various factors gradually, over a somewhat extended period, have led to what we believe to be the basic problem of the fishermen of Eastern Canada. Limitation of domestic and foreign markets, concentration of distributors, the lessening of the number of buyers and agreement between the dealers in so far as purchases from the fishermen have been concerned, have inevitably led to an almost total loss to the fisherman of bargaining power without which he is reduced to the position of having to accept from the dealers for his fish whatever price they care to offer.

The grave problems facing this industry are shared in common by practically all of the various branches into which the industry resolves itself. The deplorable conditions of the primary producer and the serious inadequacies of sound marketing facilities, the unsound trade practices that in many instances have caused hardships to the fisherman and injustice to the consumer, arise alike in many phases of the industry.

The evidence submitted to us, however, clearly indicates that there are few, if any, problems in connection with actual production. The catch of fish in Eastern Canada is ample, and, in some seasons, more than ample to meet the demands of Canadian and export markets. The difficulties that do arise are principally associated with the processing, handling, distributing and marketing of the catch, and it would appear that in this field, reform is urgently needed.

2. Fresh Fish Industry.

The evidence we received as to the fresh fish trade related largely to conditions under which Atlantic fish is caught and subsequently marketed in Montreal and Toronto, for, as stated in the report of the Royal Commission of 1927, what is true of these markets is characteristic of other domestic outlets for fresh fish.

For the purpose of this report the term "fresh fish" is to be interpreted as including not only fresh fish, but also frozen fish and fish that has been lightly smoked. Due to the large quantities available and the price at which they may be marketed, cod, haddock and hake, which frequent the bottom of the sea and are generally known to the trade as "ground fish," form the staple varieties for the fresh fish trade. However, only a portion of the catch of these varieties is sold fresh.

The market value of these varieties of fish caught in the Maritime Provinces in 1933 was as follows:—

	Cod	Haddock	Hake
	$	$	$
Nova Scotia	1,442,599	799,218	84,032
New Brunswick	209,997	31,048	57,042
Prince Edward Island	65,021	2,136	8,092
	1,717,617	832,402	149,166

"Ground fish" are taken along the Atlantic Coast by fishermen operating from schooners or in smaller boats, and in the case of one company, by steam

trawlers. The producers working from schooners are generally known as "deep sea fishermen" and those using small boats as "shore fishermen." The former fish over a wider sea area than the latter, but for the most part both classes work upon a share basis, and their remuneration is based not on fixed rates of pay but upon a percentage of the value of the catch.

The larger schooners as a rule carry twenty-three men and confine their fresh fish operations largely to the period from September 15 to April 15, making trips to and from the fishing banks every seven or ten days.

Fishing from shore boats is carried on throughout the year on days when weather permits, with usually two or three men to a boat. The practice is for the boat to leave for the fishing grounds about three o'clock in the morning, returning to the wharf late in the afternoon. In the evening the fishermen bait their trawls and prepare for the next day's work.

The steam trawler on the other hand, endeavours to make short and frequent trips throughout all months of the year.

After landing, the fish for marketing fresh is culled, weighed, and packed in crushed ice in boxes, each containing from 150 to 200 pounds of one variety, the weight depending upon the season of the year part of the fish is filleted. Fresh fish is shipped from the Atlantic coast to the markets of Ontario and Quebec in one of three forms: filleted, round or headless. This fish for the most part is shipped to wholesalers upon the basis of prices quoted upon a sheet issued by the distributing company the previous week, or pursuant to terms arranged by telegraph.

Evidence shows that most of the companies dealing in both fresh and salt fish prefer to market their product in the fresh state, and handle in that form as large a percentage of the company's turnover as the conditions of the market and price will permit. Since there is frequently a surplus supply of fresh fish available for shipment, and especially in periods when the demand for salt or cured fish is light, it has become a practice for some distributors to forward substantial quantities of fresh fish to Upper Canadian markets upon a consignment basis. We were advised by wholesale dealers that it is not unusual for a dealer to have delivered to his plant in Montreal or Toronto a large quantity of fresh fish which he did not order and which he did not know was being shipped to him until the goods had actually been delivered at his plant.

Evidence was given however to show that this practice, while formerly prevalent among the larger companies, has now been largely restricted to the smaller distributing dealers, where it still acts to the detriment of the industry as a whole.

We were informed that prior to 1910 very little fresh fish was shipped from Eastern Canada to the upper Canadian markets, but after that time markets in Ontario and Quebec were more satisfactorily secured for Maritime Provinces fish. Today Ontario and Quebec should afford an excellent Canadian market for Atlantic Coast fresh fish.

From the evidence submitted, it appears, however, that the potentialities of this home market have not been fully realized. Wholesale dealers from Montreal and Toronto who appeared before us stated that there has been a substantial falling off in the demands of their market for fresh Atlantic fish. In 1933 a total of 8,930,000 pounds of sea fish was marketed in Montreal. This was a decrease of over 6,000,000 pounds as compared with 1929, when 15,000,000 pounds were marketed. It was argued that the causes for this falling off in demand and consumption are to be found in weaknesses in the distribution and marketing system, which have directly affected the quality of fresh fish retailed in many stores.

It is unquestionably true that in many homes fish is eaten on certain days of the week, not so much on account of preference for fish as a food, as through habit or custom. It logically follows therefore that if the quality of fish made

available to these homes is not maintained at the highest possible standard, there is a distinct tendency for the consumer to depart from the usual custom, and to desist from eating fish, or at least fresh fish, even upon these particular days.

Conditions under which fresh fish is frequently handled in the markets of Montreal and Toronto, and the extent to which quality has been sacrificed to price, leading in some instances even to substitution of variety, appears to be a distinctly limiting factor in creating or maintaining the demand on the part of the consumer for fresh fish. These trade practices must be eliminated and the consumer assured of better quality of product before the Atlantic producers can hope to take full advantage of the potential expansion of the market for fresh fish in the provinces of Ontario and Quebec.

Evidence received by us indicates that there is considerable fluctuation within short periods in the wholesale prices of the different varieties of fresh fish sold in Montreal and Toronto, and that this is a further cause for disturbed conditions in these markets. This unsound position was referred to on page 33 of the report of the Royal Commission of 1927 as follows:—

> Almost without exception the wholesalers in the markets of Quebec and Ontario expressed to us their preference for a stabilized price at the coast of from 5 to 7 cents per pound, instead of the lower and widely fluctuating price prevalent at times during the past few years. A fall in the wholesale price is not apparently shared in by the consumer, and the tendency is for the retailer to maintain the higher level of prices to provide for possible losses. It is also said that fluctuating retail prices are regarded with some suspicion by consumers. There is therefore, the anomalous situation of the retailer and wholesaler both preferring a steady and higher level of prices yielding a greater return to both fishermen and shippers, while the shippers frequently lower the price in unprofitable competition with each other without any advantage to the consumer.

The circumstances referred to in the above report still exist. It is to be hoped that the application of needed reforms, recommendations regarding which are submitted below, will result in the elimination of these problems which have too long existed to the detriment of the industry as a whole.

3. Dried and Cured Fish Industry

It has been submitted to us that the dried and cured fish industry of the Maritime Provinces and Quebec must be relied upon to provide a livelihood for a large proportion of the scattered fishing population along the Atlantic Coast. This has been made particularly so in recent years following the withdrawal from sections of Eastern Nova Scotia of several companies formerly dealing in the fresh fish trade.

The problems associated with the dried fish industry have been fully placed before us through reports and by competent witnesses. Cod is the staple variety of fish used for the dried fish trade, with haddock little in demand.

This branch of the fishing industry has declined in recent years, but as mentioned in the McLean Report of 1927, the decline in the Gaspe Peninsula and in the district of Northern New Brunswick is less marked than at other points along the Atlantic Coast.

The dried and cured fish industry from the production point of view divides itself into two parts: the Banks fisheries, carried on largely from Lunenburg with schooners carrying about 20 men each; and the shore fisheries, carried on by fishermen operating in small boats along the coast of the Maritime Provinces and Quebec.

From Lunenburg large schooners operate in this branch of the industry from April 15 to September 15, and during that period three trips are made. On each of the first two trips the vessel is away from its home port for about four weeks, and on the third trip, for about three months.

During the other six months of the year these schooners engage in the fresh fish trade, but since high-powered vessels are required to make the rapid trips necessary in fresh fishing, some schooners are able to operate only during the April 15 to September 15 period. For instance, in 1933, out of Lunenburg 26 vessels were engaged in salt fishing, but only 15 of these were suitable for engaging in the fresh fish trade. It is also significant that during the fresh fishing season the boats usually carry a crew of 23 men, but while salt fishing the crew is reduced to 19. This means that approximately 30 per cent of the deep sea fishermen at Lunenburg can secure employment only during the six months' period when schooners engage in the salt fish trade.

While the schooner is at sea the catch is salted and stored in the hold of the boat. After unloading at the end of each voyage the fish is turned over to shore operators who are known as "curers" and is prepared for shore drying by careful washing to free the fish of all slime or other accumulations, piling to allow the pickle to drain off and drying in the open air on flakes. Flakes are constructed of wood, consisting of a frame filled in with lattice work made of triangular inch strips, or in some instances on more modern flakes of wire netting. The fish must be carefully turned on the flakes, collected and stored at the least suggestion of damp weather. During the latter stages of drying, the fish is periodically placed in large piles to sweat. They are again spread out to complete the drying process, and the moisture which comes to the surface during the sweating period disappears.

We were advised that the best grade of fish is produced by sunshine and low temperature. To supplement ordinary sun drying artificial drying plants have been established at Lunenburg and Halifax, though these plants cannot be used for the complete process.

A witness from Lunenburg, who appeared before us, stated that fishermen are paid for their dried fish after it has been delivered by the curers to the company, and that in practically every instance the amount of money due for this fish has already been used up in credits given the fisherman's family at the company store. We were advised that when the final settlement for the salt fishing season is made late in December, the average fisherman receives practically no cash, his income having been taken up in store credits during the period he was away on the fishing banks. In this community, Lunenburg, the transaction arising from the salt fishing period appears to be substantially one of barter between the company store and the fisherman's family.

On the Gaspe coast and in Northern New Brunswick, the dried and cured fish industry is carried on upon a slightly different basis. There the fishermen operate mostly in small boats with four or five men in each boat. Some of these vessels operate off shore on trips of about a week each, largely returning on Saturday night, discharging the fish, which has been only lightly salted, on Sunday, and returning on the fishing grounds on Monday. The work of drying and curing the fish in these districts is done mostly by the women and children, and it is the usual custom to find the entire family of the fisherman actively engaged in production of the dried product. Part of the catch is landed fresh and dried by buyers on shore.

On the Gaspe coast much of the fish packed is in casks of 4 quintals each, for shipment to Italy. In this district a system of inspection of dried fish established and administered by the Government of Quebec is in force, but there is not sufficient evidence before the Commission to warrant saying whether or not it is sufficiently effective.

Of the dried and cured fish produced in the Maritime Provinces and Quebec only a very small proportion is sold in the domestic market; practically all is marketed through the export trade. Foreign markets for dried fish have been seriously depleted in recent years by economic conditions existing in countries where the purchasing power of the people has been greatly lessened. Further-

more, while formerly Canadian dried fish enjoyed a distinct preference in world markets, notably in the British West Indies, in recent years keener competition from the products of Norway, Denmark and Newfoundland has made serious inroads into these export markets. This has had a seriously adverse effect upon financial returns to the fishermen engaged in this branch of the industry.

We understand that this competition was the more difficult to meet because of Governmental assistance given to the exporters in certain foreign countries. For instance, Norwegian competition was increased as a result of:

a. Close supervision of export by the Government of that country.
b. Study of foreign markets and maintenance of fishery agents abroad.
c. Rigid inspection and grading of different brands of fish, and
d. Financial assistance to the fishermen through the Bank of Norway.

We were advised by representatives of important companies engaged in the dried and cured fish trade that the adverse conditions of trade have arisen solely through world-wide conditions and that these should adjust themselves over a period. While recognizing that economic conditions have been a major disability, we are of the opinion, that this branch of the Canadian industry has failed sufficiently to improve production methods so as adequately to meet keener competition in foreign markets.

It was stated that Canadian dried fish are not as rule what they should or could be with regard to quality of cure. We were advised that in apportioning blame for this and seeking a remedy it must not be forgotten that the system under which the business is conducted is largely responsible for lack of improvement in curing.

Speaking generally, those who export Canadian cured fish, and who are naturally in the best position to know the likes and dislikes of the consuming countries, are neither the producers nor curers of the fish. Fishermen, whether bank or shore, split and salt the fish. The former on returning from a trip turn over the split fish to driers, while the latter or their families dry the fish themselves. The exporting merchant comes into the business and buys only when the product is dried and practically ready for market, at which time the price is fixed, usually at a flat rate. He thus has little or no direct control over either the splitting, salting or later drying.

It should be noted here, however, that exporters have endeavoured to induce splitters to improve the appearance of their fish by offering a higher price for those which were converted from what is called "black nape" to "white nape" by the removal of the black lining of the belly. It is stated that the response to this offer has not been very marked so far.

There are, of course, exceptions to the system as described above and there are places where the exporter buys the salted fish and dries them himself with success.

It would no doubt be a difficult and delicate matter to attempt to change the present system. At the same time it appears that in order to bring about general improvement in the speediest way, those who export the dried fish must enter more fully into and take more direct charge of the work of drying, either by buying the split fish on being landed from the vessels, or by operating in co-operation with fishermen, pending the fixing of a price for the dried product.

We were advised that at the present time there is no governmental inspection of dried fish in Canada, with the exception referred to above in respect to Gaspe coast, and that although this had been suggested to and discussed with those engaged in this branch of the industry several times in past years, the application of compulsory Government inspection has been opposed by the companies on the ground of impracticability.

Notwithstanding this, there is a need for more adequate grading and inspection of the Canadian production of dried fish if Canadian fish is to regain the dominant place it formerly occupied in export markets of the world.

In this connection we would call attention to the fact that the Department of Trade and Commerce endeavours to co-operate with the producer at all times in the matter of developing export markets for Canada's fish and fish products.

In 1930 a complete survey of the world markets for fish was made and a report published which contained detailed information regarding the class of fish in demand in each country, the extent of the market, sources of competition, etc. This report was made available to fishermen and exporters. In addition to this, the Canadian Trade Commissioners abroad are constantly submitting reports on the possibilities of marketing fish in their territories and also regarding the production of fish in these countries. The reports are published in the Commercial Intelligence Journal, which is issued weekly by the Commercial Intelligence Service, and are frequently drawn to the attention of fishermen and fishermen's associations likely to be interested.

Considerable propaganda has also been distributed by the department to the export markets, in the form of posters, pamphlets and so forth.

In addition to the foregoing, the Department works in close co-operation with the Department of Fisheries in all matters relating to the markets for fish, or in respect to any legislation or regulations passed by competing countries, which might affect the interests of Canadian fishermen. For instance, the Trade Commissioners in countries which are large producers in fish, such as Norway and Japan, keep the Department informed regarding any changes in regulations relating to fisheries in the countries in which they are stationed, production trends, estimated exports, etc., and the Department passes this information on to the Department of Fisheries so that their records may be kept up to date.

The Trade Commissioners in China are working in the closest touch with the Dry Salt Herring Marketing Board of Canada. Through the efforts of the Trade Commissioner a gentleman's agreement was made by the leading dealers in dry salt herring in Shanghai to co-operate with the Board in maintaining prices and stopping cut-throat competition, which has been so detrimental to this trade in the past.

While discussing this question of government co-operation, we should mention that the Quebec Government has assisted its fishermen in the marketing of their product by the establishment of cold storage plants on the Gaspe coast. A bait-freezer plant, perhaps the most modern on the North American continent, was completed in 1933, has a capacity of 250,000 pounds, and is giving excellent service to the fishermen on the Gaspe coast. The Provincial Government has also subsidized five plants for the merchandising of fresh fish. Evidence given by fishermen shows that these are giving satisfactory results, and that requests have been made for the construction of additional ones.

4. Herring and Sardine Industry

We received much useful information from witnesses as to conditions surrounding the herring and sardine industry of the Maritime Provinces, and especially that section of the industry which is operated adjacent to the Bay of Fundy coast of New Brunswick.

The total catch of herring, exclusive of sardines, in the Maritime Provinces in 1933 was valued at $744,743, divided between the three provinces as follows: New Brunswick $390,088, Nova Scotia $290,803, and Prince Edward Island $63,852. In Nova Scotia almost one-half of the herring caught was used for bait, while in New Brunswick it was mostly smoked or canned.

In New Brunswick herring is caught in very large quantities in weirs. The larger fish is smoked and the smaller fish sold in the fresh state to producing companies operating at Black's Harbour, New Brunswick, or at points along the coast of the United States. American factories take approximately 75 or 80 per cent of the sardine catch, but evidence was submitted that the average fisherman prefers to sell to the Canadian company at a stated price per hogshead, rather than take the chance of a larger, though less certain, return from American operators, whose method of setting a price is different.

The value of the sardine fishery in New Brunswick in 1933 was $622,531, an increase of $196,182, or 46 per cent over 1932. Nearly the whole of the value of the sardines is in the canned product. The pack in 1933 amounted to 180,597 cases, valued at $542,255, compared with 113,197 cases, valued at $395,531, in 1932.

On the Island of Grand Manan a large production of herring is smoked either by central dealers operating on the island or by the fishermen themselves. Fishermen in this district enjoy a distinct advantage, as this territory is the principal world producer of medium sized herring, a grade that is in great demand in export markets. Considerable local employment is also created in this district through a branch of the herring industry that is becoming of increased importance, namely, smoked boneless herring, most of which is finding a market in Canada.

A witness from Grand Manan stated that, in his opinion, the present distressed condition in this industry might be attributable, first, to the lack of proper uniformity of cure and pack of the herring and, secondly, to lack of proper methods of marketing. Of these two difficulties, he placed the inadequacy of marketing arrangements as the chief.

At the present time a large percentage of the production of smoked herring is packed in 18-pound boxes for the export trade, which is chiefly to various islands of the West Indies group, Haiti being the largest consumer. These shipments for the export trade go chiefly via New York by rail from St. Andrews or Eastport. This method of shipment involves transportation costs so high that during the past few years transportation on a box of herring from Grand Manan to the West Indies has involved a larger expenditure than the packer at times has received for his fish.

The domestic or local market for smoked herring is in the two pound box, commonly known as "Digby Chicks," and in the marketing of boneless herring. Attention should be given to this boneless herring trade, as it would seem that the domestic market for this product can be greatly increased.

The herring and sardine branch of the fisheries industry offers particular opportunities for more effective organization insofar as both the production and marketing branches of the industry are concerned. The major portion of this industry is centralized around a relatively small area, and the available markets are also confined to certain territories.

The Fisheries Board of Control hereafter mentioned could render important assistance to the fishermen engaged in this branch of the industry. Certainly immediate steps should be taken to study export markets for this product, with a view to assisting the individual fisherman in securing a larger monetary return for his arduous labours.

5. Pickled Fish Industry

What is commonly called pickled fish consists of mackerel, herring and gaspereau cured in salt and brine and marketed in barrels. These fish are practically all cured by individual fishermen and largely sold to buyers for export to markets in the West Indies. The market for cured mackerel and gaspereau is almost altogether supplied by Canada. Newfoundland exports herring to the same market and that is the only competition Canada has in the pickled fish trade. This branch of the industry is confined largely to the Province of Nova Scotia.

In 1933 the market value of pickled mackerel produced in Nova Scotia was $168,000 and of pickled herring $48,859.

A system of compulsory inspection of pickled fish was established by the Department of Fisheries in 1932, becoming effective the following year. The regulations laid down standards for barrels and for the various grades and qualities of mackerel, herring and gaspereau. No fish of that description is allowed to be sold or shipped without inspection.

The introduction of this compulsory system of inspection synchronized with an abnormal abundance of mackerel on the coast in 1933 with the result that the officers had some difficulty in satisfactorily inaugurating the system. It should, however, be continued. With full co-operation between the fishermen and the exporters, such inspection should serve materially to strengthen the marketing arrangements for the disposal of this catch.

6. Lobsters, Smelts and Eels

a. Lobster Industry

The lobster industry of the Maritime Provinces is of great importance and value, and the evidence submitted to us indicates that insofar as the fishermen are concerned, the situation here is, with certain exceptions, reasonably satisfactory. There is, however, much room for improvement in the marketing of live lobsters.

The lobster fishery is limited seasonally, but it produced annually, in recent years, over 375,000 cwts. with a value when marketed of $3,500,000. Total marketed value of the 1933 lobster catch in the Maritime Provinces was $3,306,879 divided between the three Provinces as follows:—Nova Scotia $1,884,715, New Brunswick $830,363 and Prince Edward Island $591,801.

At least three quarters of the catch is preserved in cans and marketed outside of Canada, where it enters into competition with Russian and Japanese canned crab meat and crayfish, which is similar to the lobster. The balance of the catch is shipped to the market in the shell, mainly in the United States. The 25 per cent that is shipped in the shell, however, is almost as high in money value as the 75 per cent that is canned.

Live lobster shipments for the United States for the most part go forward on consignment, and as shipments are made over great stretches of the coast at the same time by individual fishermen, fishermen's cooperatives and coast buyers, there appears to be a need for these agencies to cooperate and so regulate or control shipments as to leave no room for unfair advantage being taken as at present by consignees in Boston, the principal United States market to which shipments are made.

Subsidized collection services established by the Federal Government at points in Eastern Nova Scotia have brought benefit to that section of the Province, although it would appear that this has to some extent at least been at the expense of lobster fishermen at other points along the coast.

There was also expressed to the Commission the opinion that express rates on live lobsters were excessive, and that a lowering of these rates to the same basis as now pertains to fresh fish would enable a larger volume of this product to be shipped to the markets of Ontario and Quebec.

b. Smelt Industry

The smelt fishery is one of the important branches of the industry on the Atlantic coast. It operates mainly in the winter time and has its chief seat in the southern part of the Gulf of St. Lawrence. The Provinces of Prince Edward Island and Nova Scotia together produce an average total of 16,000 cwt., while the Province of New Brunswick averages over 50,000 cwt. annually. The annual catch of smelts for the Province of Quebec amounts to six or seven thousand cwt.

The total marketed value of the smelt fisheries of the Maritime Provinces in 1933 was $427,598 as follows:—New Brunswick $315,000, Nova Scotia $66,558 and Prince Edward Island $46,040.

These fish are marketed fresh or frozen, and more than three-quarters of the catch is exported to the United States. Canada is the chief source of supply of this fish to that country. Most of the shipments go forward upon a consignment basis from individual fishermen or from local buyers.

We were advised that a large loss is sustained each year by fishermen and coast buyers owing to the lack of any cooperation in marketing this product. This situation might be largely corrected through recommendations contained in another section of this report.

c. Eels

Eels constitute the most valuable catch of inland Quebec, where during the 1933 season nearly 2,500,000 pounds were taken, with a market value of $128,000. This represents an increased production over 1929 and 1930, but a drastic decline in exports (from 1,482,000 pounds, worth $195,000, in 1929, to 1,089,600 pounds worth $60,490 in 1933). During the period of 1929 to 1931 the United States was the chief importers of Canadian eels, but in the succeeding two years it yielded first place to Germany. The German market, however, in the past year has been largely lost because of currency restrictions on imports. If some way could be found to overcome these currency difficulties, it is probable that a large market for Canadian eels could be secured in Germany.

7. THE FISHERMEN

a. Conditions of Labour

Fishermen witnesses gave us a vivid portrayal of the onerous and hazardous nature of the work performed by these primary producers. It is difficult to realize that the deep sea fisherman frequently works for 72 hours without sleep and that the shore fisherman is about his tasks from long before sun-up until late in the evening. Fisherman's work must be performed under conditions that frequently present continuous physical discomfort and serious danger of loss of life. His is certainly a "front line" occupation.

b. Earnings of Fishermen

Evidence submitted by competent witnesses indicates that the earnings of the average fisherman in the different localities of Eastern Canada for the year 1933 ran from $75 to $400, according to the district in which the fisherman worked, and that there would not be more than a ten to fifteen per cent improvement in earnings during 1934.

It has been suggested to us that a number of fishermen have larger incomes than these represented by the evidence. This is understandable since it was made quite clear by those presenting evidence to us that the amounts mentioned represented only the average income, and it follows that there were those who had a higher income than the figures given. But also there would be others who received lower earnings.

Pay off sheets of fishermen operating in the Lunenburg-Shelburne district of Nova Scotia have been submitted in evidence and these exhibits, together with the evidence of the fishermen's representatives indicate that the average earnings in 1933 of fishermen at various points in that district were approximately as follows: Lunenburg, Lockeport, and Shelburne, approximately $300; Liverpool, approximately $275. The representative from Digby county, Nova Scotia, stated that the average fisherman in his district made $300, in 1933, and the witness from Yarmouth county said that the income of his associates at Port Maitland and adjoining district was approximately $400.

Witnesses from fishing communities in Eastern Nova Scotia stated that earnings of the primary producers in those fields were substantially lower than in the Western sections of the Province. At Canso, they were $160, at Queensport on Chedabucto Bay, $200. At Arichat, Petit de Grat, St. Peters and L'Archiveque, all points on the East Coast of Cape Breton Island, the average earnings of producers were not above $100. At Louisburg, earnings of producers in 1933 were $175, at North Sydney $100, and at Glace Bay the income fell as low as $75.

Witnesses from the Province of New Brunswick stated that in the Miramichi River district in Northumberland County the average earnings in 1933

amounted to $300. In Gloucester County the income was much lower and was set at $100. In the vicinity of Chance Harbour in St. John County the income of producers, we were advised, was approximately $300.

In Charlotte County, New Brunswick, earnings of fishermen of Grand Manan Island were $350, at Deer Island $150, and at Campobello Island $200.

In the Province of Prince Edward Island, the witnesses stated the income of fishermen in the Mount Carmel end of the Island were $200, and in the district of Souris $250.

Witnesses from the Gaspe Peninsula of Quebec gave evidence to the effect that in the district of Grand River average earnings during 1933 were $280, at St. George De Malbaie $200, and in the vicinity of Carleton, which is stated to be particularly fortunate in regard to salmon fisheries resources, earnings of primary producers were set as high as $700, for the year.

Earnings of fishermen employed on trawlers averaged $1,347 from 1929-1933, which included a living allowance of $5 per week.

We were informed that out of these earnings, the fisherman must try to accomplish the impossible task of providing for his family and himself, and maintaining his fishing gear.

These low earnings are in the vast majority of cases, not due to any lack of industrious application to his work on the part of the fisherman, who works longer hours and endures more hardships than do those in many other occupations. They are the result of unfavourable economic conditions which have reflected themselves in the industry and which for the fisherman are intensified by the fact that on the side of the corporation buyer there is strong bargaining power; on his side complete or almost complete absence of such power. It is in a period of depression and its resultant collapse of business, that the full effect of such a situation as this becomes apparent. The middle-man has some protection against the storm. He can in part recoup himself for a drop in volume by maintaining his margin of profit. He often does this, however, at the expense of the first producer, the fisherman, to whom he pays lower prices for his products.

In the face of a shrinking volume of business and corporate concentration in buying, the fisherman is as helpless as one of his own dories in a typhoon; and yet he is adequately and conscientiously discharging his responsibility in the industry, that of catching the fish.

Nor are his demands excessive. Fisherman witnesses who appeared before us were most moderate in their views as to what constituted the income necessary to maintain their homes and replace their fishing gear. Most of the witnesses stated that if they could secure $600 a year, they would be able to make a decent living. Surely this is not an unreasonable objective, nor is it too much to expect that any reform suggested within the industry should have as its first purpose the establishment of at least this standard of living for the primary producer.

c. Homes and Equipment

In some sections of the Atlantic Sea Coast, fishermen are able to cultivate small plots of land, thereby increasing their earnings. In other districts the fisherman's family is solely dependent upon the sea as the only source of sustenance. In these sections there is little fertility of soil; in some districts not even natural timber to be used as fuel. Many fishermen's homes have been maintained only through small reserves built up in better years, or, more often, through credit and, where that fails—direct relief.

The evidence submitted discloses that many fishermen of the Maritime Provinces and Quebec have, due to low earnings, been unable to maintain their gear and fishing equipment in reasonable repair. In some of the remoter fishing districts a substantial number of former producers are unable to operate at all, due to lack of gear, and in almost all sections many of the fishermen are forced to labour without proper equipment and waterproof clothing.

d. Recommendations of Fishermen

From the fishermen witnesses we received a number of suggestions as to what action the producers believe might be taken to improve their position and to create better conditions within the industry as a whole. Many of these recommendations were submitted to us verbally; others were included in signed petitions, which apparently represented the considered opinion of a large number of producers.

Representatives of the fishermen of Nova Scotia presented to us the following written submission, signed by the witnesses on behalf of their thousands of associates:

> *"To the Royal Commission investigating Mass Buying and Price Spreads.*
>
> SIRS,—Based on our personal experience gained in the actual catching and selling of fish and on the unanimous opinions of other fishermen, voiced in assembly and otherwise, we submit that the prices paid to the fishermen for their catches are inadequate to meet the requirements of livelihood and the purchase of equipment necessary to the pursuit of our calling.
>
> It is our contention that the low prices paid us for fish are due largely to prevailing economic conditions and otherwise to unsound trade practices in the distribution and marketing of fish, such as consignment selling and "cut-throat" competition.
>
> We primary producers in the industry are directly affected by the unsound trade practices referred to, but we are powerless in the matter of instituting necessary reforms and without means of redress under the present system. We have no bargaining power, due to the fact that we are not directly in touch with the consumer market and therefore are not in a position to exercise any control over marketing policies or shipments, which frequently are ill regulated or totally unregulated.
>
> In view of the foregoing statements, we recommend that immediate action be taken to improve our position and, as a means to this end, suggest that a Central Board of Control be established to institute measures designed for the elimination of such causes as we have pointed out to be working hardships on us, or such other causes as may be found to be adversely affecting our industry. We further recommend that such body as may be set up give full and careful consideration to the establishment of minimum prices to be paid for the several classes of fish, on the catching of which we depend for a living.

Recommendations submitted by the fishermen of Eastern Canada generally may for the most part be summed up as follows:

(1) The establishment of some form of a Board of Control through the operations of which it was hoped that a greater degree of co-operation and efficiency might be established in the industry.
(2) The securing through a Board of Control, or by some other means, more complete information as to export markets.
(3) The establishment of a fund whereby fishermen now without gear may receive credit to enable them to re-engage in the fishing business.
(4) To set aside from the public revenues of Canada a sum of money for the advertising in Canada of fish as a food.
(5) Equalization of freight rates so that fishing districts situated more remotely from the markets may be better enabled to market their product.
(6) Governmental assistance looking to the further development of the co-operative movement.
(7) The establishment under legislative authority of a scale of minimum prices to be paid fishermen.

All of these representations, as well as others submitted, have been carefully considered in the light of the evidence and recommendations concerning them appear in another section of this chapter.

8. THE SYSTEM OF DISTRIBUTION

a. General

From evidence received, it does not appear that there is any inherent weakness in the distributing and marketing system as such. The usual, although not exclusive, practice in the industry, is for the fisherman, who must be considered as the primary producer, to sell his catch to local distributing companies or dealers, a number of whom operate at important fishing centres along the Atlantic sea coast. These distributors, where necessary, process the fish and sell it to the wholesale operators either in the Canadian or export markets. The wholesalers relay the product to the retailer, who in turn sells it to the consumer.

In some instances the distributor deals direct with the retailer, but for the most part the system outlined above of producer—to distributor—to wholesaler—to retailer—to consumer, is the accepted practice.

This organization of the industry appears to be basically sound, and while it was represented by several witnesses that the functions of the Atlantic coast distributor and the wholesale dealer could be eliminated, thus doing away with two so-called "middle men", it does not appear that any advantage to either the producer or the industry as a whole, would arise through a departure from accepted business practice, except where it is feasible for co-operative groups to be formed for the processing and marketing of the product.

However, while the policy of distribution and marketing, as outlined above, may be basically sound, we feel that the concentration of distributors, referred to in a previous section, may well impair its ability to serve the most important element in the industry,—the primary producer.

It is difficult to estimate the effect, if any, of this concentration on prices during recent years, or to untangle this influence from so many others that have affected detrimentally the fisherman. But it does seem clear that any development which emphasizes the weak bargaining power of the primary producer, has within it elements of danger.

b. Distributing Companies

At our request, twenty-nine companies and dealers engaged in the fish business, furnished information relative to their financial structure and operating costs to enable us to determine the degree of soundness of their capital set-up, the manner in which the business operations were carried on and the extent to which the profits of the companies, if any, might have justified the operators in paying a higher price to the primary producers.

A perusal of this information and an analysis of the operations of the companies or dealers fails in most instances to disclose that the firms have made any unreasonable or excessive profit on their business operations in recent years. Some of the companies or dealers have sustained losses, and in the case of several of the larger operators, business has been carried on at the expense of reserves built up during periods when operations were profitable.

We found no evidence of profiteering at the present time in the fishing industry, and there is no doubt that the adverse economic conditions prevailing in recent years in connection with practically all industries have been directly reflected in the financial statements of the companies now under review. This situation, of course, greatly increases the difficulty of adding to the fisherman's income, if all the above companies are to remain in operation.

In so far as the larger firms purchasing fish from the primary producers, are concerned, it appears that some of these companies have endeavoured to assist the fishermen and have dealt with the situation in as broad a light as

might be expected. It is undoubtedly true, however, that the companies and dealers have passed on to the individual fisherman by far the greater part of any losses sustained by their operations, and the effects of adverse conditions have been borne by the primary producer to a much greater extent than they have been borne by the companies. This, as we have seen, is inherent in the present set-up of the industry. It should not be forgotten, also, that these same companies did not permit the primary producer to benefit in proportion during periods when operations were more favourable.

Company representatives appearing before and communicating with us, represented that there was no agreement among them as to the prices to be paid the primary producer, but the uniformity of prices offered gives ground for belief that if there is not an agreement, there is at least a price understanding among the dealers. In its effect upon the primary producer, it is immaterial whether this practice of uniform prices is referred to as an "understanding" or as a "combine".

It seems to be the uniform view of the larger distributing companies, that the problems now facing the industry can and will ultimately be solved by these companies, and that it is unnecessary to apply remedial measures at the instance of outside authority. If this is so, and it has been urgently represented that it is, the natural question that arises is why these companies have not already taken steps to remedy the conditions, as they allege they are capable of doing. It appears that they have failed to meet or solve these problems of distribution and marketing, although they have had ample opportunity of doing so. Therefore, it is unlikely that these companies, if given more time, will do what they have already failed to accomplish. It may for that reason be argued that some assistance must be given the industry—some leadership other than that of existing companies must be provided if the problems are to be solved and the position of the industry as a whole, and especially that of the primary producer, improved.

c. Distributing Dealers

Doing business at many points throughout Eastern Canada are a large number of small dealers who purchase fish from the producers, and whose operations have been examined. They are an important part of the distributing phase of the industry. Most of these dealers operate a retail store stocking a wide range of produce. It has appeared that many of them buy from the fishermen in order to create purchasing power to be used in their stores, and in the smaller centres trade between the fishermen and dealer is frequently done upon a barter basis. Many of these stores have extended credit to fishermen over a period of several years and have enabled fishing equipment to be secured. Very few of these dealers have made even a small profit out of the fish handled by them, and a number of instances were found where the local dealer was owed in the aggregate large sums of money by fishermen to whom credit had been extended.

d. Wholesale and Retail Companies

The unsatisfactory condition prevailing in the field occupied by the distributing companies and dealers is paralleled, but to a somewhat less extent, in that phase of the industry that has control of the wholesale and retail marketing of fish.

We examined books of accounting of representative wholesale and retail fish dealers in important centres of the Martime Provinces, Ontario and Quebec. As was the case with the distributing companies, it does not appear that there is at the present time any profiteering in this phase of the industry, and in some instances it is apparent that the wholesale and retail companies have not only failed to make a reasonable profit, but have sustained losses.

Wholesale and retail operators who appeared before us urged the adoption of reforms whereby greater uniformity might be established in their branches of the fishing industry. They have stated that practices of consignment shipment and unfair competition referred to elsewhere in this report are factors seriously adverse to the wholesale and retail trade. These dealers have also expressed their opinion that more uniform quality of fresh fish shipped from the Atlantic coast would enable them to increase the consumption of these products in the retail markets of Ontario and Quebec.

In the larger retail centres of Montreal and Toronto, a notable development has occurred in recent years in the extension of sales of fish in chain stores. Prior to the advent of chain stores, merchandising in fish was confined to a limited number of well-equipped retail distributing outlets and to what may be termed the "corner grocery." With the adding of fish branches to the chain store, the "corner grocery" outlet has been largely eliminated. It has been represented that this development has adversely affected the adequacy of the system of retailing fresh fish. Also it has been alleged that conditions under which fish is sold in some chain stores, are unsatisfactory, as a result of which the quality of the product is inferior. To a large extent, this seems to arise from the circumstances that chain stores regard merchandising in fish as unimportant. The product is handled by employees who have little knowledge of, and less interest in it.

Criticism was directed at the chain stores by other fish dealers on the ground that fish products were sold in the chains at sacrifice prices, thereby forcing other dealers to lower their prices at the expense of quality. From evidence available, it does not appear that the chain stores sell fish at less than cost. Rather, the lower prices prevailing in these stores are the result of mass buying power and keener buying practices which make it possible for the chains to secure the product from wholesalers or distributors at an average price of one cent a pound less than other retail dealers are required to pay.

The answer that chain stores receive this price preference because of the large volume of purchase is only partly satisfactory because wholesalers are required to deliver small separate orders of fish to each retail chain store and the costs of handling chain store business is therefore as great as if each order was sold to a separate retailer.

9. Unsound Trade Practices

a. Measurement and Cull

Fishermen witnesses advised us that the prevailing practices employed by distributing companies as to the cull and weighing of fish are unfair to the producer in that the system rests solely in the hands of the company and that the fisheman has no control or remedy in the event of the company discharging the cull or weighing in a manner accruing to its own advantage.

When fish is delivered to the company it is culled as to variety and size and quality. It apears that when the cull is taking place the fisherman himself or his representative is usually present. In instances where the dealer is inclined to seek an advantage in this process, it does not appear, however, that the fisherman has any practical redress. For the most part he is forced to accept and abide by the conditions of buying as set down by the company.

Fishermen have taken exception to the basis of culling established insofar as the handling of fish to be marketed fresh is concerned, and have pointed out that, for instance, haddock weighing under two and one-half pounds is paid for as scrod, for which only three-quarters of a cent or less is paid, when two cents a pound is being paid for market haddock. Witnesses expressed the view that this weight measurement for scrod should be reduced to two pounds, as fish

weighing between two and two and one-half pounds is of excellent marketable size. This is borne out by evidence given us by retail dealers, one of whom stated that fish weighing between two and two and one-half pounds is much in demand in the retail trade. It is therefore suggested that consideration should be given to the revising of the present weight basis upon which the cull is carried out by distributing companies.

Information contained in pay-off slips submitted in evidence shows that a relatively large proportion of the catch of schooner fish is consigned to the fish meal plant. There is not sufficient evidence to express an opinion as to whether or not this is fair, but it is another point that should be carefully borne in mind when consideration is being given to the general system of culling—a system which it seems proper to say does not at the present time accrue to the benefit of the fisherman.

After the cull, the fish is weighed in baskets of various sizes. We were advised that the larger and better quality fish are frequently weighed in smaller lots than are the less valuable sizes, and it is suggested that by this process the distributing company gains an advantage of a few pounds on each measure. There would seem to be no sound reason why fish landed should not be weighed in a uniform measure. This is a matter to which the Fisheries Board of Control, later recommended, should give consideration.

b. Unfair Competition and Consignment Shipments

We received a great deal of evidence as to the existence among distributing companies and dealers of unsound trade practices. Most of these fall under the heading of cut-throat competition, along with the kindred practice of consignment selling.

From evidence received it appears that the practice of cut-throat competition was formerly prevalent among the larger distributors, but that in recent months this has, to a considerable extent, been eliminated as a result of an understanding between the companies. It is, however, undoubtedly true that this unsound trade practice continues to exist in the distributing end of the industry, and at the present time emanates principally from the operations of certain small dealers who at particular seasons of the year are responsible for forwarding large quantities of fish to retail markets at prices purposely quoted substantially below those of other dealers or upon a consignment basis. This form of competition brings benefit neither to the distributor nor in the long run to the consumer and is uniformly adverse to the interests of the primary producer.

The practice of consignment shipment appears to be one that is seriously adverse to the interests of the fisherman and of the industry as a whole, inasmuch as it is frequently impossible to market consignment fish upon a satisfactory basis either as to quality or price, and this, in turn, disturbs conditions surrounding the marketing of fish for which firm purchasing orders have been given.

Even larger companies are defenceless in the face of this form of competition, in view of the fact that a low quotation upon even a small quantity of fish can be responsible for a break in the market involving large shipments. This creates a serious market condition, reflecting directly upon the shoulders of the individual fisherman, and the anomalous position is thereby created of the primary producer being forced to bear the ill effects of a situation he has had no part in creating.

These unsound trade practices constitute one of the grave problems which must be dealt with. The position of the primary producer, as well as that of the companies and dealers, will continue to be adversely affected until such time as control is exercised over a phase of the industry which one witness referred to as leading to active disorganization.

c. Inferior Quality and Unsatisfactory Conditions of Handling

Evidence given by wholesale and retail fish dealers operating in Montreal and Toronto indicates that the handling of fish in retail stores in those cities is not uniformly satisfactory. With the exception of certain stores that are adequately equipped to sell fish, conditions in many of the retail outlets are so inferior as to cause a limitation upon the public demand for this product. A majority of those who peddle fish from door to door in trucks or wagons sell fish of an inferior quality and under conditions of handling that would be improper for products of even a less perishable nature.

This condition of inferior quality and unsatisfactory handling on the part of certain dealers works a distinct hardship upon those fish merchants who handle high-grade products under proper conditions.

Conditions existing in the retail markets present one of the reasons for the relatively low per capita consumption of fish in Canada. Any expansion of the Canadian market for fresh fish must depend directly, in the first instance, upon quality, and quality in turn is largely dependent upon satisfactory handling of the product.

It is our view that more suitable conditions must be established in retail outlets as the first step toward enlarging the market for fresh fish.

d. Substitution of Varieties and Quality

We were advised by wholesale and retail fish dealers that there has recently been a definite tendency on the part of some retail dealers to misrepresent not only the quality but the class of the fish retailed. It seems to have been established beyond dispute that cod fillets are frequently sold as haddock fillets, and that in some stores even hake fillets are sold as haddock. Since the fillet is advertised as "fresh fillet," it is doubtful whether there is a direct misrepresentation, but if not there is an implied one. This gives rise to a serious situation due to the marked tendency of companies in recent years to place filleted fish upon the market rather than fish in the round or headless. We were also advised that imported salmon is sold as Gaspe salmon, and that the practice is to dispose of flounder as lemon sole.

It does not appear necessary to set out in detail the causes from which arise this apparently well established and obviously unsound trade practice. Suffice it to say that frequent price-cutting and the disturbing effect upon retail markets of consignment shipments appear to be among the causes of inferior quality of fish and misrepresentation as to varieties.

Possibly one remedy for these difficulties would be proper regulation of retail outlets. This should not only increase the consumption of fish, but should protect the reliable and well equipped dealer against unfair competition from those other dealers who in the past have done a great deal to limit and injure the market for fresh fish. To attain this it might be worth while for the proper authorities carefully to consider the practicability of establishing a system of licensing of retail outlets for fish in domestic markets.

Elimination of the unsound practices now prevailing should mean a larger financial return to the fisherman, more satisfactory business conditions for the dealer and a better quality of fish for the consumer.

10. Price Spreads

a. Introductory

We received complete and comprehensive information regarding price spreads in the fishing industry. This evidence was contained in questionnaires completed by various companies and filed with the Commission, in the reports of the Investigator and in evidence presented by witnesses.

The following table indicates the spread in prices between the producer and the consumer for cod and haddock fillets and cod and haddock steak shipped

to the Montreal and Toronto retail markets by the Nova Scotia distributing companies during the first week of October, 1934:

—	Price paid by Distributor	Price to Wholesaler F.O.B. distributor plant	Wholesaler's price to retailer	Retailer's price to consumer
	(cts. per lb. processed fish)			
October, 1934				
Montreal—				
Cod Fillets	3.26	10	13	18
Haddock Fillets	5.21	12	16	20-22
Cod Steak	1½	5	8½	15
Haddock (Headless)	2.44	5½	7½	10-11
Toronto—				
Cod Fillets	3.26	10	13	19
Haddock Fillets	5.21	12	16	22
Cod Steak	1½	5	8½	15
Haddock (Headless)	2.44	5½	8½	12

The column indicating the price paid fishermen is based upon 38·4 per cent recovery per pound in the case of fillets and 82 per cent recovery per pound in the case of headless haddock. During the period under review the distributing companies were paying fishermen 2 cents per pound for large haddock and 1¼ to 1½ cents for cod, and the figures in the first column are based upon these prices.

b. Distributing Spreads

Upon purchasing fish from the fishermen, the distributing company must bear the expense of culling, weighing, washing, packing, icing, and in the case of fillets, the processing, and expenses incidental to the large percentage of waste and shrinkage. At the same time it makes a profit from the offal and bye products.

From the above table it appears that having paid the fishermen the equivalent of 5·21 cents for the amount of fish necessary to produce a pound of haddock fillets, the distributing company sold this pound for 12 cents f.o.b. its plant.

The auditor's analysis of a company's costs of processing, icing, boxing, etc., indicates that the charges applicable to the handling of a pound of fillets amounted to 5·68 cents per pound or a total cost to the distributing company of 10·87 cents. Therefore it appears that the company's spread or profit upon a pound of haddock fillets was 1·13 cents.

The records of the companies disclosed, however, that in certain periods of the year fresh fish is handled at a loss. An analysis of the average spread or profit made on haddock fillets shipped to the Toronto market by one company shows that during the period May first 1933 to April first 1934 the average profit per pound was ·82 cents, or a substantially lower average for the year than the profit indicated during the month of October.

As the profit or spread per pound on different varieties of fish fluctuates from month to month the spread is more correctly reflected by the following average profit per pound on haddock sold by three companies to wholesalers in Montreal and Toronto during the period May first 1933 to April thirtieth 1934:

—	Haddock fillets Montreal	Haddock fillets Toronto	Haddock round Montreal	Haddock round Toronto
	c.	c.	c.	c.
Company 1	.64	.82	.82	.40
Company 2	.24	.17	.35	.61
Company 3	.51	.39	.87	1.2

Since none of the distributing companies sells all of its fish in the fresh state and not infrequently incurs losses upon dried and cured fish, the net spread or profit arising from the company's operations is more correctly reflected by the following analysis based upon the net profits or losses made per pound on all fish handled, whether sold in the fresh state or otherwise, by the three largest distributing companies in Nova Scotia.

The first Company, Lunenburg Sea Products, Ltd., during 1933 bought 10,000,000 pounds of fish and paid the fishermen an average of 1·588 cents per pound. Average processing cost per pound of this company was ·759 cents, and the cost per pound for fixed charges, administration, etc., was ·648 cents, a total cost per pound of fish sold of 2·995 cents. The average selling price per pound was 3·142 cents, which meant a net spread or profit to the Company of ·147 cents per pound on all fish handled. The net profit per pound on all fish handled by this company in 1932 was ·124 cents, in 1931 the net spread was ·279 cents, in 1930 it was ·221 cents and in 1929 the profit was ·133 cents for each pound of fish handled.

The Lockeport Co., Ltd., during 1933 purchased from fishermen slightly over nine million pounds of fish, and paid the producer an average of 1.32 cents. Processing costs were ·6 cents a pound, depreciation, interest and administration ·74 cents a pound. Total production costs amounted to 2·66 cents per pound. Average selling price per pound was 2·67 cents, which meant a net spread or profit of ·01 cent per pound on all fish handled. This company had a net profit in 1932 of ·12 cents a pound on all fish handled, in 1931 a loss of ·01 cents a pound was incurred, in 1930 there was a profit of ·17 cents and in 1929 a loss of ·04 cents.

The Maritime National Fish Co., Ltd., in 1933 handled over 28,000,000 pounds of edible fish. The first cost of this fish was 1·5 cents per pound. Processing, icing, and handling costs averaged 1·14 cents a pound and depreciation, interest and administration amounted to ·77 cents a pound, a total average cost per pound of 3·41 cents. The average selling price per pound was 2·99 cents and the company therefore sustained a loss of ·42 cents per pound on all edible fish handled. In 1932 a loss of ·31 cents a pound was incurred by this company and in 1931 there was a loss of ·28 cents. In 1930 the company handled 40,000,000 pounds of fish and had a profit of ·13 cents per pound, but in 1929 lost ·03 cents a pound on 53,000,000 pounds handled in that year.

The following table summarizes the net profit or loss in cents per pound on all fish handled by these distributing companies. Figures are for the five-year period 1929 to 1933. Losses are in italics:—

—	Maritime National Co.	Lunenburg Sea Products	The Lockeport Co.
1929	*.03*	.133	*.04*
1930	.13	.221	.17
1931	*.28*	.279	*.01*
1932	*.31*	.124	.12
1933	*.42*	.147	.01

There was no evidence of unreasonable profits at the present time on the part of distributing companies operating on the Atlantic sea coast, though in some instances it has appeared that the processing and administrative costs incurred are excessive. The margin of profit per pound, where a profit has been made, appears to have been reasonable, and in a number of instances substantial losses have been sustained.

c. Wholesale Spreads

From the table on page 192 showing price spreads between the producer and consumer it appears that between the price paid by the wholesaler to the distributor and the price charged by the wholesaler to the retail fish dealer there is a spread of approximately three cents a pound on cod fillets, four cents on haddock fillets, three and one-half cents on cod steak and three cents on headless haddock. Out of this spread, however, must come the cost of transporting the fish from the Atlantic coast to the wholesaler's plant, and also such expenses as are incurred by the wholesale dealer in handling, selling and delivery of the product, as well as administrative expenses.

The operations of leading wholesale fish companies have been carefully inquired into, and while in previous years substantial profits have been made, it appears that latterly any profits made have been reasonable, and in some instances losses have been incurred.

The average mark-up over cost on fish sold in 1933 by wholesale companies in Montreal was 26 per cent. Out of the gross profit thereby accruing the companies had to provide for delivery costs and the costs of handling and administration. The average mark-up over cost on fish sold in 1933 by wholesalers in Toronto was 27 per cent.

The following analysis of the operations of one of the largest companies has been found to be representative of other wholesale operators,—

This company sold 3,800,000 pounds of fish during the year ending December 31, 1933. Total value of sales was $415,000, or an average selling price per pound of 10·92 cents. The average purchase cost per pound of this fish, which, in addition to the amount paid the distributing company also included freight, ice and storage, etc., amounted to 8·47 cents a pound. Handling and selling expenses amounted to ·89 cents a pound, delivery expenses ·31 cents and administration expenses 1·06 cents, making a total selling expense of 2·26 cents, and a total cost of sales of 10·73 cents per pound. The average selling price was 10·92 cents per pound and the company therefore had a net profit per pound on all fish handled, of ·19 cents. This same company in 1932 had a net profit on all fish handled of ·22 cents, in 1931 a profit of ·37 cents, in 1930 a profit of ·47 cents and in 1929 a profit of ·33 cents per pound on all fish handled.

It would appear therefore, that the spread or profit represented by the above outlined operations of a representative wholesale fish company cannot be considered as excessive.

d. Retail Spreads

The general table on price spreads appearing on page 192 indicates that between the cost and selling price of the retailer there was a spread of 6 cents per pound on cod fillets, 6 cents on haddock fillets, 6½ cents on cod steak and 3½ cents on headless haddock.

It was represented by retail fish dealers that a substantial spread must exist between wholesale and retail prices in order to provide for the large expenses incurred in the retail handling of fish products. It was pointed out that shrinkage and waste in the fish must be provided for and that delivery expenses, especially in the larger centres, are very heavy. It was also represented by retail dealers that fish is sold to consumers principally during one or two days each week, while the entire store overhead and delivery facilities, in some cases, must be maintained throughout the whole week.

The average mark-up over wholesale cost on fish handled during 1933 in retail stores investigated in Montreal was 54·6 per cent—the average mark-up in retail stores investigated in Toronto was 55·5 per cent.

The following analysis of the operations of a leading fish store may be considered as representative of other retail dealers. This store retailed during 1933 approximately 1,900,000 pounds of fish, for which it paid an average price of 9·48 cents a pound. The selling costs, including salaries of employees, overhead

and administration, amounted to an average of 4·33 cents a pound, shrinkage and waste amounted to 1·26 cents a pound and delivery ·43 cents a pound, making a total cost of handling of 6·02 cents, or a total cost of sales of 15·50 cents per pound.

Sales of the company averaged a return of 15·71 cents per pound, thereby providing a net profit on all fish handled of ·21 cents per pound. During 1932 this same company retailed over 2,000,000 pounds of fish and had a net profit of ·44 cents per pound.

The delivery costs of this retail store were relatively low, as much of the trade was over the counter. Delivery costs of other retailers were set at approximately ·75 cents per pound. On the other hand, waste and shrinkage in this store seem to be higher than in others and the net operations are therefore representative of other retail dealers.

It does not appear that the spread between the wholesale and retail price for fish is excessive or unreasonable, having regard to the nature of the product handled.

e. Conclusions

A careful perusal of numerous charts and statements prepared on the subject of price spreads in various phases of the fishing industry, indicates that the spread between the price received by the fishermen, by the distributor, by the wholesaler and the price paid by the consumer, while in places large, is not exorbitant *having regard to the conditions* that prevail in this industry.

It does appear, however, that the present lack of reasonable co-ordination in the distributing and marketing phases of the fresh fish industry, and to a somewhat less extent in the handling of cured fish, has resulted in a loss to various operators, that had it not been sustained, would thereby have provided a larger financial return from the volume of product marketed without increasing to any unfair or unacceptable degree the cost to the consumer.

Without accusing anyone of making exorbitantly high profits in the industry, there is reason to believe that in the present spread in prices between the producer and consumer there exists a basis for more profitable return to the former. Especially do we feel that every effort should be made to narow the spread between the distributor's price to the fisherman and his price to the wholesaler. In view of the large quantity of fish handled this spread seems high. Possibly some reduction could be made in items such as administrative costs, which seem to make up an unduly high proportion of the total cost. It may be, however, that no worth-while saving can be made until the loss now being sustained in disorderly marketing is eliminated.

11. General.

a. Transportation of Fish.

We were advised that the railway freight and express rates on fish are considered on the whole fair and reasonable, and that the railway facilities for handling the product are in general satisfactory.

It has been represented, however, that the differential between freight and express rates from different points of shipment on the Atlantic Coast places at a serious disadvantage those fishing communities that are more remote from transportation centres. Uniform zone rates should be established, as this would bring material assistance to communities that are not now served by large distributing companies, and they would thereby be enabled to more satisfactorily market their product.

Several witnesses appearing before us expressed a difference of opinion as to the relative merits of shipments of fresh fish by express and by freight. It appears to be true that in some instances shipments in carload lots by freight, on account of being undisturbed in transit, arrive on the market in as good, if not better condition than small shipments by express. It was submitted by some

of the companies engaged in the industry that express rates upon fish should be lower, and that an effort be made to consolidate these shipments at a central point into carload lots with a view to eliminating the handling and disturbance of the fish en route.

On the whole, however, adequate facilities are available for the handling of fish both by express and by freight. Further, the various steamship services subsidized by the Government have enabled, or should enable, the shippers to advantageously transport their products to the markets.

b. Inspection of Fisheries Products.

Considerable evidence was presented as to what witnesses termed "lack of adequate inspection and grading of fisheries products." It appeared, however, that several of the witnesses were not fully informed in this regard as to the regulations and provisions of the Department of Fisheries.

Adequate inspection should apply to all fish, whether for domestic or export consumption, and such inspection should be made compulsory.

c. Steam Trawlers.

We received many representations as to the operation of steam trawlers. This subject was exhaustively dealt with by the Royal Commission of 1927, and as a result of the report of that Commission, trawler operations were restricted to three vessels, all operating out of Halifax. It was stated that in practice this means the continuous operation of two trawlers, since one of the three is usually undergoing repairs.

It was represented by the fishermen that the operation of trawlers even in this limited manner has adversely affected the markets available to individual producers. On the other hand, officials of the company operating the trawlers advised us that their company was willing to purchase all the fish brought to their wharf by schooners, but that trawler operations, in so far as their company was concerned, were necessary to provide continuity of supply to all distributing points.

This argument that the trawlers are necessary to provide continuity of supply, has been advanced on previous occasions, and before other Commissions investigating the fishing industry. It has, indeed, been the heart of the case in favour of the trawler. We feel, however, that the new type of fishing vessel known as the Lunenburg Auxiliary Schooner, the development of which has recently been so successful, offers all the advantages of continuity of supply possessed by the trawler and at the same time utilizes more fishing labour, a point which we consider of great importance. We feel, therefore, that under present conditions, trawler operations should be gradually discontinued by government prohibition.

d. The Co-operative Movement.

Following the withdrawal from Eastern Nova Scotia of the larger distributing companies, there has been organized a movement which offers promise of becoming a helpful factor in improving the position of the fishermen and in solving several of the problems facing the industry.

The co-operative movement, while relatively new, has made progress, more especially in the lobster fishing branch of the industry, and the United Maritime Fishermen's Federation now has a membership of approximately 2,000, with branches at points throughout Nova Scotia and New Brunswick. We were advised that, in the first instance the co-operatives confined their activities to problems of production, but that more recently the aims of the organization have been extended to include marketing plans and policies.

This co-operative movement has enabled the fishermen in some districts to purchase necessary supplies to greater advantage, and in several communities has been associated with the establishment of Credit Unions.

It appears that there are a number of fishing communities, particularly in Eastern Nova Scotia, that will not in the future be served by large distributing companies. In these communities, removed as they are from direct transportation routes, the development of co-operative marketing holds hope for a more profitable pursuit of the fishing industry.

The further development of the co-operative movement may well bring benefit to the fishermen operating in the districts served, and this development should be given every encouragement.

12. The Basic Problems

It has been established by evidence submitted and by the investigation of a previous Royal Commission that grave problems confront the fishing industry of Eastern Canada.

The difficulties and disabilities are so many, so varied and so intricate that their complete removal cannot be contemplated as immediately following any recommendation of any one Commission. Nevertheless many disadvantages can be removed and a more adequate return to the fisherman and greater prosperity for the industry as a whole can be attained. Not by any one remedy but by several remedies, proceeded with upon a conservative basis so that that part of the industry's organization which appears to be sound will not be disturbed by unnecessarily drastic changes in those fields in which reform is necessary.

The concrete problems arising out of the evidence submitted and presenting themselves for solution can be concisely stated as follows:—

(*a*) How to eliminate unsound and uneconomic trade practices and to establish uniformity, co-ordination and more efficiency in the distributing and marketing phase of the industry.

(*b*) How to extend and strenghthen domestic and export markets for Canadian fish.

(*c*) How to increase the earnings of the individual fisherman.

(*d*) How to make some provision for limited credits for fishermen to purchase gear, whereby those now without necessary equipment can become re-engaged in the industry.

If these problems can, if only in part, be solved, Canada's Atlantic fishing industry should hold even more securely its place as one of the Dominion's most valuable natural assets.

13. Recommendations

a. Introductory

Co-ordination and efficiency in all branches is vitally necessary if there is to be progress in the fishing industry. Any departure from sound trade practices or any other defect in either the production, distribution or marketing phases of the industry is immediately reflected to the disadvantage of the industry as a whole and to the detriment of all those engaged in the fisheries.

The dealers are dependent upon the fishermen for a satisfactory quality of produce in sufficient quantity to assure a uniform supply of fish for the markets and the fishermen, in turn, are dependent upon the dealers effectively to distribute and market their catch. If either the fishermen, the distributors, the transportation companies, the wholesalers or the retailers fail efficiently to perform their part, the whole industry and all those engaged in it suffer.

It is not unfair to any of the interests involved to say that there has not been a sufficient degree of this co-ordination and efficiency in the fishing industry in the past, nor is there any reason to anticipate its genesis in the future unless provision is made through regulations bearing legislative authority.

As set out earlier in this report, the principal disabilities of the industry are not those of production. On the contrary, they are those of distribution and

marketing and if conditions here continue as they are now, there is little likelihood of profitable returns to those engaged in the industry. On the other hand, if the necessary co-ordination and efficiency is established financial benefit should accrue to both the fishermen and the dealers while the consumer will also benefit in the form of a better product.

The fishing industry from its nature is essentially one in which individual initiative should be given as large a scope as possible. It appears, however, that if such initiative is not satisfactorily providing the means whereby the serious problems confronting the industry can be solved, then some practical form of social direction and control is desirable. The object of such control would not be to destroy individualism in the industry but to give the individuals the benefit and assistance of intelligent advice and direction.

Authority and responsibility for this direction should be placed in the hands of men actively engaged in the industry and should be exercised in such a manner as to leave in so far as possible the detailed working of the industry to those who have had practical experience.

It would be useless to attempt to place upon the shoulders of any Government Department any large share of responsibility for establishing the necessary conditions of efficiency referred to, and for finding the solutions to the various problems outlined. The day-to-day direction of the industry must be left in the hands of those engaged in it, but government might well intervene to see that this direction is in the best interests of all, and not merely of any particular group or groups.

b. Fisheries Control Board

We feel that the request for such intervention should come from the fishing industry itself. The Natural Products Marketing Act, 1934, provides the necessary legislative machinery, under which the various phases of the industry can organize for the purpose of co-operative marketing. Precedents for the inclusion of processors, as well as producers in the operation of any such marketing scheme, already exist and we would therefore strongly urge that steps be taken by the industry itself to organize for the purpose of remedying some of the evils disclosed above.

If the producers and distributors refuse to take advantage of this opportunity to promote orderly marketing and co-operative effort, it may be necessary for the government itself to initiate action toward the desired end, under Section 9 of the Natural Products Marketing Act. A refusal, for instance, of the distributing branches of the industry to co-operate with the producers in a voluntary scheme, might well justify the utilization of Section 9.

We do not intend to make detailed recommendations as to the form and powers of any marketing organization for the fishing industry. That should be done by the industry itself, or by the Federal Marketing Board, if the industry cannot agree on any proposals.

We desire however, to make certain suggestions which may be of some value. We feel, in the first place, that there should be one unifying and co-ordinating central board of control for the fishing industry of the Maritime Provinces which should be given wide powers over matters affecting all branches of the fishing industry, including particularly matters pertaining to processing, transportation, distribution and marketing of the catch.

This Board might be known as the "Fisheries Control Board" and should be restricted only by the terms and provisions of the Marketing Act. The proposed Board should not in the first instance attempt to institute revolutionary reforms, as affecting various branches of the industry, but should proceed through successive steps to eliminate, in logical order, the more pressing disabilities. Its most important duty would be to make every possible effort to ensure that the fisherman secure a fair price for his fish and not, as at present, the pittance that

is left over from the consumer's dollar after all other branches of the industry have received their share. The Board might next approach the problem arising from conditions in domestic retail markets.

Through successive steps the Board might then proceed to action in connection with disabilities of the industry in something approaching the following order:

(1) The elimination of misrepresentation of varieties and grades of fish as now prevailing in the retail markets in Canada.
(2) 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.
(3) The establishment of adequate inspection of grades as affecting products for the Canadian and export markets.
(4) The elimination of consignment shipments.
(5) The elimination of cut-throat competition and other unsound trade practices.
(6) The direction of surplus production of fish through channels calculated to bring the most profitable financial return.
(7) A thorough survey of conditions surrounding, as well as the disabilities retarding development of existing and potential export markets.

It is not contemplated that all of these steps could or should be taken at one time, but that each successive step may be proceeded with in the light of experience gained through previous action taken.

In instituting reforms and in seeking to establish uniformity, co-ordination and efficiency in the industry, the Fisheries Control Board might, where necessary, exercise administrative authority through a system of licensing.

c. Local Advisory Committees

To assist the Fisheries Control Board, there should be appointed local advisory committees. The duties of these local committees would be in advising the central Board upon problems affecting the particular branches of the industry in connection with which they have been appointed. There should be at least five advisory committees 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.

The appointment is suggested of one secretary who would act in that capacity for each of the advisory committees and whose duty it would be to act as a contact official between the Fisheries Control Board and the local committees, and to convey communications from the committees to the Board, and also provide a point of contact between the various local committees.

d. Credits For Fishermen

Much evidence has been received on the present deplorable condition of the fishermen of the Maritime Provinces, and the extent to which many of these fishermen are at present unable to re-engage in the industry due to lack of boats and fishing gear.

It is therefore suggested that the Government of Canada should give early and favourable consideration to the establishment of a limited fund through which deserving primary producers now without fishing gear may be granted credit so that they may again become producers in this industry.

The details of administering such a fund, if it is established, could logically be left to local committees, the members of which would have thorough knowledge of local conditions.

CHAPTFR VII

DISTRIBUTION

1. INTRODUCTION

It is proposed in this chapter to review the system of distribution of consumer goods in Canada, with particular regard to the more specific terms of the Order of Reference. The terms of this Reference commanded an inquiry into "the system of distribution in Canada of farm and other natural products as well as manufactured products" and a more specific clause directed an investigation of "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."

The term "distribution" means much more than the physical conveyance of merchandise from the producer or manufacturer to the consumer. Having regard to the highly specialized functional divisions in almost every industry, distribution includes all the activities and functions having to do with the movement of consumer goods from the hands of the producer. It might be defined as "the sum of the processes by which, when produced, commodities are distributed." It must, therefore, include such matters as packaging, labelling, containers, advertising, wholesale and retail selling, service, and guarantees.

In order to view in proper perspective the various agencies in the present system, some discussion becomes necessary of the growth of large-scale retailing organizations which, in Canada, as elsewhere has been the outstanding development in the distributive system in the past twenty years. The commanding position attained by a few huge corporate enterprises in the retail trade of the country has had a profound effect upon all the agencies in the system, and particularly upon the producer, the wholesaler, and the smaller retailer.

Our inquiries have, in consequence, been particularly directed to the part played by the largest organizations in the retail field and we have conducted, through our accountants and investigators, an exhaustive examination of the great department and chain stores operating in Canada to-day. The effect of mass buying on the wage earner has been discussed in a previous chapter. This chapter discusses more particularly merchandising practices, habits, and customs, and endeavours to assess the effect of mass buying on producers, competitors, and on the public welfare.

At the outset of our inquiry witnesses appeared on behalf of manufacturers' and retailers' organizations who testified as to the injurious effects of certain practices of mass buyers and, while a general answer to these charges was offered by chain stores, there was no contradiction or reply from department stores. The evidence before us, however, leaves no room for doubt that the growth of the mass buyer has had an adverse effect upon the fortunes of the wholesaler, the smaller retailer and, in certain cases, the producer. It is important therefore, to determine, if possible, to what degree the large, extended retailing organization of the present day operates in the public interest.

2. THE DEVELOPMENT OF LARGE-SCALE MERCHANDISING AND ITS PLACE IN THE STRUCTURE OF RETAIL DISTRIBUTION

1. Development.

The revolutionary development of large-scale merchandising in Canada since the beginning of the century parallels the concentration in industrial production, which, in this country, commenced only a few years earlier. The

system in 1900, whereby commodities moved from producer to consumer via the wholesaler and a retail net-work of thousands of small merchants, has given way to the complex system of the present day, in which the wholesaler plays a relatively minor part and the independent retailer is dwarfed by those huge corporate enterprises, department and chain stores, which in 1930 transacted 31·1 per cent of the total retail trade of the country.

Up to the beginning of the World War, this development had been gradual. The modern chain store had not yet made its appearance in Canada and the principal changes centred around the weakening of the position of the wholesaler, through the increasing tendency of the manufacturer to sell direct to the retail merchant. During this period, the department store, while largely responsible for the changing merchandising methods of the manufacturers, enjoyed a sober and wholesome growth, laying, as it turned out, the foundation for the huge structure which developed after the War. It was during these years that the mail order business made its appearance, the almost exclusive concentration of which in department stores has, to some extent, accounted for the dominant position attained by the two largest of such stores.

In the years following the War, however, the trend to mass merchandising developed at a much faster rate. The largest department and chain stores attained proportions comparable to the large industrial producers; and, just as the development of large-scale production had brought injury and sometimes injustice to the small producer, so large-scale merchandising brought injury and sometimes injustice to the small retailer.

A number of factors contributed to the rapidity of those developments from 1920 to 1929. Improvements in transportation and communication had an important bearing on the buying habits of the public, and urban establishments benefited materially therefrom. In addition to this a rapid urbanization of the population took place; from 1921 to 1931 the total population of the country increased 18 per cent, whereas the urban population increased 28 per cent, and the population of four metropolitan areas 38 per cent. In the same period the physical volume of production increased by more than one-half. This concentration of population, accompanied by a rising standard of living, afforded opportunities for expansion in the retail field which were utilized most effectively by the larger organizations.

The first post-War depression in 1921 and 1922 had resulted in a heavy mortality among retail and wholesale firms. From a total of 771 in 1920, commercial failures among these merchants rose to 1,739 in 1921, 2,717 in 1922 and 2,319 in 1923. The established department and chain store organizations, however, while suffering reverses at this time, were, by reason of their financial resources able to survive, and even to strengthen their competitive position. The succeeding eight years witnessed a growth far more rapid than that in any former period of their history, equivalent in sales volume in the three largest department store organizations to approximately 80 per cent. Similarly chain stores, operating up to 1925 on a relatively small scale, expanded at a very rapid rate up to 1930. The 13,287 units operating in that year represented 10·6 per cent of the total of all stores in Canada.

The unwarranted expansion policy of the management of department stores during this period was due partly to unbounded optimism over the future of such organizations, and partly to competition from, and desire to secure the advantages of, the chain store system of distribution. Costly new premises were erected; both selling and servicing branches were subjected to specialized functional development; and in some cases over-optimistic and unsound financial promotion was undertaken.

2. Retail Merchandising and the Depression.

The beginning of the depression, therefore, found the retail field dominated by a few large organizations expanded to a point where they competed directly

with the independent retailer throughout the whole of the country. In the succeeding years, by reason of their financial resources, and other advantages peculiar to large-scale merchandising, the large-scale organizations have been able to weather the storm. As in the 1921 depression, however, commercial failures removed large numbers of independent retailers from the field.

As long as business was on the upswing, the expansion of department and chain stores, while increasing the severity of competition in the retail field, did not render precarious the position of the independent retailer. In fact, as the majority of retail stores have always been short-lived, the establishment of units of chain stores or the growth of department stores might merely supplant independent stores which would have failed in any event. Almost half the independent grocery stores in Canada, according to the results of the Census of Merchandising, had been under the same ownership for less than six years. In greater or less degree, the same is true of other lines of retail trade and has been for decades. But the contraction of business in 1930, accompanied by a rapid fall in prices, has intensified the struggle for survival on the part of small distributors.

In the depression of 1921 the bulk of the trade was in the hands of independents, and the adjustments were made largely through the disappearance of the weaker units. The competitive position of the surviving businesses was, roughly unchanged. In the recent period, however, as department and chain stores occupy a much larger share of the retail field than before, the adjustments required by the contraction in trade and the decline in consumers' incomes cannot be made as easily as when small enterprises were dominant. Whereas, in the preceding period, each merchant would tend to adapt his methods to the changed conditions at about the same pace as his competitors, in the present situation the large-scale distributors have changed their competitive practices so rapidly that the independent merchant finds it difficult, often impossible, to follow in time to prevent a weakening in his competitive position.

3. The Position of the Large-scale Distributor.

The growth of large-scale merchandising having been outlined, it may be useful to indicate its place in the general structure of retail trade.

In 1930, the last year for which complete figures for retail merchandising are available, there were approximately 125,000 retail merchandising establishments in Canada, with sales amounting to $2,755,600,000. These establishments employed 275,200 persons who received a total $257,600,000 in salaries and wages. In addition to hired employees, there were 125,000 proprietors or firm members actively engaged in retailing.

A classification of the retail stores according to type showed that in the year 1930 independent stores (exclusive of department stores) did 68·9 per cent of the total business; chain stores (exclusive of department stores) did 18·3 per cent of the business; and department store sales formed 12·8 per cent of the total. Thus, chain and department stores together accounted for 31·1 per cent of the total sales.

The variations in the averages for the several provinces are also significant, combined sales of department and chain stores representing 25·0 per cent of the total in the Maritime Province, 26·7 per cent in Quebec, 33·0 per cent in Ontario, 32·5 per cent in the Prairie Provinces, 35·3 per cent in British Columbia, and 64·9 per cent in the Yukon and Northwest territories.

In the United States, according to the Census of Distribution for 1929, the sales of chain stores (exclusive of department stores) were 19·7 per cent of the total, and sales of department stores and mail order houses, 8·9 per cent. The relative proportions of combined sales of department and chain stores to total retail business were, therefore, 31·1 per cent in Canada and 28·6 per cent in the United States.[1]

(1) For relative proportion of chain store sales for selected kinds of business in Canada and the United States, see Annex VI, Table 123.

Available information suggests that since 1930 chain and department stores as a whole have not increased their proportions of the total trade by more than two or three per cent. In the United States, according to the recent Census of American Business, department stores in 1933 had 10·2 per cent of the total retail trade compared with 8·9 per cent in 1929. The Dominion Bureau of Statistics estimates that sales of department stores in Canada in 1933 were 13·6 per cent of the total, compared with 12·8 per cent in 1930. The following table gives official figures and estimates:—

PROPORTION OF TOTAL RETAIL MERCHANDISE TRADE HANDLED BY DEPARTMENT STORES, CANADA, 1930-1933[2].

—	Total Net Sales			
	Actual		Estimated	
	1930[1]	1931	1932	1933
	$	$	$	$
All Stores, total	2,755,569,900	2,325,732,000	1,917,219,000	1,776,884,000
Department Stores	355,258,600	312,739,000	253,832,000	241,665,000
Percentage of total	12.9%	13.4%	13.2%	13.6%

[1]Revised figures of Dominion Bureau of Statistics.
[2]The Dominion Bureau of Statistics.

In certain fields of trade, chain stores have materially increased their share of the business, but in other lines they have lost ground. Among the fields for which both American and Canadian figures indicate an increasing share for chain stores are groceries and meats, shoes and drugs. In the United States, grocery and combination stores handled 38·5 per cent of the trade in their field in 1929 and 44·2 per cent in 1933; for Canada the figures are 29·5 per cent in 1930 and 33·2 per cent in 1933. Both women's apparel chains and men's clothing chains, however, are thought to have lost ground in Canada and the figures for chains in the United States show that in these fields the position in 1933 was relatively unchanged from 1929.

There is a further factor which should be taken into consideration, namely, the tendency of retail trade to concentrate in urban centres where an increasing proportion of trade falls to the mass merchandiser. This is revealed by a classification of retail stores according to size of locality. This concentration appears due not only to the increasing urbanization of the population, but also to improvements in communications and transportation, which greatly extend the market area of the more favourably situated localities. For Canada as a whole, 54·6 per cent of the 1930 sales were made by stores located in cities of 30,000 population or more, although only 29·2 per cent of the population resided in such centres. Of this 54·6 per cent, nearly half was accounted for by the sales of chain and department stores, though this figure is far above their proportion of all retail sales, 31·1 per cent.

There remains one other phase to be examined; that is the concentration of business in large stores of all types and the relatively small proportion of the total trade that is handled by the small stores which form, by far, the greater part of the total number. In 1930, stores with annual sales of less than $5,000 formed 38·4 per cent of the total number but did only 3·6 per cent of the business. All stores with less than $10,000 sales per annum constituted 56·6 per cent of the total number, but their share of the total business was only 9·5 per cent. That is to say, more than half of the retail stores in the Dominion had less than 10 per cent of all sales, and 90 per cent of the sales were handled by the remaining 43·4 per cent of the stores. Stores with sales of $100,000 or over comprised 2·7 per cent of the total and transacted 39·3 per cent of the total business.

In the United States, stores with sales of less than $10,000 per annum formed 43·7 per cent of the total number and accounted for 5·7 per cent of the sales. Stores with sales of $100,000 or more constituted 5·0 per cent of the total number in the United States and had 45·2 per cent of the sales.

The classification "Stores with Sales of $1,000,000 or over" is the largest used. There were 85 stores in this group in Canada, or 0·07 per cent of the total, with sales amounting to 14·2 per cent of the Dominion total. In the United States, such stores were 0·14 per cent of the total number and had 12·3 per cent of the sales. It will thus be seen that a greater proportion of the total sales is handled by both the largest stores and the smallest stores in Canada than in the United States.

4. Position of the Wholesaler.

One important result of this development of large scale merchandising has been the virtual disappearance of the wholesale merchants in many lines, and the establishment of direct contacts between manufacturer and retailer. The disappearance of the independent wholesale merchant does not mean that the functions formerly performed by him are rendered unnecessary. To some extent, they are taken over by the retailer, particularly through the warehousing and distributive facilities of chain and department stores, but, probably to a much greater extent, the wholesaler has been replaced by the marketing organization of the manufacturer.

A statistical analysis by the Bureau of Statistics, of the manner in which the products of some of the leading manufacturers of consumers' goods was distributed in 1930, shows interesting results.[1]

In food industries, the wholesale merchant still occupies an important place in the distributive system, although direct sales to retailers form a considerable part of the total in some lines. For the most part, such sales represent purchases by large-scale enterprises. In the clothing industries, the wholesale merchant has practically disappeared and independent, chain, and department stores buy directly from the manufacturer. The figures for the furniture industry reveal the same conditions.

In the hardware and electrical industries the wholesaler still handles a substantial proportion of the business, but in the latter industry manufacturers' wholesale branches are almost as important as independent wholesale merchants. The industries producing medicinal and pharmaceutical preparations made a greater proportion of their sales direct to retail establishments than to their own wholesale branches and wholesale merchants combined.

This development of extensive marketing organizations by manufacturers and the consequent increase in direct selling to retailers increases rather than solves the difficulty of determining the efficiency of various channels of distribution, owing to the failure to find a satisfactory method of allocating overhead and other joint charges between production and selling costs.

With the general structure of retail distribution outlined and the place of the large-scale distributor in that structure indicated, we may now discuss the two types of mass merchandising on which we received evidence, department stores and chain stores.

3. THE DEPARTMENT STORE

1. Growth and Development.

Our investigation into department stores covered ten companies of which the majority were single-unit organizations, operating only retail stores in urban centres. The three largest, namely, the T. Eaton Company, Ltd., the Robt. Simpson Company, Ltd., and the Hudsons Bay Company, Ltd., are multiple-unit

(1) Annex VI, Table 124.

undertakings, two of which do the bulk of the mail-order business of the country. Obviously, the buying power of these extended companies is of much greater significance than the influence of the single-unit stores. In comparison with their larger competitors, the latter, indeed, can hardly be described as mass buyers.

The large department store organizations of the present day practically all developed from small dry-goods stores or small general stores. The three largest were all in existence by 1875 and by 1900 were each doing a volume of business of from one to five million dollars per annum.

From this point, the volume of business shows a constant growth until in 1930 the three largest companies conducted over 10 per cent of the total retail business of the Dominion. In early years the additional capital required for such expansion was obtained by ploughing back earnings, but in 1925 and succeeding years the public were invited to invest in the securities of the two largest organizations.

Growth in the early period is to be attributed to an increasing measure of popularity secured for these organizations by certain obvious conveniences to the public, inherent in the department store method of merchandising. The maintenance of a single price policy coupled with emphasis on lower prices, created in the minds of the buying public an attitude of confidence, which was promoted with considerable skill through the various customer policies of the stores.

The earlier growth of the large department store from 1900 to 1920 is marked by a number of steps. The first important change in the transition from the dry-goods store was the development of departmentalization. Then came the addition of mail-order business, and the subsequent establishment of separate divisions, including the opening in other large cities of additional department store mail-order units modelled closely upon the parent organization. Added lines of merchandise, including foodstuffs, had an important effect upon volume, increased the number of customers in the store, and resulted in new buildings or increased floor space. Factories, manufacturing at first solely for the mail-order branch, were gradually built into important production units employing in one instance over 6,000 workers and were designed to supply all the retail outlets of the organization.

2. Nature and Extent of Department Store Business.

This is, in brief, the framework on which was built most of the expansion of the 1920's. During that decade department store growth proceeded very rapidly and, we feel, often unwisely. With the exception of one company which ventured into the chain-store field through the establishment of chains of small department stores and "groceterias," expansion took the form of enlargement of existing services, modernization and extension of premises, an even higher degree of specialization in the merchandising of various commodities, and the addition of important and often expensive customer facilities. Specialization in merchandising departments is illustrated by the fact that within one large unit were found no less than 180 different selling departments. Store service departments underwent the same specialized subdivisions along functional lines, the above mentioned unit having 117 separate service departments.

Further reference should be made to the mail-order business. From its establishment early in the century it increased rapidly in volume, particularly during the later years of the War, and reached its peak in 1920. From that point, however, mail-order business has lost ground, largely owing to the improvement in communications, and the urbanization of a section of the rural population. At its peak, catalogues issued twice a year by one company contained 588 illustrated pages, and over 1,000,000 copies of each issue were distributed at a cost of approximately $1 per catalogue.

Department store activity varies considerably in different parts of Canada and the Census of Merchandising shows that, of the 146 stores (including mail

order warehouses), 61 were located in Ontario, 24 in British Columbia and the Prairie Provinces combined, 17 in Quebec and 20 in the Maritime Provinces. The proportion of the total retail trade handled by such stores was highest in the Prairie Provinces, where the sales were 17·4 per cent of the total, and lowest in the province of Quebec, where they were only 8·2 per cent of the total.

The maximum volume of department store business was reached in 1929, when the ten companies investigated had sales of over $357,000,000. These companies operating 22 department stores and 5 mail order warehouses, accounted for more than 90 per cent of the department store business. The three largest, the T. Eaton Company, Ltd., the Robert Simpson Company, Ltd., and the Hudson's Bay Company, Ltd., together accounted for slightly more than 80 per cent of the total, while, with sales of approximately $225,000,000 in 1929, the T. Eaton Company, Ltd., alone transacted 58 per cent of all department store business or over 7 per cent of the entire retail trade of the Dominion.

From the 1929 peak, business fell off steadily, and in the year 1933 the sales of the ten largest stores had dropped to $224,500,000. It is significant that the most severe decline occurred in the largest company, the T. Eaton Company, whose business fell by 42 per cent from its 1929 volume, compared with an average decrease in the other nine companies of only 30 per cent.(1)

This loss of volume, coming as it did at the end of a period of unwarranted expansion, found the largest stores with an unprecedented expense burden which threatened their very existence. The top-heavy development of the larger units created an expense structure so inflexible that a serious drop in volume threatened financial disaster. Indeed the principal reason for the maintenance of the dominating position of these companies during the depression lies not in the limited economies which were possible, although these were drastically instituted, but in their ability to increase their trading margin in the face of falling prices, decreasing public purchasing power, and the most intense competition between the department stores themselves.

3. Mass Merchandising and Mass Production.

In considering the development of department stores in relation to the other retailing agencies, their sales cannot be compared directly with those of any one kind of business because department stores compete with virtually all other retailers. By estimating the total sales of all stores by commodities it is possible to arrive at the approximate proportion of the total sales for certain lines represented by department store sales. The results of the Census of Merchandising for Canada show that department stores had, in 1930, roughly, 60 per cent of the trade in home furnishings (bedding, mattresses, kitchen utensils, etc.), 52 per cent of dry goods and notions, 42 per cent of women's clothing, 46 per cent of furniture, 32 per cent of shoes, and 27 per cent of men's clothing.

That the trade in these lines forms more than half of the total business of the large stores reveals another significant aspect of department store operation. The production of many of these commodities—particularly men's factory clothing, women's factory clothing, and leather boots and shoes—has tended to remain in the hands of a large number of relatively small manufacturers. Almost half the production in the women's factory clothing industry was by firms with an output of less than $200,000, while establishments of this size in all industries produced only 21 per cent. Firms with production of less than $500,000 accounted for more than 60 per cent of the total output for men's clothing and boots and shoes, and more than 76 per cent for women's clothing, compared with an average for all industries of only 34·0 per cent. Mass merchandising, therefore, far from applying only to mass-production goods, applies chiefly to goods which continue to be produced in relatively small plants.

(1) See Annex VI, Charts VI and VII.

4. Possibilities of Future Expansion.

The concentration of business in the hands of a few companies is far greater in Canada than in any other country for which information is available. In the United States in 1929 there were 17 companies operating 2,400 department stores with sales of $1,500,000,000. The sales of these 17 organizations, however, represented only 34 per cent of the total department store business in the United States, whereas the three largest companies in Canada handle 80 per cent. The largest single department store and mail order organization in the United States, Sears, Roebuck and Company, had less than 1 per cent of the total retail business in that country, while in Canada the T. Eaton Company had more than 7 per cent. It is interesting to note that the largest retail organization in Canada is in the department store and mail-order field, while in the United States, the largest organization is in the grocery and meat chain field. But even this company, the Great Atlantic and Pacific Tea Company, with sales of approximately $1,000,000,000 in 1929, did not occupy as dominant a position in the United States as did the T. Eaton Company, Limited, in Canada.

At this point, it seems pertinent to inquire whether or not, with an improvement in business conditions, department stores may be expected to undergo another period of expansion such as occurred in the 1920's. In our opinion, this seems extremely unlikely. The results of the past four years and the evidence we have taken suggest that the trend to be anticipated is toward lessened department store dominance in the retail field. That certain efficient units operating to-day will increase the volume of their business, there seems little doubt but the uneconomic expansion on the part of the largest companies, with multiple, parallel, and mutually-competing types of outlets, has resulted in a structure and organization of business which cannot operate with maximum efficiency.

The development of new competition from the different types of chains and the modernization of the methods of independent retailers should exert a restraining influence on future department store expansion. These factors seriously threaten the price advantage upon which the department store has come to rely and, while it is difficult to forecast accurately the effect on the prices of suppliers of the enforcement of labour and minimum wage legislation, the return of better business conditions should undoubtedly strengthen the bargaining position of the supplier to the detriment of the profit margin of the department store.

A further important consideration is the increase in the fixed operating expenses of department stores arising from the expansion of these organizations in the 1920's. While internal reorganization and the closing of uneconomic units may lighten to some extent the heavy burden of expense, it appears abundantly clear that the advantages over competitors, enjoyed by these stores in the earlier stages of their development, by reason of the efficiency of their operation and their tremendous purchasing power, are now to a large extent offset by higher costs resulting directly from over-expansion.

5. Department Store Organization and Operation.

a. Department Manager.

The modern department store may be described as a number of individual businesses operating under the same roof, owned, taxed, and financed by the central organization, but with each department actually operating under the exclusive direction and control of an official, commonly known as the department manager or buyer. This individual trader is usually well-paid and receives a bonus when his department makes large profits. In order to retain his position, however, the buyer must secure a net profit that is satisfactory to

the management, and while his responsibilities are heavy, he is given a wide amount of personal discretion in the operation of his department.

In spite of the independence allowed the buyer in his dealings with suppliers and the public, he is under a very close daily supervision in the matter of his results. He is judged primarily on his volume, maintained mark-up, and net profits, and is subject to a highly developed system of budgetary control.

All phases of the operation of the department are carefully budgeted in advance of each season. The budget is prepared in the first place by the department manager and shows the estimated sales, expenses, profits and that most important index, the ratio of gross margin or mark-up. The gross margin is the difference between the laid-down cost of the merchandise and the realized selling price and is nearly always referred to as a percentage of the sales total. The measure of the adequacy of the budget is the operating result of the previous year, so that year after year the department is expected to show improvement, either in volume or in mark-up, or both. In a period of bad business, the management may not expect the maintenance of the previous year's volume, but the department manager is always under strong pressure, for his own protection, to render a budget that will be reasonably satisfactory to the management. The results of the business are watched day by day and week by week, and the department manager is quickly checked if the performance of the department is not equal to the budget.

Behind the merchandising departments, stands a large service organization, itself divided into a number of separate departments. The service departments provide delivery, telephone, accounting, cleaning, and a host of other services in the store. The costs of such services are divided among the merchandising units in a variety of ways.

There are thus two classes of expenses which the department manager has to meet; first, those over which he has direct control such as wages of his sales staff and advertising; and, second, the expenses which are charged to him by the head office and which cover administration, occupancy, interest on stock, rental on equipment and other charges. It is the usual practice to charge each department not only with the out-of-pocket expenses of the organization, but also with certain other charges, such as interest on the merchandise, excessive rent for the space occupied, etc. This is known as "loading" and often results in a department, which appears merely to break even, realizing a fair profit for the organization.

In other words, the departmental expense charges, which affect the net result on which the manager is judged, contain disguised provisions for profit, through the billing by the central organization of services at more than their actual cost. The "loading" of the departments' expense is practised by practically all department stores and is designed to place the department manager on approximately the same basis as the independent merchant. The tendency in recent years has been steadily to increase the amount of such "loading" and this has made it necessary for the manager to find more gross profit in order to break even. The system of "loading" is not, however, confined to expenses and within the last few years the policy has been initiated of "loading" the cost of merchandise. In other words, the department is charged more for the goods than they cost the store and this tends to cut down the percentage of maintained gross margin appearing in the departmental operating accounts. The effect upon the department manager of increased merchandise cost "loading," particularly during a period of falling prices and distressed business conditions, cannot be under-estimated. It has also an inevitable effect upon the supplier, because the buyer must purchase his merchandise at prices that will enable him to get his budgeted mark-up, over and above the cost of the merchandise plus all "loading" charges.

While the "loading" of merchandise costs is not practiced by all department stores reviewed by us, we feel that it has a considerable effect upon the buying tactics of those large organizations which do practice it. The inability, too, of the department manager to determine the extent of such "loading" seems to create an unnecessarily severe type of oppressive driving.

The evidence before us suggests that from 1930 to 1933 the position of the department manager has been a very difficult one, with volume rapidly decreasing, and "loading" charges increasing. This has necessitated a constant effort on his part to meet budgeted figures. This loss of volume induces terrific pressure within the organization. The department manager, to protect his own position, must seek to neutralize that loss and secure a greater margin of profit by searching for distress merchandise and making deals with idle plant manufacturers for the purchase of large quantities of goods frequently below factory cost. Such policies often result in the department store losing relatively less of its business than its smaller competitors.

b. Operating Results.

The common criterion of the efficiency of department store operations is the percentage of the gross margin to sales. In non-technical terms this is the difference between the purchase price of incoming merchandise and the actual amount realized when the same merchandise is sold. While the gross margin is commonly used in comparisons, it is not an entirely satisfactory yardstick, since conditions under which stores operate vary greatly. Because the gross margin is expressed as a percentage, the actual spread in dollars and cents depends on the base to which it is applied, and in making comparisons from year to year, when there are shifts in the level of commodity prices, the gross margin percentage, without taking these shifts into consideration, is an incomplete and misleading index. In spite of its inadequacies, however, this index must be employed in lieu of more satisfactory data, but the limitations of the method should be kept in mind.

Some comparison of the relative efficiency of department stores and specialty stores can be gained by comparing their operating results.

(1) *Comparison with Specialty Stores.*

In the majority of independent retail stores there has been, in the past, a strong tendency for margins to remain relatively constant over a fairly long period of time. This is due to the general conservatism of most proprietors and to the maintenance of what is considered the customary mark-up for each kind of business. These conclusions are borne out by the results of the census of retail trade taken in 1924 and the more complete survey made in 1931. Between 1923 and 1930, in four different merchandise groups selected, the variation in the operating ratios for all specialty stores in Canada was less than 1 per cent.

A careful examination of the auditors' statements for department stores reveals that, on the average, the gross margins in the shoe, clothing and furnishings, and furniture departments, approach closely the average gross margin for the whole store. As these lines form a very considerable part of the total business of department stores, there are good reasons for believing that the relationship between the respective margins has held true for the period from 1925 to 1930.

A comparison of the gross margin percentage of sales, in 1923, of four selected specialty store groups with those of department stores in 1925 (the figures for 1923 are not available) gives the following results:—

KIND OF BUSINESS—GROSS MARGIN PER CENT OF SALES, 1923

Men's and boys' clothing and furnishing stores	32·98%
Women's ready-to-wear stores and ladies' tailoring	28·49
Shoe stores	27·73
Furniture stores	30·74
Department stores (1925)	25·4

It will be noticed that the ratio for department stores in 1925 was below specialty stores in 1923.

It is impossible to make a similar comparison for gross margins in later years as figures for specialty stores in these fields are not available after 1923. Such a comparison can, however, be made on the basis of operating expense ratios. If retail stores are operating at a profit the gross margin exceeds the operating expenses by the extent of the net profit. In the year 1930, however, there was very little profit for retailers as a whole. Therefore operating expense ratios for that year would be a valid basis of comparison, not merely between department and specialty stores, but with the gross margin ratio of 1923.

The figures for 1930 on this basis give the following results:—

KIND OF BUSINESS—OPERATING EXPENSES PER CENT OF SALES, 1930

Men's and boys' clothing and furnishing stores	32·85%
Women's ready-to-wear stores and ladies' tailoring	28·78
Shoe stores	28·05
Furniture stores	31·06
Department stores	25·8

It will be seen from the above that the respective ratios for department and specialty stores are practically the same as in 1923-1925. It will be seen, also, that on the basis of these figures, the department store in 1930, retaining a smaller percentage of the consumer's dollar, would be able, generally to undersell the independent retailer in these lines, even had the former not been able to buy more cheaply than the latter.

Since 1930, however, as we shall see later, the operating ratios of department stores have advanced sharply, until operating expenses reached 29·1 per cent of sales in 1932. It is believed, however, for reasons set forth previously, that specialty stores have tended to maintain their customary margins. If this be true, the relative advantage in operating ratios possessed in earlier years by the department stores has largely disappeared and the difference, in this respect between the two types of stores is now less than at any previous period.

Department stores have built up in the minds of their patrons a deserved reputation for service. It is probably true, however, that the strongest incentive for the consumer to patronize the department store is the belief that prices are lower, or better values obtainable. The figures above indicate the changing situation in respect to this matter, but there is little doubt that the buying public is still convinced that exceptional values are more often found in the large stores. The advertising policies of such stores are generally designed to strengthen or maintain this belief.

Even if these lower prices do exist, there remains the question of how they are obtained. This matter is discussed in some detail in a subsequent section of this chapter. Meanwhile we need only state here that it is clear, from the data that are available for independent specialty stores, that the purchasing power of a single department store greatly exceeds that of the large majority of independent stores handling the same line of merchandise. This relatively greater purchasing power has enabled department stores to take a commanding position in many markets. There can be no doubt, therefore, that the department store has been able in its purchasing to secure better terms, equal or superior goods, and better service, than most independent merchants. Just how great an advantage is enjoyed by the large organizations cannot be clearly

determined from the evidence available, and to what extent this advantage arises from economies realized by the seller or through the exercise of superior bargaining power is likewise in doubt. But, in addition to the advantages which the department store has possessed as a mass buyer, there appear to have been, in the early stages, at least, certain advantages due to the economies of large-scale operation.

(2) *Increasing Margins and Cost of Operation.*

Any consideration of the relative efficiency of department stores must include a survey of the trends of their experience, as disclosed in the available statistics. The record of department stores in the United States and in Canada for such a period as we have been able to survey clearly indicates that this relative efficiency is lost as competition between department stores and other types of distribution develops. The guiding principle of department store operation is, as we have shown, the maintenance and advancement of certain operating ratios, particularly the gross margin. In a time of rising prices, such as the period 1914-1920, the maintenance of a gross profit percentage applied to an increasing base, rendered operations highly profitable. A reduction in this ratio might then reasonably be expected, because the cost of distribution does not increase by reason only of an increase in commodity prices. Department store policy, however, regards any such reduction as distinctly retrogressive and constant effort is made to maintain past standards of performance, as measured by the conventional ratios. The experience of department stores in the United States during the period 1914-1920 illustrates this.

While net profits were probably increased in this period owing to larger dollar volume of sales, the failure to secure any reduction in operating expense ratios meant that the per-unit cost of handling goods increased, because the same ratio of expense was being applied to much higher dollar values.

The fall in prices that began in the latter part of 1920 forced an advance in gross margin percentages to avoid losses and, of course, was accompanied by increased ratios of operating expenses as the value of goods declined. From about 1923 to 1929, prices remained fairly constant at the new level.

During this period we find the gross margins of department stores in the United States consistently advancing, although not so rapidly as the operating expense ratios. Again we find that the larger volume of business at stable prices which came to department stores during this period did not result in any reduction in the costs of distribution but, in fact, was handled at continually advancing costs. The following table adapted from several American sources illustrates the movements of this period:

OPERATING RATIOS OF DEPARTMENT STORES IN THE UNITED STATES

—	Gross Margin, Percentage of sales	Operating Expenses, Percentage of sales	Index of Sales (1920=100)
1920	28.4	26.2	100
1923	32.0	28.4	104
1926	33.2	30.1	113
1929	33.5	32.3	118
1933	36.0	38.1	71

The available figures for department stores in Canada cover only a part of the period embraced in the above table, but they illustrate even more strikingly the tendencies already described. The gross margin of the stores investigated

rose from 25·4 per cent in 1925 to 27·3 per cent in 1929, and the sales advanced from 248 millions to 357 millions. Operating expenses in the same period advanced from 22·1 per cent to 24·0 per cent of sales.

OPERATING RATIOS OF DEPARTMENT STORES IN CANADA

—	Gross Margin Percentage of sales	Operating Expenses Percentage of sales	Index of Retail prices (1926=100)	Index of sales (1920=100)
1925	25.4	22.1	99.3	111
1926	26.0	22.3	100.0	120
1929	27.3	24.0	99.9	160
1933	28.7	28.0	78.5	101

The increased volume of trade secured by department stores was handled with an increase of approximately 2 per cent in the expense ratio up to 1929. The decline in business since 1930, accompanied by a rapid fall in prices, quickly resulted in the loss of sales volume for department stores. The resistance to such a loss was immediate and, although profits could not be maintained, the department managers attempted to offset the declines, to some extent at least, by increasing the percentage of gross margin. Thus we find the percentage advanced from 27·3 in 1929 to 28·7 in 1933. But the cumulative effects of the expansion and service innovations of the period of prosperity caused an unavoidable rise in the ratio of operating expenses. The figures in our table show a rise from 24·0 per cent in 1929 to 28·0 per cent in 1933. The necessity of providing for this increased proportion of operating expenses acted as a further goad to the department manager to increase this maintained mark-up. But once this higher mark-up is attained, it becomes the standard for future operations, and when the low point in the decline has passed and prices and buying power start to increase, the higher percentage of gross margin becomes the accepted ratio and the next cycle begins.

6. Conclusions.

To sum up, therefore, we find that within the past ten years the department store has, through increases in its cost of operation, lost to a large extent the advantages which it previously enjoyed over its competitors by reason of its lower costs of distribution. That it still retains a considerable advantage by reason of its buying power and methods will be shown in a later section.

The efficiency, however, of the large department store organization as an agent in the system of distribution has clearly been impaired by the unwarranted expansion of its structure and it is faced, at the present time, with the necessity of remedying serious defects in that structure, of which the more apparent are as follows:

a. Over-development, for competitive reasons, of expensive customer-services and excessive advertising costs.

b. Too many departments and merchandising units, too wide a range of merchandise; and, in one particular case, participation in too many fields of endeavour, to permit effective application of central management control.

c. Low productivity of department stores in comparison with newer types of distributors, reflected in low volume of business per employee or per square foot of space.

d. Over-development of mail order facilities in view of falling off in this type of business.

4. THE CHAIN STORE

1. Growth and Development of the Corporate Chain.

The modern corporate chain store originated some seventy-five years ago, in the establishment of a system of multiple outlets for the sale of tea in the United States of America. The advent of this type of merchandising in Canada is of more recent date. Indeed, the development had reached considerable proportions in Europe and the United States before chains appeared in Canada in the form of branch systems of the large United States variety and drug companies.

Up to 1925 the chain-store movement in Canada grew at a fairly rapid pace, with examples of the corporate chain, the voluntary chain, and the manufacturer-controlled types. From 1925 to 1930, an enormous increase took place in the number of stores. Of the 8,534 chain units operating in 1930, with sales of $563,078,000, 4,601 or more than half, had been established within the previous five years. Since 1930, however, growth has been arrested.(1) Among the different chains, the food group registered by far the greatest expansion, units increasing approximately 200 per cent from 1925 to 1930. As an example, one grocery chain, established only in 1921, operated three years later twenty-nine stores with sales of $6,100,000. In 1933, the same company had 111 stores with sales of $14,800,000. Another food chain had, in 1924, 354 stores with sales of $10,350,000, and in 1933, 505 stores with sales at $19,750,000. Similar rates of growth are to be found in other chain organizations of the corporate type.

The Census of Merchandizing, 1930, classifies as a chain system four or more stores under the same ownership. No account has, therefore, been taken of two and three store organizations which in 1930 numbered some 4,600 units transacting a total business of $216,000,000.

Food-chains comprise the largest single group in this type of merchandising. During the war years and post-war period, there were important changes in the mode of life of many city dwellers; notably the tendency toward smaller living units with greater dependence upon processed foods and smaller purchases. In the period from 1923 to 1929, the quantity of production in the fruit and vegetable preparations industries more than doubled. The opportunities, therefore, for distributing packages and staple articles through a great number of units under the same ownership were greatly extended. Another factor aiding such a development of all chains, was the growth of motor service and extension of good roads, which provided a flexible means of transport.

In the beginning, the food chains tended to concentrate upon the sale of packaged goods with the minimum of services offered to the public. The "cash-and-carry" principle was first introduced on a wide scale in this period. Also great improvements were made in the organization of the selling units so that the shopper who wished to make purchases with the minimum of delay and greatest ease in selection might find the chain stores greatly to his advantage.

2. Voluntary Chains.

Independent retailers and wholesalers have often attempted to improve their competitive position by forming groups for co-operative buying. Even as early as 1905 druggists in the city of Toronto formed a company "to help the independent druggist meet competition that was then developing." This development of voluntary associations or chains has followed two broad lines. On the one hand there are what might be termed "retailer-wholesaler" organizations consisting of groups of independent merchants, not affiliated with any separate wholesale company. The prime purpose of such organizations is to combine the purchasing capacity of their individual members, but their activities may extend to other service functions, such as advertising, display, etc., until all the normal

(1) See Annex VI, Tables 125, 126, 127.

operations of the wholesaler are performed by the organization for the benefit of its members.

The other common type of voluntary chain may be called the "wholesaler-retailer" type, which consists of a group of independent merchants affiliated with a single wholesaler for buying, advertising and other merchandising purposes. In this case, the initiative is supplied largely by the wholesaler, whereas in the former type, it must come entirely from the retailers themselves.

The development of voluntary chain groups has continued throughout the depression. A survey of all such food chains in Canada shows increases in the number of chains from 23 in 1930 with 4,545 stores, to 27 in 1933 with 6,170 stores, and in the same period an increase in their total purchases of over 16 per cent. The figures clearly indicate that under the pressure of department store and corporate chain competition, an increasing number of independent merchants are identifying themselves with co-operative association of one kind or another.

3. MANUFACTURER-CONTROLLED CHAINS.

Another form of chain store distribution is represented by the retail store operated by a manufacturer. Although the volume of business done by such chains is still relatively small, there has been some increase in recent years. In 1930, 447 stores of this type were operated, with a total sales volume of $37,000,000, or a little more than one per cent of the total trade of the country.

4. THE CHAIN STORE AND THE INDEPENDENT.

It might be thought that the extremely rapid growth of chain stores would lead to the elimination of the independent retailer. We have already pointed out that, irrespective of the presence of chain or department stores, the mortality among retail establishments is very high and that only a small proportion survives under the same ownership for more than a few years. Nevertheless, it is pertinent to consider whether there is a possibility of the chain stores developing to such an extent that the independents will be practically driven out of the fields in which the chain stores operate.

In this connection, if the cities in Canada with population of 30,000 or over are grouped according to the proportion of chain store sales to total sales in the grocery and combination store field, some interesting results are obtained. The percentage of chain-store sales ranges from 54·2 for the combined figures for Windsor, Toronto and Verdun to 16·8 for Saint John, Halifax, Quebec, Victoria and Three Rivers.[1] When the number of independent retailers is compared with the population, it is found that, for the group in which the proportion of chain-store sales is highest, the number of persons per independent store is 484 and for the group in which the proportion is lowest, the number of persons is 265. These figures indicate that there are relatively more independent stores in those places where the proportion of chain-store business is lowest. As the figures are for one year only, it is not possible to decide conclusively, however, whether the difference between cities is due to the presence of chain stores or to other factors. It should also be noted that, even in those cities where the proportion of chain-store sales is highest, there is still one independent store to every 484 persons or, roughly, one to every 138 households. In the cities with the lowest proportion of chain-store sales, there is one store to every 265 persons or, roughly, one store to every 76 households. A more detailed analysis for cities and towns in Ontario shows that the average size of independent stores is biggest where the proportion of chain-store business is smallest.

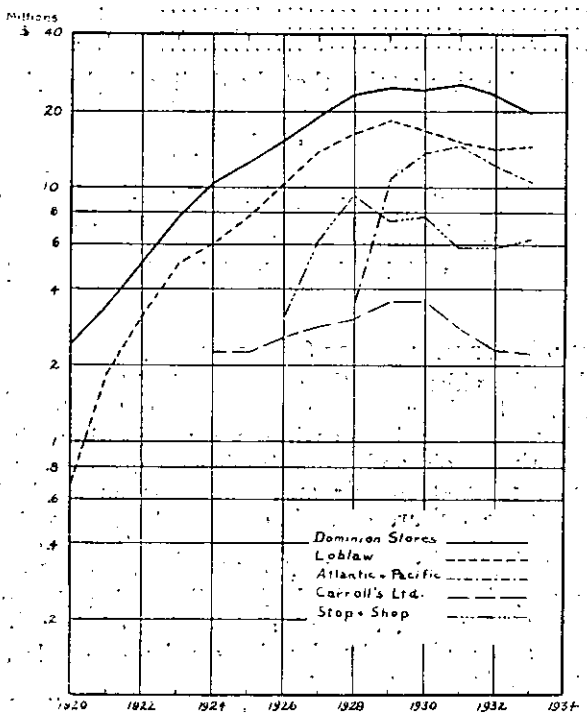
This evidence does undoubtedly show that the growth of the chain has had considerable effect on the fortunes of independents. It is far from showing, however, that independents are in danger of being eliminated.

(1) See Annex VI, Table 128.

Though chain-store development has been almost startling during recent years, the experience of other countries suggests that the rate of growth from 1925-30 cannot be maintained or renewed, even after the depression. In other words, the chain-store development is slowing up. The chart below illustrates this:—

CHART V

Sales of Food Chain Store Companies.
(Note.—The business years of Stop and Shop Limited and Carroll's Limited are not uniform throughout.)
(Semi-logarithmic scale)



Various reasons may be ascribed for this. It may be the failure of business management to keep pace with the growth of the business, the development of rigidity within the organization as it expands, lack of suitable opportunities for expansion, or the increasing strength of competition from other chains or independents. In connection with this latter factor it must be remembered that, although many independent retailers have been forced out of existence in the last ten years, those that have survived have adopted some of the best features of chain-stores, modern, up-to-date, attractive and efficient methods of merchandising, and have therefore strengthened their competitive position. Furthermore by the development of voluntary and co-operative chains, the buying economies of the corporate chain are to some extent neutralized and the advantages of individual ownership and direction maintained. Statistics seem to show also that the relatively high earnings of the chains in the period of expansion tend to drop after this peak period of expansion is over.[1]

All these points bear on the extremely important question of whether the chain stores are likely to develop to such an extent as to secure a dangerously dominating position in the field of retail merchandising, to the detriment and possibly the virtual extinction of the independent merchant. Such a develop-

(1) See Annex VI, Table 129.

ment would, of course, undoubtedly warrant some form of government intervention. We feel however that if the moderately efficient independent store is not subjected to unfair or unethical methods of competition it need have no fear of survival even in this chain-store age.

Some confirmation of this belief may be found in the index of sales of 19 chains and 1,219 independent grocery and combination stores, in Ontario, from 1930-1933.

Taking 100 as the index in 1930, the figures are as follows:—

	Chains	Independents
1930	100·0	100·0
1931	95·7	84·0
1932	83·3	72·7
1933	77·3	69·3

It appears from the above table that the decline in the sales of independent stores was greater than the decline in the sales of chain-store companies. The difference, however, is much larger in the year 1931 than in succeeding years. This suggests that independent stores are regaining a good deal of the competitive position that they lost in the first years of the depression.

In short, the conclusion may be advanced that, in the long run, and on a fair competitive basis, the relative position of the corporate chains and that of the independent stores will be determined by their respective efficiency in distribution and service.

5. Advantages and Disadvantages of Chain Stores.

We received much evidence on the economic significance of corporate chain-store development. The chains were attacked as destructive and uneconomic; as reacting injuriously on producers without compensating advantages for the consumer; as disruptive of old and well established competitive practices, replacing them with new methods unfair and unethical; as sacrificing every consideration, including the welfare of their own employees, to that of price, and therefore as encouraging the worst form of competitive warfare.

On the other hand we also received evidence to the effect that the chain store had set a new and better standard of retail merchandising; had developed to its highest point the quick, efficient distribution of fresh and attractively put up goods, and, above all, had reduced the price of goods to the consumer without excessive profits to themselves.

It is difficult to balance accurately the advantages and disadvantages of any economic development One question, however, is of primary, though not of exclusive importance. Does the consumer receive greater value in dealing through chain stores? The chain store representatives have assured us that he does, basing their case for the most part, on comparative prices. This, however, is not necessarily a conclusive argument.

Even if we could prove that the consumer saved 9 cents out of every dollar in dealing through the large department or chain stores, that would not tell the whole story. There are considerations other than price, such as quality and service, which enter into value received.

So far as chain stores are concerned, they frankly and openly emphasize their price appeal to the consuming public. In evidence which we received from representatives of the chain stores the point was often made that the chains had, by eliminating the middleman and lowering excessive wholesale costs, narrowed the gap between producer and consumer. At the same time evidence was given to show that, even if the wholesale spread has lessened in recent years, this might have been due to a variety of factors that had no relation to the chain store system of merchandising. Further, as has been pointed out, the function of the wholesaler is not eliminated by his disappearance. Direct selling by manufacturer to retailer, merely means that the services formerly performed by the wholesaler are transferred. Those services still have to enter into cost.

As nearly as can be determined from the results of the Census of 1924, the average spread on goods distributed through the wholesaler-retailer system in the grocery field was approximately 30 per cent of sales when the margins for both wholesale merchant and retail merchant are considered. This represents the average for the Dominion, though there would be considerable variations from this figure in different localities. The margin on sales, as reported by the auditors for the larger grocery chains, was 18·2 per cent for the same year, 1924.

In 1930, the margin for the wholesaler-retailer system calculated from the operating expense figures secured from the Census of Merchandising was approximately 26·0 per cent while the combined figure for the chain stores investigated was 19·1 per cent. That is to say, in the year 1924 by this calculation, the chain stores, on the average, took out of the consumer's dollar 11·8 cents less than did the wholesale and retail grocer together, and in 1930 their margin was, roughly, 7·0 cents less. Since 1930, margins for chain grocery stores have advanced and, if independent merchants have not enlarged their margins to the same extent, the difference between the two systems will have become much smaller.

The comparisons that are made in the preceding paragraph are based upon the premise that chain store and wholesale grocers secure goods on the same terms. It seems clear from the evidence that on many purchases the larger chain stores secure more favourable terms than wholesale merchants. To the degree that chains secure goods at lower prices, the final selling price to the consumer will be still lower in comparison with independent stores. This difference, of course, will be in addition to that caused by the lower margins of chain stores.

An effort was made to estimate relative prices by applying prices from leading chains and a large number of independent retailers for thirty-two representative foods to an average Canadian food budget. The following table shows the cost of this budget reckoned from chain prices as percentages of the cost reckoned from independent retail prices.

RATIO OF CHAIN STORE PRICES TO INDEPENDENT RETAILERS' PRICES FOR A SELECTED FOOD BUDGET

January, 1930	90·8	July, 1930	88·0
January, 1931	86·4	July, 1931	81·5
January, 1932	86·1	July, 1932	89·7
January, 1933	92·1	July, 1933	93·7
January, 1934	95·5	July, 1934	94·4

The fall in chain store prices between January, 1930, and July, 1931, appears to have been more rapid than in the prices of independent retailers. (The index number of retail prices in this period dropped from 106·5 to 74·7.) Although prices kept falling for some time after July, 1931, the gap between the two budgets narrowed steadily until January, 1934, when their values differed by only 4·5 per cent. The independent merchant in this period seems to have brought his prices more closely into line with his chain competitor, while prices generally were still falling (until March, 1933) and possibly did not follow the subsequent rise quite so promptly.

In this connection our investigators made a comparison of the price on a single day in May, 1934, of 25 articles in 10 independent stores (the average price was taken) with that of the same articles in a chain store. Of the chain store purchases, sixteen of the articles were regularly priced; 9 specially priced. The results showed that the 25 articles were 8·5 per cent cheaper in the chain store; the 16 regularly priced articles were 3·0 per cent cheaper in the chain store.

The above evidence supports the view that the chain stores sell for a somewhat lower price. It also shows, however, that this price gap between chains and independents is becoming narrower.

Various reasons may be given for this improving price position of the independents. Probably the most important is their improved and more efficient method of operation. To some extent this may be due to chain competition,

but whatever the cause, it is serving to neutralize one of the earlier advantages of the new type of merchandisers. As the independents are improving their methods, the chains are discovering certain weaknesses not so noticeable in the earlier period of prosperous development. Such things as the difficulty of maintaining efficient management, with a high degree of mobility in personnel and a lack of continuity in store administration, the growing burden of centralized control and supervision as the organization expands, and the growth of corporate impersonality are becoming increasingly important as chains continue to develop.

Even if we grant that the chain store still possesses a price advantage, though a lessening one, it must be remembered that the independent merchant offers considerably more service than the chain which operates on a low cost, minimum service basis. He often extends credit, delivery, telephone and other merchandising services which have not been characteristic of the multiple store organization. Such services must, of course, be paid for, and may well account for a great part of the difference between chain-store and independent prices.

Certain other factors have a bearing on this question of prices. There are advantages claimed for the chain, the very nature of which indicates that there are services to the community that they do not perform and that the independent stores therefore must perform. Chain stores, for instance, restrict their activities, on the whole, to the more populous centres and therefore are able to show a relatively large volume of sales per store, the foundation of successful operation. The independents are left to supply the less populous and therefore less profitable areas. Further, the chains owe their low prices to a great extent to the fact that they specialize in handling swiftly moving staples or branded goods and leave independents to stock the slower moving and hence less profitable lines.

6. Structure and Operation.

Both department and chain stores depend for their success on large volume and rapid turnover. They differ fundamentally, however, in structure and organization. Whereas the department store centralizes both its buying and its selling, the chain store is highly centralized in its buying but highly decentralized in its selling.

The ability of chains to open and close individual units gives the whole selling structure a flexibility that is sadly lacking in the department store. Almost entirely by reason of this flexibility the chain stores were on the whole able to escape the disastrous losses of department stores during the depression.

This difference in organization results in differences of operation. The department store combines many kinds of store under one roof, puts each under the direction of a department manager and, by budgetary and other controls, brings pressure on him to buy and sell profitably within the limits of a relatively inflexible set of centrally-determined expenses. The department manager then passes on this pressure, not so much by trying to cut store wages and similar costs as by trying to buy goods from suppliers at a price low enough to permit both a substantial mark-up ratio and an attractive price to the consumer. The pressure is transmitted through the manager to the manufacturer and indirectly to the employees of the manufacturer.

The chain store establishes under one central control many similar stores in different localities, for which the central organization does the planning, purchasing, warehousing, and delivery. Any mass-buying pressure is exercised by this central organization which, because of centralized buying, can offer an outlet for such large quantities of goods that it is often in a position to demand not only a full share of the economies that may be properly given to large purchases, but also other concessions.

Unlike the department manager, the chain store local manager has neither connection with nor responsibility for purchasing. Nor has he much discretion

in the choice of goods to be handled, the cost at which they are charged to him, or the price at which they are sold. In all respects but one, he is less a manager than a chief clerk. The only thing left for him to "manage" is the cost of store operation. The chief item in this that is not already fixed by the central organization is labour costs. The pressure on each chain store manager to produce profits, therefore, is transmitted through him to the store employees, not as in department stores to the suppliers and their employees. Every dollar saved in store wages improves or maintains the profit record of the manager and the store. When managers are either allowed a fixed amount for store operating costs, or paid a proportion of the store's profits, any economy effected may directly increase the managers' own earnings. In short, department and chain store operations are similar in so far as the central policy is designed to concentrate various kinds of pressure on individual department or store managers. They differ in that pressure for profits in the department store is passed on direct to suppliers; in the chain store, it is passed on direct to employees and customers.

The particular practices by which this pressure is transmitted beyond the organization itself, depends partly on the character of the individual, partly on the relative bargaining power of those with whom he has to deal. The central organizations are therefore in a position formally to disclaim knowledge of or direct responsibility for some of these practices, which are not part of the store policy but are the "unanticipated" result of the pressure that this policy brings to bear on subordinate officials.

This question is discussed in somewhat more detail in a later section of this chapter. Meanwhile, we desire here to refer briefly to the development in Canada of another type of distribution, namely, consumers' co-operative societies.

5. THE CONSUMERS' CO-OPERATIVE MOVEMENT

Any inquiry into the system of distribution of natural products and manufactured commodities would be incomplete without consideration of the part played by this movement. Evidence taken by us shows that while some 60 co-operative organizations are affiliated with the Co-operative Union of Canada, the movement itself has not gained a wide-spread acceptance in this country, if comparison is made with its development in England, where it has grown to be the largest and most comprehensive business enterprise in the United Kingdom. The British movement, which began at Rochdale, England, in 1844, with a membership composed of 28 working weavers and an initial capital of $140, has grown into an immense organization, comprising retail and wholesale branches, owning its own factories for the production of many goods, and importing in tremendous quantities foodstuffs and raw material from overseas. The strength of the movement in England is shown by the fact that their business did not decrease during the period of depression. In 1929, they increased the number of employees on their payrolls by 9,666, in 1930, by 8,755, in 1931, by 5,546, and in 1932, by 2,828.

The general principles of operation are well-known; one vote to one member, which must be exercised in person; the charging of current competitive prices; the payment of a fixed and reasonable rate of interest on the share capital; and the division of the net surplus among the members in proportion to their purchases from the society. Whereas voluntary chains are co-operative enterprises to promote the interests of independent merchants, the consumers' co-operative movement is a group of individuals organized for their mutual benefit as consumers.

Consumers' co-operatives in Canada have, in general, followed the above principles. Their growth, although fairly steady, has been slow and somewhat disappointing to their sponsors. The reasons for this are, perhaps, to be found

in the pioneer nature of the country, the difficulty of competing successfully with large retail organizations already in the field, the mobility of population, and the constant change of an expanding economic organization. Small savings in purchasing are likely to be overlooked when large, although speculative, gains may be anticipated from expanding business. However, increasing economic stabilization in Canada, and the passage from a frontier and largely rural country to one more industrialized and urbanized, offers some possibility of acceleration in the growth of the movement in this country.

It is our opinion that further development of consumers' co-operatives in Canada would be of general benefit, introducing a restraining influence on the practices of other merchandising organizations and assisting in consumer education, which, we feel, is most necessary. The informed consumer is in himself the most valuable and effective check on excessive prices and poor quality. We agree, however, with the Co-operative Union of Canada, that the fundamental principle of the co-operative movement is self-help and mutual-help and that, a natural, if tardy, growth, is to be preferred to artificial stimulation.

A review of the legislation in Canada with reference to co-operatives shows that while provision is made in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, and Quebec, for their incorporation and regulation, there is no uniformity and much room for improvement from the point of view of the co-operatives themselves. In the Maritime Provinces no general legislation for consumer co-operatives exists. Further, there is no federal act providing for their incorporation or regulation.

During the past 30 years several efforts have been made to obtain Federal Co-operative legislation. A Co-operative Bill passed the House of Commons in 1907 without opposition, but was defeated in the Senate by a majority of one vote. Several bills have been introduced since that time, but did not make progress.

We recommend, therefore, that consideration be given by the Federal Government to the possibility of legislation for the incorporation and regulation of consumers' co-operatives, enabling them to do business under the same conditions as any federally incorporated company. It is further recommended that it be provided by law that the word "co-operative" shall not be used in any trade mark, or as part of any trade name, except by a co-operative society duly incorporated under federal or provincial law. While the co-operative movement in its operations asks no special privileges, it has a right to demand fair and equitable treatment from government and private enterprises. In particular it should not be victimized in the early stages of its development by unfair competitive practices or price discrimination on the part of manufacturers and wholesalers. We recommend, therefore, that whatever measures are taken to protect businesses generally against these evils should offer equal protection to the co-operative movement.

6. LARGE-SCALE ORGANIZATION AND MASS BUYING

1. Causes and Effects of Mass Buying.

In previous sections of this chapter we have discussed the pressure exerted on the chain and department store to maintain their price appeal in the face of mounting expenses by purchasing at the lowest possible cost. This of course, is a policy which is not peculiar to mass merchandisers, but is a recognized practice in any line of business activity.

Whereas, however, the small retail merchant, or even the small department store, has not the purchasing power to dominate the smaller manufacturers, the mass buyers have, in some cases, accumulated that power.

In using the words "mass buyer," we should point out that we do not refer to all chains or department stores, though, no doubt, they all are striving to

develop to an extent where they would be included in this favoured class. Only the larger chains and the two or three largest department stores are "mass buyers" in the sense that we use the words in this Report.

It has long been realized that one of the main elements in the competitive strength of large-scale distributors lies in their ability to buy cheaper than the small-scale retailer. The centralization of buying for many units in a few hands, such as is characteristic of chain stores, or the large-scale buying of department stores, where one department has a volume of business equal to a great many single stores, has greatly altered the nature of the competitive market that prevailed before the period of the rapid growth of large-scale organizations. The buying practices of such organizations are no longer a matter of their own private concern or even a matter between themselves and their suppliers. The practices that they follow and the terms that they exact from manufacturers affect not only the manufacturers with whom they deal, but also other manufacturers, other distributors, both wholesale and retail, wage-earners, and consumers.

So important are the orders of department and chain stores to some manufacturers that, labour conditions and wage rates may become dependent upon the manner in which large-scale buyers do their purchasing. Likewise, the shift of orders by a mass buyer from one province to another, from one city to another, or from a domestic to a foreign factory, may jeopardize the livelihood of thousands of workers or seriously affect their standard of living. The exercise of this power is of such great social concern that an examination of its effects is amply justified.

The competitive advantage that the mass buyers enjoy over independent merchants is no less important than the influence they exert on the labour and wage conditions of their suppliers.

It has already been shown that department stores secure a large part of their goods from industries in which the small factory is still the characteristic unit of production. To a considerable extent these manufacturers have suffered, not only from severe competition within their industries, but also from the centralized buying pressure of the large distributors. If in a period of general prosperity suppliers are able to secure reasonable prices from mass buyers, the unbalanced character of the marketing structure would occasion no evident or serious defect. If, however, the mass buyers should find themselves under the necessity of exacting the most favourable terms for themselves, the unequal bargaining position of buyer and seller results in the manufacturer's being forced to the limit to meet the buyer's demands. That some mass buyers have been under such necessity in recent years is clear from the preceding sections of this chapter.

The operating expenses of department stores, and to a less extent, chain stores, depend very largely on the size of the physical plant which has been built up and the type of the commodities sold. While employment and other costs bear some relationship to the volume of trade, the management, when business falls off, cannot reduce expenses to the same extent as sales decline. Some reductions can be made in the size of staff and amount of payroll, but these cannot be pushed too far without running the risk of losing public patronage. Other items, such as rent, taxes, insurance, etc., can scarcely be affected within a brief period. This is true also of bond or mortgage interest, if such obligations must be met by the company. In the face of falling sales volume and fairly rigid expenses, the mass merchandiser, as we have seen, generally makes a determined effort to increase the gross margin on sales in order to cover costs on a smaller volume of business. The first step to increase the margin is to widen the initial spread between selling price and buying price—in other words, the initial "mark-up." As prices generally are falling, this can only be achieved by reducing cost prices to a greater extent than selling prices.

During a period of trade contraction the income of consumers is seriously curtailed, and if the department or chain store is to hold its position against competitors, it must stress price appeal. The simultaneous operation of these two policies—one to secure a wider spread and the other to maintain or increase public patronage by the appeal of lower prices—results inevitably in a determined effort to force down manufacturers' prices to the utmost extent.

2. How the System Operates.

It will be useful to see how the system operates in the case of department stores. Budgetary control of the operations of departments, forces each department manager to do his utmost to achieve the pre-determined goals that have been set up for his department. While the manager is given considerable freedom in the methods he may use to secure the desired result, conditions during the depression have forced him to exert the greatest pressure on his suppliers in order that his initial mark-up may be high enough to cover the various mark-downs and losses which assume increasing proportions during a period of falling prices. While the final maintained mark-up may not be advanced very much, it is the proposed initial mark-up which determines the terms that the mass buyer will offer to the manufacturer.

There is a wide variation between the initial mark-up and the maintained or finally realized margin, and the initial spread varies considerably on different articles within the same department. It must be remembered that the department manager, who determines the initial selling price, is also the buyer, and it follows that when the bargain is being driven, he is conscious of the initial price at which the goods will be offered for sale. In fixing this initial price the buyer must weigh current competitive prices for the article and the possibility of doing a volume business at a bargain price. No less important, however, in a period of contracting business is the necessity of realizing the greatest possible spread within the limits of a bargain retail price and the lowest point at which the manufacturer may be driven to supply the merchandise.

Generally speaking, the initial spread on staple lines is lower than on distinctive or novelty goods, but as sale of the former is more assured, there is less loss from mark-downs and stock-clearances. But it is the novelty and style merchandise which offers the greatest possibilities for rapid turnover and quick profit and on such lines the initial mark-up is high and the pressure on the supplier at its maximum.

Our investigators, in picking out certain purchases for detailed analysis, selected merchandise prominently advertised in the daily newspapers. It is significant that the majority of the items so selected were non-staple goods, bearing a considerably higher spread than either the average for the more staple lines or the maintained margin for the whole department.

It seems clear, therefore, that if the price at which an article is offered to the public represents exceptional value, and at the same time provides an unusually high mark-up to the department, the amount received by the supplier must usually be insufficient to cover all his costs and permit him a fair margin of profit. The evidence shows that the widely advertised merchandise often represents exceptional values. Some proportion of such bargains is represented by clearances of manufacturers' stocks or merchandise marked down by the store to clear its own shelves, but in nearly every department an important volume of merchandise is regularly purchased at special prices and sold to the public at prices below the current competitive level.

In normal times manufacturers recognize the need of the buyer to make a showing in special sales and feel that they can supply a reasonable quantity of goods on a non-profitable basis in view of the value of the store's patronage. But when volume falls and the pressure on the department manager becomes extreme, he seeks to place as much of his business as possible on this special

footing. He looks to it not only to increase the price appeal of his department, and consequently his relative competitive position, but also, through the higher profit margin it carries, to offset the losses consequent upon decreased sales and inventory losses.

A large number of examples of price spreads in different departments were submitted to us by our investigators and the variation in initial mark-up referred to above is illustrated by the following brief extracts from these tables:

Description	Total Laid down Cost	Initial Selling Price	Initial Mark-up	
			Amount	Per cent to Cost of Sales
	$	$	$	
Men's pyjamas	1.59	2.98	1.39	87.42
Men's negligee shirts	0.45	0.75	0.30	66.67
Cambray shirts	0.69	0.95	0.26	37.68
Boy's suits	3.60	9.95	6.35	176.39
Boy's britches	0.81	1.15	0.34	41.97
Women's coats	7.08	10.74	3.66	51.69
Women's dresses	7.95	29.50	21.55	271.07
Shoulder of pork	0.11	0.10	0.01*	9.09*
Beef hearts	0.04	0.08	0.04	100.00
Men's top coats	13.60	25.00	11.40	83.8
Blue waist overalls	1.19	1.49	0.30	25.2
Solid walnut end-tables	1.03	0.95	0.08*	7.8*
Mercurochrome	0.10½	0.25	0.14½	138.1
Lysol	0.22	0.27	0.05	22.0

*Loss.

These considerations also apply to some extent to chain stores, although here the local manager is not directly concerned, as he has no control over merchandising policies.

3. Conclusions.

The mass buyer has been accused before us of deceitful, fraudulent, and sometimes criminal practices in his buying. As no definite proof of such underhand methods has been submitted, it is hardly fair to refer to them specifically, although it is admitted that satisfactory evidence as to their practice is almost impossible to secure. We are impressed, however, with the strain under which the individual buyer may find himself and the pressure that the modern large-scale merchandising system engenders. Undoubtedly, individual buyers have, in certain cases, violated all the rules of fair play, though there is no suggestion that such unethical conduct has any part in the declared policy of mass buyers. They must, however, accept some responsibility for the development of a system which at times provides the motive and opportunity for malpractice and under which the manufacturer, usually at a bargaining disadvantage, may be ruthlessly exploited through the failure of one individual to maintain his standards of business morality.

It may be maintained that the acceptance of a contract by a manufacturer on the mass buyer's terms is sufficient evidence that it is profitable. Such a view may be sound in respect to dealings between many competing small sellers and small buyers. It may even be true when the mass seller meets the mass buyer. It is doubtful whether it is necessarily true of a bargain between one of many competing small sellers and one of the few mass buyers, especially in a period of shrinking markets. True, it may have been in the interests of the particular seller to take the contract rather than let it go to someone else, particularly if the manufacturer is hard pressed for working capital. On the other hand, it might have been in the interest of the whole group of sellers to agree that no one of them would supply the goods on the terms demanded.

In summary, the complaints against the mass buyers can be classified under two heads:—

a. That they have depressed the prices of manufactured goods, and of agricultural produce (such as milk, vegetables, turkeys, etc.). That they are responsible, through depressing prices, for the sweat-shop conditions existing in certain industries.

b. That they are driving the independent retailers to the wall and that these independents should be protected for the following reasons:—

(1) They constitute a valuable social group which communities cannot afford to have wiped out.

(2) They can defend themselves from "fair" but not from "unfair" competition.

(3) Their elimination will result in growth of monopoly in the retail field.

Having stated and discussed the complaints, it is only fair also to consider the following persuasive argument often advanced in defence of mass buying.

During a business depression, when world prices are falling and all incomes are being reduced directly or indirectly by the fall of export prices, it is argued that a readjustment of the whole price structure becomes necessary. Retail prices normally are less flexible than wholesale prices and slower in responding to changed conditions. The adherents of this view hold, therefore, that it is desirable to have in the economy a group of mass buyers who can act as agents to force prices down; that lower prices tend to increase sales, production, and employment, and to increase the real income of consumers by bringing many commodities within the range of prices that they can afford to pay. Some employment at low wages, it is claimed, is better than none; production at low profits or even slight losses is better than idle plants.

It is conceded that some readjustment is necessary. But if the readjustment must take the form of lowering, through mass-buying pressure, the prices of manufactured goods and of primary products to that point which permits the payment of very low wages, or the earning of very low farm incomes, then some agency must be designed to bring correlative pressure elsewhere. Freight rates, rents, taxes, insurance, bond interest, monopoly prices, debts and all other inflexible rates, prices, and incomes must be drastically reduced. *All* prices, *all* incomes and *all* values must be deflated equally. In view of Canada's economic structure, we do not regard this policy as either practicable or desirable, especially at this late date in the depression, and we, therefore, cannot regard this defence of mass buying as convincing.

It still seems to us that, quite apart from "unfair trade practices" discussed later, this theoretical defense of mass buying overlooks the fact that the mass buyer brings his pressure on a group of workers, primary producers, and small manufacturers who are peculiarly defenseless. Any necessary social readjustment should not be concentrated primarily on such vulnerable groups. The mass buyers, moreover, do not pass on to the consumer all the price concessions they can exact. Their attempt to cover increased fixed charges and to maintain or increase percentage mark-ups shows that any such social benefit which might follow their operations would be only a small and incidental result of their attempt to protect their own favoured position.

7. MASS BUYING AND PRICE CONCESSIONS

One result of mass buying is price discrimination where manufacturers quote different prices to different classes of customers. This appears to have its origin in the distinction that was formerly made by manufacturers between wholesalers and retailers. It was generally felt that, as the wholesaler pur-

chased in much larger quantities than the average retailer, and as he also performed many functions not customarily performed by the retailer, he was entitled to certain price concessions. So long as the traditional wholesaler-retailer system of distribution remained undisturbed, little criticism was occasioned by the policy of such discrimination between buyers, although perhaps there may have been cases when large and well-established independent retailers believed they were entitled to price advantages which they did not receive. But the development of large-scale retail organizations in recent years and the disintegration of the jobbing trade in many lines have tended to make the matter of price discrimination more a question of volume of purchases than of trade status, of bargaining power rather than of possible savings in manufacturers' selling costs.

A report made by our investigators, covering 48 manufacturers supplying chain stores, showed that in practically every case the chain stores had a considerable purchasing advantage over independents through quantity and trade discounts, free goods, advertising allowances, etc. In spite of this, most of the manufacturers stated that their prices were uniform to all buyers. Apparently they interpreted this to mean prices before allowances or discounts which makes their statement both misleading and meaningless. The manufacturers, we were told, were very reluctant to give information about special allowances and occasionally refused outright. This reluctance is understandable in view of the fact that allowances, for no very obvious reasons, varied even within the privileged circle of mass buyers.

As there are many ways in which price concessions may be given, a better picture will be gained by considering some of the more common types.

1. Trade Discounts.

These are a survival of the trade status mentioned above and were formerly the concessions allowed to jobbers as distinct from retailers. A few examples can still be found where manufacturers maintain this distinction and treat chain and department stores in the same manner as independent retailers. In the majority of cases, however, chain and department stores secure the same discounts as jobbers, while independent stores, if they are permitted to buy directly, must pay the full list price.

The trade discount, however, is sometimes used as a means of discrimination between different classes of buyers in order to give advantages to some forms of distribution and to discourage others. There is no doubt about the unfairness of this type of discrimination. As pointed out in chapter iv, we found in our investigation of the distribution of rubber foot-wear that, while discounts for department stores were based largely on the quantity of purchases, the co-operative buying groups of independent retailers were not eligible for the larger discounts no matter how large their volume of purchases. The representative of the Rubber Footwear Manufacturers' Association admitted that the classifications used in the scale of discounts were not based solely on volume of buying and that, even if co-operative buying groups undertook the entire wholesale function, they were not given terms equal to other buyers of a similar volume, since the manufacturers wished to discourage distribution of this kind. Discrimination of this kind is clearly disadvantageous to the independent retailer organized in a co-operative chain and we unreservedly condemn it.

2. Cash Discounts.

These, as their name implies, are concessions offered for cash or prompt payments. Little need be said of them because they are customarily offered to all buyers alike. However, if an independent retailer is not permitted to buy

direct, he is, of course, unable to take advantage of the manufacturer's cash discount. On the other hand, he could probably secure equal, or more favourable, terms for cash payment from his jobber.

3. Quantity Discounts.

Under this general heading are grouped the various kinds of price concessions which are allowed for volume purchases. The nature and description of these concessions vary greatly between different manufacturers and in different industries. The most equitable forms are those which are open to all buyers upon substantially the same terms. There seems little doubt that for many manufacturers large single sales offer real savings in selling or handling costs and are, therefore, extremely advantageous if they can be secured without too great sacrifice. The question naturally arises; are the economies involved in such selling the only basis on which differential discounts are given or is the scale of discounts a reflection of the manufacturer's desire to retain the custom of large buyers whose patronage he believes will not be held unless preferential treatment is accorded them? As has already been stated with reference to trade discounts, discrimination in price can only be justified if it represents lower costs in distribution, but if such discrimination is due only to the superior bargaining power of large buyers, it may be condemned as not socially advantageous and, more narrowly, as a form of unfair competition. But just what constitutes unfair price discrimination cannot be determined by any set scale of measurements. For some commodities and to some manufacturers a differential of 5 per cent would represent the maximum economies involved in large orders; in other fields a difference of 15 per cent between large and small orders might be justified. Much less defensible, on economic grounds, are discounts that vary with different purchases of the same quantity, or that are based on purchases spread over a period such as a year or on an increase in volume of purchases in a period, say, from 4,000 cases to 5,000 cases. In the same class for which little economic justification can be given, are discounts based on the volume of purchases from a group of factories. For example, it was stated, with respect to the quantity discounts allowed for purchases of tennis and rubber footwear from members of the Rubber Footwear Manufacturers' Association, that the buying might be from one manufacturer or from all of them. It is difficult to see just what the savings would be if an order for, say, $80,000 were spread over eight companies. In view of the confusion which results when discounts and rebates are given for other reasons than those of economy in selling, there is a need for a careful survey of the practices now being followed and where obvious injustices are found for their regulation and, if necessary, prohibition by the Federal Trade and Industry Commission, which we later recommend.

4. Free Deals and Premiums.

A free deal or premium deal may be defined as an offer, or a giving of something for nothing, contingent upon the purchase of goods or services at a price. When the "gift" is represented by an additional quantity of the goods purchased, such as giving a "baker's dozen," it is a free deal: when, however, dissimilar articles, or tokens for fractional values of a range of premiums, are "given away," it is a premium deal. The variety of forms in which deals may be given or the motives which lead manufacturers to offer them need not detain us. It seems obvious that in the long run the purchasers as a whole pay the cost of such deals. The principal effect seems to be, therefore, to introduce confusion, to render uncertain the true cost of the merchandise, and, where the same terms are not available to all buyers, to permit secret discrimination. The standard argument for free deals and premiums is that they stimulate buying, but from the point of view of the purchaser, it is hard to find any justificatory benefits.

5. ADVERTISING ALLOWANCES.

The origin of advertising allowances seems to have been in the desire of manufacturers to secure promotion of their products at the point of sale and their willingness to make contributions toward the expenses that dealers might incur in advertising their products. In recent years, the term "advertising allowances" has been used to cover a wide variety of possible services. In fact it has often been a disguise for discounts or rebates in price. When the big retailer has special facilities for advertising a manufacturer's goods by including special reference in his newspaper advertising, by window display, or by demonstration on the floor, the retailer has an obvious right to sell these services to the manufacturer. But much of the evidence on advertising allowances that has been collected by our investigators, shows that the payments made or discounts allowed are related vaguely, if at all, to the performance of any definite services on the part of the retailer. In fact, advertising allowances were found to be based directly on volume of purchases. It is also clear that chain stores have received the largest share of such advertising allowances.

An American student of the problem has suggested that, in view of current confusion created by the use of advertising allowances, each trade should consider their regulation under the following conditions:—

a. That the term advertising allowance is, in the opinion of the trade, used inaccurately and unethically when it is applied to any part of a price offer or used otherwise than to denote a payment for the purchase of specific promotion services.

b. That advertising allowances are, in the opinion of the trade, unethical except when given as payments for specific promotion performances which are possible, practicable, and capable of being audited.

c. That advertising allowances shall be arranged for in agreements entirely separate and distinct from sales agreements.

d. That advertising allowance agreements shall definitely specify exactly how much shall be paid (in money or credit, goods or services) by the giver of the allowance, exactly what services shall be rendered by the recipient of the allowance, and the method of auditing performance which the allowance giver shall employ.

The trade should consider the advisability of condemning all advertising allowances which are secret on the ground that the terms of secret arrangements cannot be known and on the ground that the suspicion and mistrust engendered in the trade and the loss of time involved in transacting business in such a trade atmosphere offset such advantages as may be found in secret arrangements. (1)

6. DEMONSTRATORS.

Closely allied to the advertising allowance as it is used to-day is the provision by manufacturers of demonstrating sales clerks in the stores of retailers. This practice originated when expert salesmanship was required to introduce a new product to the public and manufacturers employed skilled retail demonstrators who went from one store to another, putting on special displays. To-day, however, we find manufacturers paying the wages, directly and indirectly, of a portion of the regularly employed sales force of department stores. In some departments virtually all the selling staff is on the payroll of one supplier or another.

Demonstrating allowances are often no more than additional price concessions, imposed on the manufacturer against his will and returning to him no benefit through the more zealous promotion of the sale of his product. It has become therefore an instrument of discrimination in the hands of the mass buyer and one method whereby the price policy of the manufacturer may be negatived.

(1) L. S. Lyon—"The Economics of Free Deals" (The Brookings Institution, Washington, D.C., 1933).

7. Conclusions.

Having considered the more common forms of price discrimination by which mass buyers are able to obtain preferential treatment, it remains only to draw the obvious conclusion. There is little serious objection to discounts, free deals, and allowances when these are available to all on the same terms, and are related to any measurable service rendered, or economy effected. At the worst they simply complicate the problem of accounting and costing. But when such concessions are given not in return for any service, not openly, and not to all on the same terms, they involve gross discrimination and become a powerful weapon by which mass buyers compete unfairly with their small rivals and use their massed purchasing power to take undue advantage of their weak suppliers.

Having discussed the principles and some of the results of mass buying generally, we now come to the more specific consideration of competitive practices in retail trade as a whole.

8. COMPETITIVE PRACTICES IN RETAIL TRADE

The methods which competitive enterprises employ to extend their business or hold their position in the face of contracting markets are always of great concern to their rivals. Particularly is this true if some of the firms are relatively small, while others are operating on a large scale. But the mere fact that policies pursued by one organization are injurious to its competitors should not of itself condemn those policies. They must be judged by whether they contravene the generally conceived rules of ethical or fair dealing.

Whether or not certain practices are unfair cannot be based solely on the opinions of a single trade or of those who believe themselves to be injured parties. The only basis upon which business practices can be classed as unfair is in relation to the public interest. If certain practices can be shown clearly to be against the public good, they should be condemned as unfair even if they benefit certain trade groups. On the other hand, practices which benefit the public, even though they work a hardship on some groups, cannot be classed as unfair merely to protect such minorities. It is clear, however, that those practices which lead to the destruction of more efficient retailers by less efficient, though stronger, groups are not only unfair to the persons injured but also work to the disadvantage of the public.

1. Loss Leaders.

One of the most common practices of modern merchandising is the use of "leaders" or "loss leaders." These terms have, as yet, received no exact definition, but are understood broadly to mean merchandise featured or sold at prices easily distinguished as being less than customary prices. Such price reductions are made for the purpose of attracting customers and promoting sales, not so much of the featured articles as of other articles on which a higher profit is secured.

While the term "loss leaders" may have had its inception in the use of articles which were actually sold below cost, an actual loss is nowadays seldom experienced on most leaders. The general practice is to reduce materially the customary margin on goods used as "loss leaders." For a leader to be effective it must have a wide appeal and be sufficiently standardized to permit comparison of the cut price with that regularly charged. Goods in common use, such as sugar and butter, meet these requirements, but trade-marked or branded articles may be equally effective as "leaders."

Special mention must be made of the disastrous effect of loss leaders on the primary producer. The use, for example, of butter as a loss leader was proved to be a very widespread practice. Since a reduction in the price of butter will

not perceptibly increase its consumption, this practice very definitely causes a loss to the dairy producer that far outweighs any possible gains to the consumer. This is equally true of other standard agricultural products. Their use as loss leaders establishes, as customary, a price that reacts to the detriment of the primary producer.

Likewise, a manufacturer, who has built up a wide demand for his products, is injured when these are regularly sold at cut prices. Because the profit margin is thereby lost on such goods, competitors of the price-cutter lose interest in the goods and push more profitable lines. On the other hand, consumers who tend to connect price with quality are apt to suspect that the quality is deteriorating when well-known merchandise is offered at cut prices. Thus, although the manufacturer may feel an initial stimulus in demand because of the lower prices at which his products are being offered, this may soon be lost as public interest wanes. There is the further argument that when articles become regularly used as leaders, pressure is exerted on the manufacturer to lower his prices so that a margin of profit may be secured by the distributor at the lower prices. These arguments, however, are chiefly valid when cut prices are maintained for fairly long periods or where the policy is applied consistently to a few articles. If the leaders are offered only for a day or two, the injury to the manufacturer is not very great.

The consumer who purchases goods at cut prices undoubtedly gains on those items. But leaders are offered primarily to draw the public and create the impression of similar value as applied to goods on which prices have not been cut. While the difficulties of judging quality and price are growing with the increasing use of branded and trade-marked articles, the average purchaser can pick out the "loss leaders" from the other goods offered; otherwise there would not be the same widespread use of this device.

The competitors of the store using the "loss leader" are, however, the persons chiefly affected. That the deliberate use of cut prices to draw patronage away from competitors is an unfair trade practice, is quite clear. Such reductions are not prompted by any desire to serve the public by giving lower prices. One purpose is to attract customers to whom the store hopes to sell goods that are not loss leaders, at substantial profits. Another purpose is to create the illusion of lower prices on all articles. That this end is not always attained does not in any way lessen the unfairness of the practice.

It may be argued that competitors can adopt the same tactics. Large organizations including chains and department stores do so compete. But independent retailers, unless they associate together, cannot pursue the same tactics for several good reasons. The volume of trade in the average independent store is not sufficient to permit the advertising of specials. On many articles the chain stores, through purchasing in large quantities, with special discounts added to regular quantity discounts and bonuses from the manufacturer in the form of advertising allowances, have a much wider spread than has the independent store. Thus, when the chain sells below its usual mark-up, its selling price is often below the cost price of the independent. If the latter attempted to meet such cut prices, he would be selling his goods at an actual loss.

As independent merchants, singly, cannot meet the leaders of chain stores, many have joined the voluntary associations already described. By acting together, such groups of merchants can and do follow practically the same policy of using "loss leaders" as is pursued by the corporate chains. Those independent merchants who are not members of such associations are, therefore, subjected not only to the unfair competition of chain stores but also to that of voluntary chains.

We condemn the practice of loss leaders as unfair, promoting wasteful competition and seriously affecting the income of certain classes of primary producers, but in seeking a solution for the problem through legislative remedies

we are confronted with certain difficulties. These difficulties are complicated by our recognition of the necessity and propriety in certain circumstances of price reductions. Such reductions for instance must be permitted when a retailer discontinues handling a particular line of merchandise, or when he clears slow-moving stock. There is also the necessity of cutting prices to clear out-of-style goods or surpluses of perishable commodities. These are legitimate reasons for reducing prices, but they complicate the definition of what constitutes a loss leader and make difficult its simple prohibition.

2. Deceptive Packaging.

There are certain other forms of unfair competition where the unfairness includes an element of fraud, and reacts immediately on the consumer as well as the competitor. As consumer problems, they are dealt with in chapter viii, but they should also be referred to here. We have received considerable evidence of ingenious and extensive practices on the part of retailers to mislead the consumer into believing that he is securing a bargain, when often he receives no more or even less value for his money than he might have secured elsewhere. We do not suggest that such practices are to be attributed solely to the mass merchandiser. It is fair, however, to state that the growth of the department and chain store with their ever-recurring emphasis on price appeal, has helped to generalize those practices until they now have become a serious menace to fair and honest merchandising.

The first practice to which we might refer is *deceptive packaging*. One of the most common variations of this practice is altering the size of a package or the quantity of goods it contains, without clearly informing the prospective purchaser that such a change has been made. There are, of course, many cases when specially-sized packages are used which involve no deception. For example, the 5-and-10 cent stores early began to offer special 5 cent and 10 cent packages for many popularly-advertised articles. The public, however, was generally quite well aware that the packages in such stores were not the customary size and would purchase accordingly. It is when the public is given no indication of alteration in the nature of the package that deception takes place. The shading of an ounce or two from a package which generally contains 1 pound, or the reduction in the size of a can or other package which has become more or less standard, gives the manufacturer and retailer using such deceptive packages an unfair competitive advantage over those who provide the customary-sized packages. The practice, of course, is closely allied to misleading advertising and to the wide use of branded or packaged goods. The usual result of the alteration in the size of package by a manufacturer or distributor is that competitors have to follow the same practice. In time, a new standard package is generally evolved, but in the process those who fall in line last have been subjected to unfair competition and, until the nature of the deception is discovered by the public, many purchasers will be led into accepting articles which otherwise they would not have purchased.

The remedy for deceptive packaging, as in the case of misleading advertising, is the adoption in each trade of recognized standards for containers as well as for the quality of goods. The large majority in every trade would welcome the adoption of satisfactory standards, and later in this report we submit recommendations to that end.

3. Short Weighing.

One of the most unfair and flagrantly illegal forms of competition is that of short weighing. Consideration of this practice occupied much of our time and attention because of certain investigations made after allegations that it was widely indulged in by chain stores.

It was contended that short weighing in chain stores was not merely the malpractice of dishonest traders, but was due to a merchandising system which, unless special precautions were taken, inevitably lead to the defrauding of the public. It has long been recognized in the grocery field that in weighing out bulk commodities exact net weights will not be given in every case but that over a large number of packages the shortages and overages will balance each other. If, therefore, it is found in any store that the number of packages underweight far exceeds those exact or overweight, there is a presumption that the shortages are a matter of policy rather than of chance.

The evidence which has been gathered on the matter of short weights suggests that chain stores tend to have a higher proportion of short-weighted articles than independent stores for two reasons:

a. In chain stores a greater part of the bulk commodities are pre-packaged —i.e., put up in packages prior to the sale. There are a number of commodities which tend to lose weight because of shrinkage or drying out. This process of shrinking is greatly hastened when the goods are packaged in small parcels. Unless an allowance is made for this shrinkage when the goods are packaged, a great many of the parcels will have lost weight prior to sale.

b. It is the policy of some chain store companies to bill their individual units for the full quantity of goods shipped. Where no allowance, or inadequate allowances are made for loss in handling, shrinkage, waste, or other unavoidable losses, the managers, being responsible for all goods shipped, must either make up the losses out of their own pockets or short-weight or overcharge to balance their accounts.

In spite of the fact that the management of several chain store companies reported that shortages in stock were not charged to the store managers, there seems to be little doubt that, unless specific allowances are made for stock shortages, the store managers in some companies feel themselves under pressure to reduce these shortages by unethical practices. The evidence both of the extent of short weighing and of the reactions of employees to the system is too well established to be disregarded. When it is found that those companies which have established methods to check the weights of their pre-packaged goods and provide for unavoidable losses have a smaller proportion of short-weight packages than those companies which make no such efforts, there are grounds for believing that the adoption of similar methods by all chains would have greatly reduced the extent of this evil. That this was not done, suggests that these companies were either careless or criminal. That certain of them have changed their merchandising methods since our evidence on this subject is an indication that they have realized the unfortunate and reprehensible results of their previous policies.

4. Misleading Advertising.

A final unfair competitive practice is that of misleading advertising. Where this involves misrepresentation it is unlawful under the Criminal Code. No agency, however, has been given the duty of enforcement, which is therefore sporadic and inadequate. The practice is defended by none, but wherever it develops, competitive emulation compels all to adopt an advertising policy which, if not technically misleading and illegal, is at least misleading in implication and extravagant in the use of superlatives. The subject is mentioned here because the practice reacts on the policies and practices of the advertiser's competitors. Its more extended discussion, however, is reserved for chapter viii, where it is considered in relation to the consumers' interests, which are most directly and adversely affected.

9. GENERAL CONCLUSIONS

It is difficult to compress into a few words adequate conclusions about so intricate and complex a subject as the organization and methods of wholesale and retail trade. It is difficult, in any case, to generalize, since different types of organizations operate on distinctly different bases and the conditions in each field of trade differ fundamentally from those in others. Nevertheless, it seems desirable to summarize certain conclusions at this point.

Large-scale distribution in its earlier development did undoubtedly make a contribution to the economic progress of this country by helping to narrow the spread between producer and consumer, and by the introduction of new and efficient methods of merchandising. In recent years, however, as we have seen, steady and conservative growth was succeeded by a period of unwarranted expansion which nullified many of the benefits of the earlier developments and has resulted in charges that the mass merchandiser has become an obstacle to sound business progress.

This recent expansion has concentrated retail business in fewer and fewer hands. Although Canada has approximately 125,000 retail outlets, three of these accounted for 10·5 per cent of total sales; one alone for more than 7 per cent. In view of this, we think it is fair to say that these three stores occupy a dominating position in the retail field.

We have already stated earlier in this chapter that in our opinion this concentration is not likely to continue at the rate of the last decade, or to eliminate entirely the independent retailer. There are, indeed, some indications that these huge merchandising structures find efficient management difficult beyond a certain point of maximum development and that this itself may act as a check on their growth. We would add, however, that monopoly or quasi-monopoly in the vitally important field of retail distribution, could not be regarded by any Government with equanimity. A sound regard for the national interest could not permit two or three concerns to dictate the method of retail distribution in the country as a whole. In such a situation the Government would have to intervene, either through the application of the Combines Investigation Act, or through the utilization of the taxing power of the State to discourage the growth of multiple merchandising operations. This latter procedure might take the form of a graduated tax on all the units of a corporation, the tax increasing with the number of such units; or by assessing for income tax purposes, each merchandising unit of a single corporation. This latter procedure would have the effect of preventing the losses of certain branches being applied to the profits of others. In certain circumstances, this would not only increase the revenue which the State would derive, but would make competition between chain and department stores and independent merchants more equitable.

The concentration in retail distribution already achieved has had certain undesirable effects. Socially, it has meant that in approximately one-third of the retail business of this country, the personal factor has largely disappeared with the inevitable weakening of the ideals of service to the community, so long and honourably associated with the local independent store. That such a development has occurred in other phases of economic life, makes it none the less to be regretted in the field of distribution.

Economically, the unwarranted expansion in recent years in distributive, as in industrial organizations, has not contributed to the general welfare. As long as conditions were prosperous, the consequences of such expansion did not make themselves apparent, but since the advent of the depression, it has become clear that the existence of unwieldy merchandising concerns with an enormous burden of fixed charges and rigid expenses, has resulted not so much

in lowering the cost of distribution as in a bitter fight to maintain the position achieved by various methods, among which might be mentioned the exercise of mass buying pressure to force down the cost of purchases.

One result of this mass buying pressure and the unfair competitive practices we have already indicated, has been to demoralize business generally and to provide a means of exploiting the weaker manufacturer, the worker, and the primary producer. Certain of these practices, such as price discrimination, excessive discounts, secret and discriminatory rebates, unearned advertising allowances, discriminatory free deals, loss leaders as commonly used, are unfair in the economic sense. Others, such as deceptive packaging, misleading advertising, short weighting, are unfair in the ethical sense. All of them we unreservedly condemn.

We believe that the abuses of large-scale distribution can be prevented without interfering with its legitimate development. At the same time, we feel that this development is not legitimate if it is made possible only by unfair competitive advantages at the expense of the smaller and less favoured distributor. We are not condemning mass merchandising as such. It has in the past played and in the future, if certain reforms are brought about, may continue to play an important part in our developing economy. We are condemning, however, certain practices which we have discovered in our inquiries into this form of distribution. The problem of controlling these practices and remedying these abuses is part of the larger problem of business regulation generally. This question is discussed in a later part of our report. We therefore defer our consideration of specific remedial measures in respect to distribution until we reach that point.

CHAPTER VIII

THE CONSUMER

1. INTRODUCTION

In the 18th century when onerous restrictions in the interests of producers hindered the consumer at every turn in his effort to buy what he wanted or needed, progressive thinkers fought valiantly for his freedom to buy in the open market, where free competition in price and quality would ensure him the greatest return for his money. It was an age of small producers and small merchants, of few and simple products, and, in general, an age in which the consumer was well fitted to judge quality and value.

The old order has changed, and it has changed too rapidly for the exponent of laissez-faire. The handicraft industry of the 18th century has given place to machine production, and the simple fabrication of natural products to the synthetic production of industrial chemistry.

The structure of industry and merchandising has also changed. The partnership or joint stock company has become as we have seen, the great corporation of to-day. The personal relationships which existed between manufacturer and merchant and between merchant and consumer are disappearing. No longer are names and reputations so largely built up by years of service as they are by the insistent ballyhoo of nation-wide advertising.

The small retailer still persists, but his shelves are stocked with the prepackaged goods of the large corporation, and the small manufacturer is frequently working only on a custom basis for his jobber or for a department or chain store.

2. THE POSITION OF THE CONSUMER

In the new alignment the consumer is at a disadvantage. It is true he has profited by economies in large-scale production, possibly from economies in large-scale merchandising and by the increased diversity in products presented for his choice, but in this new world of industry and trade *caveat emptor* takes a new and pertinent meaning. The buyer may still beware, but he no longer knows of what he must beware. Not only must he take on faith the quality and efficacy of his purchases, but as an individual and unaided he is at the mercy of the manufacturer and merchant whenever, by organization or agreement, they may wish to curb competition, which, according to the classical economists, was his chief protection.

If this were the whole of the consumer's case it would be strong, but evidence we have taken has further disclosed in manufacturing and merchandising the prevalence of practices inimical to his interests. Such practices include: false and misleading advertising and marking; misleading statements as to quality of products, including designation of grades of goods likely to confuse or deceive rather than inform the consumer; uncertainty of specifications and formulae of manufactured products; adulteration; substitution of cheaper or inferior goods; harmful or poisonous ingredients; exorbitant prices for essentially simple and inexpensive products, when sold under a brand or trade mark; short weight and unjust scales; and deceptive packages and containers.

Some of these practices are definitely illegal, others may be described as "unethical or unfair." Practices which would appear to be at least not

uncommon, the giving of short weight or the making of false statements, have ever been against the law.

The multiplication of commodities offered for sale, due in part to the advance of science and technology, and in part to the constant desire of merchants and manufacturers to present something new to the public, has so increased the complexity of business that the retailer himself frequently has no exact knowledge of what he is selling and the consumer is bewildered by the complexity and variety of goods. Commodities may be simple chemical products masquerading under trade names at exorbitant prices or they may contain harmful or injurious substances such as antimony in enamelware and lead weighting in silk.

With the multiplication of commodities has come also the multiplication of brands and trade names which often give no indication of the nature or quality of the product to which they are applied. Further, a trade name which has gained some public recognition may be continued in use when the product with which it is associated has been altered without notice. Manufacturers' and merchants' methods of marking and labelling are also confusing, and the private grades they use to designate different qualities of their products are frequently worse than useless.

The evidence presented revealed a variety of practices calculated to defraud and to mislead. Unwilling to accept this as a picture of general conditions without further verification, we had a number of independent investigations made. These were undertaken both by officials of the Weights and Measures Branch of the Department of Trade and Commerce and by the National Research Council. Their results confirmed the evidence we had received and indicated that certain forms of deceit in merchandising which had been brought to our attention were widespread.

There would, therefore, seem to be a strong case for taking some action designed to protect the consumer against practices of this kind.

3. CONSUMER PROTECTION

1. Introduction

The various problems of consumer protection can only be dealt with effectively by a combined effort on three fronts, namely, consumers, trade associations, and government. Unless consumers are prepared to exert a reasonable discrimination in purchasing, nothing short of absolute paternalism can protect them. But they must be informed of the principles of merchandising and the standards of quality of goods they buy. We, therefore, regard consumer education as the most important and effective guarantee against illicit practices in trade. Few of the evils, disclosed in the evidence, by which merchants have been able to impose upon their customers could persist in the face of an active, intelligent and organized public opinion. The difficulty of consumer action is that it is not an organized or special interest and has no representation other than the state. It is, therefore, the function of government to pay special attention to the interests of the consumer. This does not preclude action by consumers themselves as individuals or groups. We would welcome organizations of consumers, either in co-operative purchasing organizations, or in organizations for the dissemination of consumer information, and we are of the opinion that every possible encouragement should be given by the government to the development of such organizations. These would offer valuable help to the government in the dissemination of information and in the policing of trade.

Consideration should also be given to the possibility of using the radio and schools in the work of consumer education. A step forward might be made by the teaching in schools of the simpler chemistry of food products and cleansers, the nature of textiles, and other common products, and the principles and working of household machinery.

Measures for consumer protection, it must be borne in mind, are not for the benefit of the consumer alone, but constitute a safeguard also for the honest and reputable manufacturer and merchant. Price competition can only operate fairly and equitably between products of known worth. Much vicious price cutting would be checked if the purchaser were informed in clear terms of the exact nature of the commodity or service. Instances were brought before us wherein the cheapening or adulteration of a product by one manufacturer had, in turn, forced a competitor to lower the quality of his product. When a manufacturer falsifies, adulterates, or degrades his product in such a way as to cause the purchaser to think he is getting something he is not, that manufacturer is imposing not only on the consumer, but is working harm to all other manufacturers who have to meet his competition. Similarly, the merchant who advertises a bargain sale of substandard goods without making it evident to the purchaser that the goods are substandard is working an injury to his competitors as well as to the purchaser.

Misleading advertising by one merchant works damage to the trade of all and provokes further falsification and misstatement. It is not necessary to labour this argument; it has been anticipated by trade associations in manufacturing and merchandising, which for years have been striving to develop and enforce codes of fair practice and competition. Experience has shown that self-regulation of industry and trade is often inadequate and that sometimes it loses sight of consumer interest. Much, however, has been accomplished, and it is to far-sighted trade associations that the government must look for much assistance in the elimination of unfair practices and the development of consumer protection.

2. Results of Tests made by National Research Council

The necessity for consumer protection was made apparent by the results of the investigation carried out by the National Research Council at our request. These results should be briefly referred to.

The situation in regard to paint was revealed as being particularly bad. There would appear to be a quantity of inferior paint on the market, bearing the name of manufacturers who do not exist. Some samples of household paint were found to be exceptionally poor, liable to dusting off, and to rapid deterioration. The prices of these samples bore little or no relation to the quality of the paint. Instances were disclosed where paint was actually being adulterated with substantial proportions of water and excessive amounts of filler.

In the case of anti-freeze solutions, some were found likely to be injurious to health; others injurious to the engine. Many were greatly over-priced; calcium chloride solutions which cost a few cents being sold at high prices under trade names.

Cleaning fluids offered another example of a simple, inexpensive product sold at an exorbitant price under trade names which did not reveal the contents. An analysis of samples of soap revealed great variation in quality, due to high moisture content and adulteration by inert fillers.

Goods marked wool and cotton contained very little wool, while in goods marked silk and wool, the silk was entirely synthetic.

It was shown that wool products generally gave no indication as to whether they were made of virgin wool or shoddy. Samples of cotton goods purchased and checked by the Council also revealed an appreciable variation in the width of the cloth from that stated, the presence of a considerable amount of non-fibrous material, and of filler in materials advertised as free from filler. Discrepancies were also revealed between the advertising and performance with regard to shrinkage.

The investigation into silk goods indicated a condition far from satisfactory. Of twenty-f ur samples of silk purchased, sold with the indication that they

were pure silk, five contained no silk whatever; two only were pure unweighted silk, the remainer consisted of natural silk with varying proportions of inorganic weighting material. The amount of weighting in those so-called "pure silks" varied from 2·4 to 66·9 per cent. It is estimated that pure silk should not be weighted more than 25 per cent in order to secure the maximum service and lustre from the material.

The gasoline on the market was revealed by the investigation to be frequently much poorer in its quality than indicated by its advertising. But with one exception, no properly defined grades for this product have been established.

The practice of dyeing gasoline containing "ethyl fluid" has associated coloured fuel with the better grades, and some sellers of low-grade gasoline have introduced dyes in order to profit by this association.

One gasoline which claimed to exceed all others in "knock-rating" was in reality of a comparatively low grade. Not only may the motorist pay too high a price for falsely advertised fuel, but he may actually damage his engine by its use.

In respect to lubricating oils, the general lack of grading has permitted the growth of the sale of cheap partially refined oils, generally in unlabelled containers, which give no hint of the source or manufacturer. In Canada there are no standards, as such, of quality of lubricating oil with respect to its refinement and serviceability in an engine. While reputable oil refiners do undoubtedly guard the quality of their product in the light of the technical knowledge available, the practice of marketing unbranded oil has resulted in a growing sale of partially refined and inferior material carrying definite hazards to engines.

Tests of electric lamps on the market, the advertising of which appears to imply that they are guaranteed to burn for one thousand hours, revealed that of 27 Canadian lamps on test, 24 had burned out at the end of 861 hours, the average life of these 24 being 662 hours. Of the same number of United States lamps subjected to these tests, 19 had burned out in the same length of time, the average life of these 19 being 756 hours.

Two products of importance in building and construction were noted. It was found that a large part of the putty on the market is made with a proportion of mineral oil which seriously affects its setting and causes rapid deterioration, resulting in a product not suitable for outside glazing.

There are no nationally accepted standard grades of lumber in Canada. In some tests carried out by the Council it was found that in certain shingles "Grade 1" in Ontario corresponded to "culls" in British Columbia.

Finally, it was disclosed that although sterling silver is marked under the Precious Metals Marking Act, there is no standard marking for silver plate other than an indication of the base metal. The purchaser is not in a position to know the thickness or wearing quality of the silver coating. Samples purchased indicated that even the reputation of the seller is not a sufficient guarantee of quality. A great variation in quality, bearing little relation to retail price, was revealed in the articles tested.

3. Methods of Consumer Protection

The above results show the necessity of protecting the consumer from unfair merchandising practices. For this purpose no great changes in the existing legislation are necessary. Some forty federal acts and numerous acts of the provincial legislatures contain provisions to protect the consumer. The legislative changes which we recommend in this chapter of our Report are little more than the further application of principles already laid down.

As a specific question we discuss first that of consumer standards. This is followed by adulteration, marking and labelling, weights and measures, and false and misleading advertising. Under each of these sections certain remedial suggestions are made.

a. Consumer Standards

The first essential of consumer protection is that the name of a product should have a definite and determinable meaning. Everyone will agree that the words "wool," "silk" and "silverware" should mean wool, silk and silverware, although it is evident that frequently they do not. These terms are fairly well defined in the mind of the purchaser. But there are many other products in general use, which are inadequately defined. Some examples taken from the evidence include gasoline, putty, jam, paint, and soap, products which can only be defined by technical chemists.

Manufacturers and other large scale buyers have been aware for many years of the necessity of definition and standardization of products and have developed systems of buying according to specification. In response to their needs, definite systems of grading have been developed. Similarly, most governments purchase according to specifications and this practice is being adopted by the Canadian government. The Purchasing Standards Committee, operating under the Research Council Act, has had the preparation of government purchasing standards in hand for some time, and a number of standards have already been tentatively adopted.

Unfortunately, little has been done either to develop standards for the information and protection of the consumer or to make available to him the standards prepared for the producer and manufacturer. There are, of course, certain exceptions, such as foods and drugs (though here the intention is rather to prevent the sale of harmful or poisonous substances than to develop informative standards), and the grading of canned foods. It is ironical that the best systems of grading introduced by legislation have been intended mainly for the promotion of export trade and for the protection of the foreign rather than the domestic consumer.

We, therefore, recommend the development of a system of consumer commodity standards by the creation of a Consumer Commodity Standards Board as a section of the Federal Trade and Industry Commission recommended later in this Report. The Chairman of this Board should be a member of the above Commission. There should also be represented on it, the Department of Trade and Commerce, the National Research Council and the other departments of the government having to do with the administration of the existing acts relating to standards and quality of commodities. In its work of establishing consumer standards this board should meet with the representatives of the industries and trades and of the consumer. Such a board would be in a position to co-ordinate the technical work of the departments represented and to advise the competent authorities on all matters relating to standards.

The work of the Commodity Standards Board would parallel that of the Purchasing Standards Committee recently set up to prepare specifications for government purchasing. This Committee consists of representatives of the National Research Council and of the government departments interested in purchasing. It has already issued a number of government purchasing standards for tentative use. It is anticipated that after a six months' trial period such standards will automatically come into force for all purchases of the commodities to which they apply.

It is further recommended that the functions of the National Research Council, as provided for under the Research Council Act, be extended to include the preparation of standards and specifications and the analysis and testing of consumer products, as suggested in this report.

The National Research Council, in its work of preparing government purchasing standards, has received the wholehearted co-operation of the manufacturers of the products it has investigated. We are strongly of the opinion that such co-operation, and the mutual discussion of problems which it permits, is in the best interests of the consumer, as well as of the trade.

In the enforcement of such consumer standards as might be established, we recommend that the Consumers Commodity Standards Board be instructed to examine and report on products in retail trade. Evidence of non-conformity to standards set up, of harmful and injurious substances, or of excessive or exorbitant price spreads should be made public, either by the National Research Council or by the Federal Trade and Industry Commission. In cases of violations of the laws, assistance should be provided for prosecution by the competent authority under the relevant legislation.

A warning should be taken from the situation in the United States where, because of the fact that the Bureau of Standards is not permitted to publish names of products or of manufacturers, its whole service is of little use to the consumer.

The Research Council should be authorized to analyse or test any product presented to it by any person and upon which adequate information to answer the enquirer is not already available, and to report (1) on the ingredients in so far as such information may be necessary to the proper use of the product; (2) as to any adulterants and harmful, injurious or deleterious substances it may contain; (3) as to its quality and probable performance and efficiency; (4) and as to its conformity to official standards and specifications. A nominal charge or one equivalent to the cost of analysis and testing, but not including overhead costs, should be made to prevent irresponsible enquiries.

The reports on all such enquiries are for consumers alone and it should be provided that none shall be used for advertising or commercial purposes.

In all its work in this connection and in the work of the Purchasing Standards Committee, the Council, and any other officers or agencies operating with the Council, should be in the position of professional advisers and should be rendered immune to libel action on account of any advice or information given in good faith.

b. Prevention of Adulteration.

The Food and Drug Act and certain acts administered by the Department of Agriculture, contain provisions prohibiting adulteration and degradation of quality of the products which come within their scope. Products not covered by these Acts may be adulterated with reasonable impunity so long as the manufacturer does not wilfully misrepresent his product in advertising or in the markings on the package or label, which would render him liable to prosecution under the Criminal Code. As we have seen, such adulteration is not uncommon.

Its prevalence can be attributed to two causes:—

(1) lack of definition of trade names, and
(2) inadequate enforcement of the existing law.

The latter is discussed later in this chapter, while mention has already been made of the inadequacy of definition of some trade names, even of products in ordinary use. Fortunately, however, one remedy for this is comparatively simple. It is to be found in Sections 488 and 489 of the Criminal Code, as amended 1933, which provides that:—

488. Every one is guilty of an indictable offence who, with intent to defraud,...
   (*d*) applies any false trade description to goods; or,
   (*e*) disposes of, or has in his possession any forged trade mark, or any die, block, machine, or other instrument, for the purpose of forging a trade mark; or
   (*f*) causes or is knowingly a party to any such things.

489. Every one is guilty of an indictable offence who sells or exposes, or has in his possession for sale, or any purpose of trade or manufacture, any

forged trade mark or any goods, coverings, labels, or things to which any forged trade mark is applied, or to which any trade mark or false trade description or mark so nearly resembling a trade mark as to be calculated to deceive, is knowingly and without the assent of the proprietor of the trade mark, applied, as the case may be, or who causes or is knowingly a party to any such thing, unless he proves

(*a*) that having taken all reasonable precaution against committing such an offence he had, at the time of the commission of the alleged offence, no reason to suspect the genuineness of the trade mark, mark or trade description; and

(*b*) that on demand made by or on behalf of the prosecutor he gave all the information in his power with respect to the persons from whom he obtained such goods or things; and

(*c*) that otherwise he had acted innocently.

It would be an easy matter to prove under this Section before a Court, that celluloid is not ivory, nor britannia metal, silver. Glass beads cannot be passed off with impunity as crystal, or if coloured, as precious stones. It is a simple matter of definition, yet many names of products are uncertain in their exact meaning. At what point in the addition of foreign matter does paint become ordinary mud?

To some extent usage has already established in industry and trade a number of definitions of names of products, for example, in lumber and in the petroleum industries, but none of these have been either formally or nationally established.

The situation in our opinion calls for the establishment of a certain minimum standard of quality and performance (quite apart from the setting of grades and standards) below which any product ceases to have the right to the name and becomes something else, and its sale under the recognized name becomes, *ipso facto*, misrepresentation within the meaning of the above mentioned section of the Criminal Code. We, therefore, recommend that the National Research Council, in co-operation with other competent departments of the government and with the trade associations in each line of industry, be instructed to compile a dictionary of trade names of products which shall be accepted in all commercial transactions in courts of law.

c. Marking and Labelling.

A number of irregularities in the marking and labelling of products were brought to our attention. They ranged from complete and definite misrepresentation and false statement to various forms of implication, all of which might be calculated to deceive the purchaser.

One form of misrepresentation is that of fictitious company names on labels. Leather goods of poor quality adulterated with paper, fibre or other substitutes, are seldom marked with the true name of the manufacturers. Samples of adulterated paint of very inferior quality, analyzed by the National Research Council in their survey, were found to be marked with the name of a manufacturer who did not exist. This is definitely an unfair practice and may legitimately be branded as deception. It is to be distinguished from the practice of manufacturers of having two or more registered brands which indicate a difference in quality or finish. A manufacturer who fears to put his own name on a product which he puts out is certainly to be suspected of intention to deceive and the product so marked must be suspect. It is our opinion that the registered name and place of business of the true manufacturer of a product should be required upon the label or package going into retail sale, whether the product is sold under his brand or not.

The development of consumer standards requires the parallel development of an adequate system of marking of products. In the United Kingdom the term "British Standard" is authorized on products conforming to the specifica-

tions of the competent body. It is recommended that the term "Canada Standard" be adopted for products conforming to the standards and specifications published by the National Research Council, and that its use should be authorized only in conjunction with the true designation of the product to which the standard applies.

Products, both manufactured and natural, which may vary in quality should be graded, and the grade designation should accompany the term "Canada Standard" on the label when such products also conform thereto.

A survey of grading indicates that, while in grading for manufacturers of materials and products which do not go directly to the consumer, simple, numerical designations are commonly used, the grade designations of consumer goods are often such as to make it appear that their purpose is to conceal rather than disclose the true quality. Nowhere are simple numerical grades used for consumer products, and even in one of the best grading systems, that of canned foods, the grade names do not indicate in themselves the position of any one grade in the series. These designations are "fancy quality", "choice quality", "standard quality" and "second quality"; "second quality" being, in fact, fourth grade.

It is recommended that all grade designations be numerical, as grade 1, grade 2, etc. Should this prove impossible for some products, alphabetical grades might be used, as with eggs for export trade. Under no conditions should more than one grade be permitted above grade A, and if one is allowed, it should be retained for a very small percentage of the product. Should it be desired in exceptional cases to permit a special top grade in the numerical system of grading, provision might be made for the use of the designations "number 1 special" and "number 1 standard." The grade designation should refer only to the quality of the product and distinction of size should be shown independently of the grade designations. This is already true of canned peas, the sizes being indicated by a number.

Further, grade and standard designations should be unmistakable. They should be clearly printed on the label in such a type and colour as not to appear as part of the brand name. Some producers of canned goods in Canada have successfully obscured the grade designation by making it appear as part of the brand name or description of the contents, for example "Standard quality" may be printed in such a way as to read Standard Quality Product.

In connection with marking and labelling legislation, the question arises as to what extent information concerning the nature of ingredients and products should appear on the package or label. Certain acts, such as the Fertilizer Act, administered by the Department of Agriculture, require the setting forth of the analysis of the contents of the package. We are of the opinion that any products, whether foodstuffs or not, of which knowledge of the ingredients or formula is necessary to their proper use, should bear a statement of the analysis or of the percentage of the more important ingredients. Examples of products on which information of this sort is desirable are textiles, especially woollens, silks and mixtures, cleansers, cleaning fluids and soaps, and chemical products in general. The Commodity Standards Board, in the setting of consumers' standards, should be instructed to determine what relevant information should appear as to the nature of contents, and regulations for such appearance should be made part of the requirements concerning the marking of grades and standards.

It is further recommended that consideration be given to the amendment of the Trade Mark and Design Act to make it a condition of registration of a trade mark or brand name, that the commodity to which it is to apply be adequately marked and labelled in accordance with the principles set out above.

d. Conclusions

In making recommendations under the three preceding sections, we have attempted to lay down general suggestions, rather than to encroach on the field of the technician and scientist by attempting to state in detail the exact form these measures should take or to what specific commodities they should be applied. Nevertheless, in view of the situation disclosed by the evidence in certain particular fields, we venture to suggest that the work of definition, labelling and the establishment of consumer standards of quality might begin with the following:—

Textiles, especially wool and silk mixtures of wool and silk with other fibres;
Clothing, with particular reference to the quality of the cloth;
Meat and dairy products;
Fish and fish products, especially with reference to marking and labelling of fillets;
Petroleum products, especially fuel oil;
Gasoline and lubricating oils;
Paints, varnishes and enamel;
Electrical appliances and light bulbs;
Soaps, cleansers and cleaning fluids;
Silver plated ware, to indicate thickness and quality of plating and chromium plated ware;
Leather goods and footwear;
Flour and bread.

We suggest that the determination of other commodities as suitable for the application of consumer's standards might be left to the Commodity Standards Board in co-operation with the departments of government concerned, especially the National Research Council. The criteria in such determination might, as far as possible, be the extent to which a product goes into everyday use, the proportion of the average consumer's income spent on it, and the existing situation as to quality. Where a standard exists which can easily and conveniently be utilized as a consumer standard, this should be adopted immediately.

We realize, of course, that in the extension of this service to the consumer there will be technical difficulties to be overcome. We merely mention in this connection that standards of quality cannot be absolute or perfect. They are not for the use of the scientist but for the information of the general public and all that is required is that the consumer be given a reasonably clear idea of the nature and quality of what he buys.

4. Weights and Measures

a. Weights

The question of short weight has been referred to in a previous chapter of this Report. We deal with it here as a fraud practised against the consumer and one against which existing measures of protection are inadequate.

The offence itself is either the result of short weighing on just scales or the distortion of the balance of scales to make them unjust. Both practices are illegal, under Sections 63 and 64 of the Weights and Measures Act. They are also covered by other acts.

One of the most common methods of infringing the Act is by including the bag or wrapper in the weight of the article. Indeed, it was represented to us by certain witnesses that the requirement that the weight of goods sold should be in every case the net weight was difficult to observe and worked an undue hardship on the merchant.

While endorsing the principle of net weight and measure as the only just basis for the conduct of trade and as in nearly every case entirely practicable,

we feel that an exception might be made in the case of bulk goods sold over the counter. The modern type of scale in use in most shops makes it difficult to allow for the weight of the bag. Only with equal-arm balance which permits the placing of an empty bag in the weight pan, is it easy to make an exact allowance.

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, is of no great importance and might be permitted without any great harm, but only if standards of weight of paper bags are prescribed by law as in the United Kingdom. We therefore recommend that necessary changes be made in the legislation to permit this—the maximum weight of bags being fixed by Order in Council in relation to the weight of the contents.

The prevalence of the practice of pre-packaging has introduced a new problem in connection with weights—that of shrinkage. The problem, we believe, can be dealt with along the lines of a suggestion received from the National Research Council that is, in the case of any product liable to shrinkage through evaporation, the "net weight" should be interpreted as the anhydrous weight, or should bear some definite relation to it. Were this so, the merchant charged with short weight as a result of shrinkage due to evaporation, could easily prove by a simple test of moisture content that the goods were correct in weight and had lost only in moisture. Standards of moisture content for all such commodities should be determined by the competent department of the government and published by Order in Council. This provision should not apply to goods sold in bulk over the counter, but only to packaged goods put up either in the store in advance of sale or by manufacturers or wholesalers.

But all short-weighing is not a result of shrinkage or beyond the control of the merchant. The evidence disclosed that the deliberate commission of this offence is a serious and widespread practice. It appears to have become more common in recent years as a result of low prices, intense competition, and the merchandising systems of certain chain stores.

Indeed, the practice now appears to be so widespread that the urgent need for more effective supervision and more frequent investigations and prosecution is evident. The number of inspectors in the Weights and Measures Inspection Service is too limited to provide this more effective supervision, and we recommend, therefore, that steps be taken at once to rectify this situation by strengthening that branch of the Government service. Penalties for breach of the Act should also be made more severe. In the final chapter of this Report further suggestions are made as to the administration of the Weights and Measures Act.

b. Measures and Containers

Evidence also disclosed the prevalent use of non-standard sizes for packaged and canned goods, with the apparently deliberate intent of deceiving the purchaser by making him believe that he is receiving more in weight or volume than the package really contains. False bottoms in fruit boxes and wine bottles have long been the custom and are so well known that the purchaser, although annoyed, is no longer deceived. Modern methods are more subtle. Packages, jam bottles and cans are devised to deceive the eye and to appear to contain even pints, quarts or pounds when, in fact, they are several ounces less. The geometrical fact that the cone has only one-third the volume of the cylinder of the same height and base has been fully exploited in the designing of bottles and jars.

This has become one of the commoner methods of unfair competition. The consumer, reading an advertised sale of packaged goods, "large size," expects to receive a pound and in fact received perhaps, 14 ounces. Such practices unfortunately enjoy legal sanction provided the packages are marked with their net contents as provided by the Food and Drug Act and the Meat and Canned Foods Act.

Something has been accomplished by the standardization of sizes and contents of cans under the Meat and Canned Foods Act, but it only touches the margin of the problem. The variety of non-standard containers for food products alone is completely bewildering, as such containers are permitted under the Act provided they show the net volume or weight of contents. We are of the opinion that the marking of the contents alone is insufficient protection to the purchaser in view of the prevalent use of sub-standard containers, especially by chain stores.

It is our opinion that legislative 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. The situation with regard to non-standard containers used in the packaging of some commodities other than foodstuffs is quite as misleading to the purchaser and requires remedy. Of these soap and paints are good examples. We feel also that whether or not a packaged commodity is required to be sold in standard quantities, the net weight of the contents should be clearly and conspicuously marked on the package which goes into the hands of the consumer.

With certain exceptions which are referred to below, both the above provisions should be applied to food products. The provision for the marking of net contents on packages should apply to all goods, whether food products or not, packaged by the manufacturer, wholesaler, or retailer on his own premises in advance of sale, the only exception being bulk goods sold over the counter and weighed in the presence of the customer.

It is suggested that for most foodstuffs sold by weight, packages and containers should be permitted only for quantities of 2 ounces, 4 ounces, 8 ounces, 1 pound and multiples thereof; and by volume for quantities of ¼ gill, ½ gill, ¼ pint, ½ pint, quart and multiples of the quart up to a gallon, gallon and multiples of the gallon. These are the sizes authorized at present under the Meat and Canned Foods Act, and for goods packed in these quantities under existing legislation, the weight or volume need not be shown on the package. Under the recommendations above, however, such weight or volume would be shown on the package.

One of the chief difficulties in the way of standardization of contents of containers of goods sold by volume are importations from the United States packed in United States wine measure or United States fluid ounces, and from European countries packed under the metric system of weights and measures which are different to Canadian measure and not provided for by Canadian law. It is our opinion that a distinction must be made in the legislation between products in ordinary use commonly imported into Canada in quantities, and specialty products imported only in small quantities and not widely sold. Soaps, cleansers, household paints and varnishes, and the commoner varieties of canned foods are examples of the first group; and artists' colours, and caviar of the second. Foreign manufacturers of the commoner products enjoying a reasonably large and continuous market in Canada should be required to pack in the standard Canadian containers, but it would be unfair both to the foreign manufacturer and to the Canadian consumer to apply this legislation to specialty products imported in small quantities for resale, or any products imported by the consumer thereof and not intended for resale. We therefore recommend that the regulations proposed above apply to all imported goods, exceptions to be provided for regular importations or importations not intended for resale. In all cases where importation is permitted of goods in non-standard containers the Commissioner of Customs shall ascertain before delivery from customs that they are legibly and conspicuously marked with the true weight or volume in Canadian weights or measures. It is suggested that the wording "non-standard weight (or volume) equivalent to .... Canadian measure" be employed. It is not the intention that the required use of Canadian standard weights and

measures in the packing of imported goods should be employed in any way as a form of protection for Canadian industries and the Commissioner of Customs should be so instructed.

Certain exceptions to the proposed regulations were mentioned above. These may be specified here. It is felt, for instance, that specialty food products not sold in large quantities, as distinct from staples, might, at the discretion of the competent authorities, be exempted from the requirement to use only standard size containers. A further exception might be made for pre-packaged goods commonly sold at 10 cents or less, characteristic of variety stores. Such an exception might be made without seriously affecting the general proposal for standardization of containers and contents. If adopted, it should be provided that containers should be marked legibly and conspicuously with the words, "10c. package, non-standard, net weight .... ounces."

5. False and Misleading Advertising

Another unfair practice, also discussed previously, and which has a harmful effect on the consumer, is false and misleading advertising. The publication of such advertising is an offence under the Criminal Code, but it appears that the difficulty of prosecuting in the Courts and the delay which often attends legal action makes this form of control too cumbersome to be effective.

There are, however, many unfair types of advertising which are not illegal. In saying this, we do not necessarily condemn a certain exaggeration, "harmless puffing," which is and always has been a normal consequence of the effort to sell goods and which cannot be prevented, even if it were desirable to make the attempt.

In a different category is that advertising which, while remaining within the letter of the law, does possess a deliberate intent to confuse and deceive, and, as such, is harmful both to the competitor and the consumer.

An outstanding case of such advertising was brought to our attention in connection with the sale of overcoats by a department store. A small number of high-grade overcoats was included in a sale of much lower quality garments. The intention seems to have been to attract public attention by using the few high-quality garments as a bait. While no deliberate untruths were published, an implication was given that the bulk of the garments offered in the sale were of like quality to those featured. Since the average consumer has little skill in judging the quality of garments as distinct from style, the result of such advertising would seem to be that of leading purchasers to believe that they were securing far better garments than were actually retailed. To a merchant attempting to give honest value, such tactics would clearly affect his trade as prospective purchasers would tend to compare the inflated values in the misleading advertisements with the actual values of the fair trader, to the detriment of the latter.

Responsibility for the current deplorable conditions in the advertising field must be placed partly on the intense competitive warfare of the last few years, in which the mass merchandisers have played a leading role, and partly on the unrestrained exuberance of the writers of advertising copy.

Such exuberance eventually defeats its own end by destroying consumer confidence in the validity of all advertising. Indeed, some of the more astute advertising concerns have realized this, and now often couch their statements in moderate language, though this does not always mean that such statements accurately represent the goods.

Responsibility for misleading advertising must, however, also be attributed to the failure to establish recognized quality grades in the sale of goods to consumers, and is, therefore, directly related to recommendations already made in this chapter. The two factors together, extreme exaggeration by the advertiser and the inability of the consumer to judge quality, have resulted in a complete divorcement between price and quality in many lines.

The removal of these abuses of advertising would appear to depend, then, on two things; the adoption of strict advertising ethics and the development of grades of quality for consumers' goods. Meanwhile, we feel that the present legal situation might be strengthened by an amendment to Section 406, subsection 2, of the Criminal Code as amended in 1933:—

This section reads:—

Publication of false advertisements to promote sales, etc.

(2) Every person who publishes, or causes to be published, any advertisement for either directly or indirectly promoting the sale or disposal of any real or personal, movable or immovable property, or any interest therein, which contains any statement purporting to be one of fact which is untrue, deceptive or misleading, shall be liable upon summary conviction to a fine not exceeding two hundred dollars or to six months' imprisonment, or to both fine and imprisonment: Provided that any newspaper publishing any such advertisement accepted in good faith in the ordinary course of its business shall not be subject to the provisions of this sub-section: Provided further, that in any prosecution under this subsection 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.

The last provision of this section is held greatly to weaken the effect of the act. While the newspaper publishing a questionable advertisement should undoubtedly have some protection when there is no possibility of the publisher knowing the full details of the product advertised, it is the business of the manufacturer and seller to know the product he makes or handles. It is especially the business of the manufacturer to do so. It should clearly not be possible to a manufacturer to establish that he acted in good faith when it is proven that he mis-stated the ingredients, quality or performance of his product. We, therefore, recommend that this section of the Code be amended by the deletion of the sentence:—

> Provided further that in any prosecution under this subsection 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.

The deletion of this sentence does not preclude the exercise of judicial discretion where it is definitely established that the defendant had no intent to mislead and could not have been expected to know the full facts about the product advertised. This is the ordinary protection assured in our system of law, and inclusion of this sentence in the Code appears to have been taken by the courts as an instruction to interpret "intent" in a particularly broad way.

It is understood that this section of the Code is intended to cover all forms of public advertisements whether in the press or by any sign, poster, or bill-board, or on the label or package of the product itself.

We are also of the opinion that statements of performance, life, or efficacy of products are generally made with uncertain knowledge and seldom on the basis of comparative experimental tests. In the field of medicines and drugs such statements are subject to the control of the Pure Food and Drug Act and may be left to the jurisdiction of the department enforcing that Act. Similarly, statements concerning the efficacy or performance of certain products used in agriculture or animal husbandry are subject to the jurisdiction of the Department of Agriculture. Other than this, almost any statement concerning performance or efficacy may go unchallenged unless or until a successful action is brought under the above-mentioned section of the Criminal Code.

Reference has been made to tests of electric lamps made by the National Research Council at the request of the Commission. Certain manufacturers in their advertising of electric lamps have given the impression to the public that certain of their lamps are guaranteed for a life of one thousand hours.

Inquiry has, however, elicited the information that this guarantee is not intended by the manufacturers to apply to length of life on commercial circuits under ordinary operating conditions.

We, therefore, recommend that this Section of the Criminal Code be amended to make any statement or guarantee, of performance, efficacy or length of life of any product, which is not based upon an adequate and proper test of such performance, efficacy, or length of life, an offence in itself, and to place upon the defendant the burden of proving that such a test has been made and that the statement or guarantee is based upon it. A test by the National Research Council or other competent department of the government shall be considered an adequate and proper test, but no reference should be allowed, in advertising, to the fact that a test has been made by the National Research Council or other government body.

In the enforcement of this section of the Criminal Code the services of the Federal Trade and Industry Commission, recommended in Chapter IX, would be most valuable to the public and to trade organizations. Under the present conditions it is frequently impracticable for an independent merchant or even a retail merchants' association to institute either civil or criminal action against a powerful offender, although they may find their trade seriously damaged by his misleading advertising. The position of the consumer is even worse. The costs of a civil action to secure a refund on goods misrepresented in advertising or at the time of purchase is likely to be more than the value of the goods.

6. Conclusion

In recommendations under the preceding sections we have made no mention of questions of jurisdiction, either federal or departmental.

In respect to the former, weights and measures, fraudulent practices and the regulation of the sale of drugs and foodstuffs are definitely within the competence of the federal government. In the matter of standards and grading, the jurisdiction of the Federal Government may be held to apply only to commodities in interprovincial trade. It is believed however that the advantage to manufacturers and distributors of official indications of quality and grade on the products they manufacture and sell will commend the system to most of them; that it will be welcomed by reputable business firms, and that its widespread voluntary adoption may confidently be anticipated in those fields where the federal government may not have jurisdiction. Furthermore, it may be held that once the trade name of a product has been defined by federal regulation, then the selling under this name of goods which do not conform to the definition established would be a violation of the law. If this position is constitutionally sound, then the way is open for effective federal action in this field.

In so far as questions of departmental jurisdiction are concerned, it is recognized that there is at present a certain amount of division of authority, with acts affecting the consumer under the administration of various departments of government. This is, of course, unavoidable and it is not suggested that there should be complete centralization. It does, however, make enforcement more complicated, and possibly less effective than it might be otherwise. Enforcement remains, of course, the most important aspect of the question. No new laws or changes to the old will help the consumer in the slightest degree without proper enforcement. One of the difficulties in this connection is the lack of an adequate interested authority, able and anxious to lay information and institute prosecutions.

For this reason we feel that the proposed Federal Trade and Industry Commission should have as one of its most important duties the general supervision of the whole field of consumer legislation and should act both as a co-ordinating and, on occasions, as a prosecuting agency in the enforcement of such legislation.

CHAPTER IX

THE PROBLEM OF STATE CONTROL

1. THE NATURE AND SCOPE OF THE PROBLEM

It is now necessary to consider, in general terms, the whole problem of the social control of business. Throughout the previous discussion various specific remedial measures have been suggested. This chapter tries to put all these and other remedial proposals in their proper perspective, by relating them both to the general experience of governments in the field of business regulation and also to what we believe should be the proper policy of public control. With this end in mind—before proceeding to our general recommendations in this chapter—we discuss, first, the general nature of social control; second, the general methods of state control; third, historical experience with state control here and elsewhere; and, fourth, the objectives and limitations of our proposed program of state control.

1. THE NATURE OF SOCIAL CONTROL[1].

At no time in history have economic activities ever been completely free from social control. For centuries it has been recognized that there must be some state mechanism for supervising contending economic rights and interests. In mediaeval and early modern times, this control was far-reaching in character but too often was exercised in the interests of a ruling minority and hence grew more and more oppressive to the people as a whole. The wide acceptance of nineteenth century laissez-faire individualism was in considerable measure a reaction against these narrow and restrictive measures of mediaeval economic control, which, in varying degrees, survived until the early nineteenth century. In fact the main work of laissez-faire, in the last century, was destruction. As the great master of the English classical economists, John Stuart Mill, wrote in 1833:

> That principle, [laissez-faire] like other negative ones, has work to do yet, work namely of a destroying kind; and I am glad to think that it has strength left to finish that, after which it must soon expire. . .

In the prosecution of that work, laissez-faire naturally seemed to imply an absence of regulation, but the implication is not entirely justified for even nineteenth century individualism had within it the elements of control. It was control, however, which, within the limits set by certain formal institutions —the legal rights of persons, free contract, and private property—was based on the self-regulating power of simple competition working automatically through supply, demand, and price.

The great economists of the last century developed the doctrine that economic liberty and simple competition would stimulate efficiency, distribute capital and resources to their most profitable uses, and thus encourage the production of the maximum real income of goods and services. They further contended that the pricing of these goods and services by "supply and demand" would distribute income to the factors of production at such rates of wages, interest, profits, etc., as would maintain a relatively stable economic equilibrium. No economist, however, was ever blind to the complex nature of this theory. All were well aware of the limits of its practical application. All of

(1) See J. M. Clark, *Social Control of Business* (Chicago, 1926); D. M. Keezer and S. May, *The Public Control of Business* (N.Y. and London, 1930).

them not only conceded, but even insisted, that in certain circumstances of imperfect competition, some measure of state intervention had to be substituted for laissez-faire. And so we find that, at the very height of individualistic reliance on "economic law," it was found necessary to pass Child Labour Acts, Factory Acts, and other similar measures, in order to supplement the unsatisfactory operation of economic forces by deliberate legislative control of employment and other conditions.

Individualism has, indeed, never been completely realized. If it is realized less than ever to-day it is because of the gradual substitution in our economic structure of "imperfect" for "simple" competition. This development, as we endeavoured to show in Chapter II, is the fundamental cause of many of our present business problems, and its significance must be appreciated in order to understand the theory on which government intervention in business may be justified. Economic individualism was based on simple competition, and with that basis largely removed, it is perhaps not unnatural that governments in modern times should have intervened by legislative enactments, which affect almost every phase of economic activity. Under present conditions, then, the question is not intervention or non-intervention, but merely the nature and extent of intervention.

If it is accepted that individualism itself has never been free from some form of social control, and that economic theory has never supported such freedom, then the question of the "violation of economic laws" does not arise in its conventional use as an argument against every proposal for government intervention. It is true, of course, that the economic nature of things may set limits beyond which conscious intervention in economic activity may not succeed. No power can enrich a nation that is poor in natural and human resources. It is also true that unwise measures of conscious control may do more harm than good. Nevertheless it should be emphasized that governmental and other forms of public control do not stand helpless before inexorable laws of supply and demand.

The strongest case for individualism rested in its promise of "the greatest good of the greatest number" and in its real achievement of increased production, with a relatively small outlay of effort to control a largely self-regulating economic machine. We have cited much evidence which indicates that the growth of imperfect competition profoundly modifies the terms in which this argument can now be realistically phrased. We are convinced that certain forms of intervention are likely to be less expensive than the wastes of goods and of life that the collapse of the economic system, even if it still retains recuperative power, periodically occasions. We believe, however, that the loss of political freedom and individual liberty would be too high a price to pay for the autocratically planned economy of state capitalism, fascism, or communism, (even if they should achieve their avowed economic goals), and we are confident that it is still within the capacity of Anglo-Saxon nations to work out a system of social control in which freedom can be preserved without economic paralysis, and in which, without dictatorship, production can be made less unstable and the distribution of wealth and income less unequal and less inequitable.

The task of government intervention is, first, to select an objective or goal and, second, to discover by what means of adjustment to economic circumstances and law that goal may best be reached at the minimum social cost.

Before further analysis of what we regard as an acceptable social objective, a generalized summary of the types of government intervention which have developed in our "competitive" society, may be inserted.

2. Methods of Public Control

a. The Protection of Private Economic Activity.

Even under the most extreme development of laissez-faire individualism government retained important economic functions. At the very minimum—by

maintaining order, providing or supervising the provision of currency and credit, protecting private property, and enforcing contracts—it created the framework within which private business enterprise was permitted to work.

b. The Promotion of Private Economic Activity

These minimum purposes of government were soon expanded in a more positive fashion to promote, stimulate, or assist private business. By general education, governments endeavour, among other objectives, to make available a supply of efficient labour; by tariffs and subsidies, to stimulate particular activities; by consular and other services, to discover markets; and by scientific industrial and statistical research, to improve efficiency. The Tariff, the work of the Department of Trade and Commerce, and of the National Research Council are typical of this sort of activity in Canada.

c. The Encouragement of Monopoly

Governments also encourage private enterprise by granting franchises, patents, copyrights, etc., which sanction certain types of private monopoly.

d. Licensing

Certain businesses and occupations are regarded as being so peculiarly "affected with a public interest" that they may be pursued only with express governmental permission in the form of a licence. Lawyers, doctors, and more recently, plumbers and electricians, provide typical examples of occupations so controlled. Occasionally, as in the legal and medical professions, a large measure of regulatory power is delegated to the professional associations themselves, which often utilize this authority in a quasi-monopolistic fashion.

e. The Protection of the Public from the Excesses of Competition

The positive activities previously mentioned have been supplemented by certain negative measures designed to protect special groups from possible consequences of unrestrained competition. The intention is not to impair competitive vigour, but to require that competition shall not lead to the violation of certain minimum standards. In the interest of wage-earners, consumers, investors and the general public, there have been developed extensive codes of labour legislation, pure food and drug acts, banking, insurance and securities regulation, and other laws for protection of public health, safety and welfare.

f. The Prohibition of Monopoly and Maintenance of Compulsory Competition

The five types of activity previously mentioned are not considered seriously to impair the private character of business operation. A more serious breach with individualism develops when government attempts to turn back the tide of industrial monopoly by outright prohibition. The Canadian Combines Investigation Act and several American anti-trust laws forbid monopoly and endeavour to enforce competition by various criminal and civil penalties. A Standard Oil company, however, may be formally unscrambled into its separate constituents, but it is open to question whether these can be compelled effectively to compete. These laws further are directed most specifically against conspiracies or combinations that seem unreasonably monopolistic. They have been applied only with difficulty, if at all, to single concerns which have grown to a size that facilitates monopolistic domination.

g. Government Acceptance of Monopoly with Regulation

In certain fields, particularly those of public utilities, governments have recognized the impossibility of enforcing competition and, more recently, the positive desirability of monopoly. In 1887 the American Inter-State Commerce Commission Act flatly forbade "pooling"; in 1920 it was amended not only to permit but almost to compel "consolidation" of railway lines. In 1887 the Commission was given power to fix maximum rates to prevent exploitation of

shippers; later, to fix minimum rates to prevent cut-throat competition. To-day it has authority to regulate rates, service, expenditures and investment, not only of railroads but of many other related businesses. A similar development has taken place in other countries and other utility fields. To this extent governments may be said to have accepted monopoly as inevitable and to have undertaken to regulate it completely.

h. Government Toleration of Monopolistic or Quasi-monopolistic Industrial Combinations

Less usual in Anglo-Saxon countries is the policy of tolerating or encouraging various types of business and industrial associations, commonly called combines or cartels, to which are permitted or given, powers of "industrial self-government." These may vary in type from the simplest cartel, the members of which agree only to uniform terms of sale, to the cartel which, through a central selling agency, completely controls production, prices, and marketing. In policy, they similarly vary from mere avoidance of competitive waste to the complete exercise of monopoly power. In scope, they range from regional through national to international arrangements.

The English common-law rule that contracts in restraint of trade are not enforceable, supplemented by various statutory prohibitions, has prevented any marked development of cartels in Anglo-Saxon countries, where monopoly develops chiefly through outright consolidation. In Germany such contracts are valid, and cartels found therefore no legal obstacle to their voluntary development. Furthermore, in Germany, Italy, Russia, Spain and Roumania certain compulsory cartels have been established by government decree. Special laws, particularly in Germany, 1923, and Norway, 1926, have been passed to grant cartels express powers and to provide for their registration, inspection and regulation.

Canadian law has restricted possible cartel developments in this country. Nevertheless, only a slight stretching of the definition would be needed to describe the Rubber Footwear Manufacturers' Association as a national cartel, and certain electrical or aluminum manufacturing firms as members of international cartels. A few organizations, formed for export purposes, such as the Newsprint Export Manufacturers' Association of Canada, could also be called cartels. Monopolistic export associations, however, do not come within the prohibition of the Combines Act.

Until recently, cartels were few and illegal in the United States. In 1918, however, the Webb-Pomerene Act specifically legalized monopolistic combinations for export purposes, while the passage of the National Industrial Recovery Act, July, 1933, provided, in effect, for the cartelization of all industry. In law this cartelization is voluntary, in fact, it has been compulsory.

i. Public Ownership and Operation

The extreme example of government intervention is where the government engages directly in the ownership and operation of business enterprise. Government ownership and operation of postal services, schools, and roads provide some of the oldest examples. In violation of extreme individualistic theories, governments nearly everywhere have taken these enterprises out of private hands, sometimes simply because private enterprise could not profitably supply satisfactory service, sometimes because it did not operate to produce maximum social welfare. Public ownership for a variety of reasons—to provide a competitive check on private enterprise, to supplement ineffective regulations of monopoly, to control consumption, to provide revenue—has continued to expand until a world survey of such ownership to-day would include every type of economic activity. In Canada governments are directly engaged in such businesses as

railways, steamships, street railways, telegraphs, telephones, radio, electric light and power, water, gas, stockyards, grain elevators, public markets, liquor sales, banking, and insurance.

These apparently conflicting methods of government intervention in economic activities represent in part confusions in social policy. In part, however, they are the inevitable outgrowth of the pressure of economic circumstances and are to be expected in any program that attempts to adjust itself to changing conditions. Their development in practice may be explained by a brief historical survey of government regulation of business both in Canada and abroad. In this survey, which may provide some guidance for Canadian policy in the matter, special reference will be made to the problems of the regulation of monopoly and the control of competitive activity.

3. Government Regulation in Various Countries

a. The United Kingdom[1]

The classical land of economic liberalism has gone very much further than is generally appreciated in the modification of its traditional policy of non-interference in business. Unlike the United States and Canada, England, as we have seen, carried the doctrine of laissez-faire to the logical extreme of not attempting any artificial enforcement of competition. She believed that the common-law rule that contracts in restraint of trade were not enforceable, plus the absence of tariff protection and of any monopolies based on limited supplies of natural resources, would serve effectively to protect the public from monopolistic developments. In fact, however, laissez-faire in the field of competition seems to lead almost inevitably to such developments. England, herself, despite her especially favourable circumstances, provides some remarkable examples of this fact. These, however, have nearly always taken the form of some sort of outright fusion rather than any loosely organized pool or cartel.[2]

The combination movement in England did not attract very much attention until shortly before the War. In 1919 the Parliamentary Committee on Trusts found a danger that monopolies might soon "exercise a paramount control over all important branches of the British Trade," and recommended the establishment of machinery like that of Canada and the United States for the investigation of the trust problem. No action, however, followed this recommendation which was controverted by the report of the somewhat similar Balfour Committee on Industry and Trade in 1929. The Balfour Report voiced the growing sentiment that even monopolistic combination might be economically desirable, if effectively supervised.

It is necessary to note that in 1925 England formally abandoned her traditional free trade policy. Closely associated with this, was the development of a definite policy of industrial reconstruction by rationalization with government permission and assistance. Under the Coal Mines Act of 1930, the entire industry was put under the regulation of a central council with seventeen regional boards. The iron and steel industry in 1934 succeeded in agreeing upon a somewhat similar reorganization scheme in which the industry would be controlled by a national federation with a number of more or less autonomous divisional associations. With the assistance of the federation the associations are to control price and output and are to promote combination, the reduction of excess capacity, and other measures of reconstruction. The ship-building (1920), the chemical (1926) and the milling (1929) industries have likewise been brought under some sort of centralized control to eliminate competition. Finally, in the Agricultural Marketing Act of 1931 Britain abandoned the doctrine of free competition in certain branches of agriculture.

(1) *See* Herbert Heaton, *The British Way to Recovery* (Minneapolis, 1934); A. F. Lucas, "The British Movement for Industrial Reconstruction and the Control of Competitive Activity" *Quarterly Journal of Economics*, February, 1935.

(2) Hermann Levy, *Monopolies, Cartels and Trusts in British Industry* (London, 1927).

These developments have followed an extensive code of social legislation and a drastic set of laws for the regulation of financial practices. It seems fair, in summary, therefore, to say that, slowly and gradually ever since the end of the War, England has come to accept a program of industrial control, which resembles the more spectacular American program initiated suddenly in the middle of 1933.

It is quite clear, nevertheless, that, to date, there is no single industry in which the English experience proves the possibility of readily or completely solving the basic problems which underlie any such program. These resolve themselves into problems of price fixing, the regulation of output, and the retirement of excess capacity or inefficient establishments.

b. Australia[1]

For many years Australia has provided one of the standard illustrations of a country with a very comprehensive program of state intervention. It is most noted perhaps for the completeness of its code of social legislation, which includes the detailed regulation of employment conditions and even the state determination of wage rates.

The Australian attempt to avoid the dangers of monopoly followed in some degree American practice, since certain sections of the Australian Industries Preservation Acts of 1906 and 1910 contained clauses based on the American Sherman Act. These methods, however, were supplemented by more vigorous attempts than have heretofore been made in Canada or the United States to encourage co-operation among those whom monopoly might injure. In the domestic field, this has taken the form of encouragement of trade unions and associations of primary producers. From the point of view of international policy, it has taken the form of tariffs and bounties to encourage competition against overseas monopolies. Added to these methods of equalizing competitive opportunities has been the direct undertaking of many industrial and commercial activities by the several states and the Commonwealth. Government ownership is more widespread in Australia than in any other British dominion, with the possible exception of New Zealand.

This mention of Australia's extensive development of governmental control has been made in order that equally brief mention might be made of her apparently successful plan for economic recovery. Like Canada, Australia depends for a very large part of her national income on exports. She is, therefore, peculiarly susceptible to world economic forces and requires, as Canada does, an economic system which can make reasonably quick adjustments to changed circumstances. The strongest case for unregulated competition has always rested in the assumption that a system of free competition would be satisfactorily self-regulating. It has been necessary, however, in all countries to modify the operation of competition, and consequently various types of price and other rigidities have tended to develop. Australia provides a suggestive illustration of the ways in which such rigidities can be overcome by wise public planning. The decision of the Arbitration Court (January, 1931) to reduce *real* wages 10 per cent, that is, to reduce money wages more than the cost of living, introduced a flexibility into wage rates which, it was believed, no public agency would ever dare to encourage. The acceptance in that same year of the Premiers' Plan reduced the burden of domestic and foreign indebtedness by conversion and other methods, which required bondholders to share the decrease in income which wage-earners and other classes in the community were already suffering. These deflationary measures to reduce public and private costs were accompanied by controlled inflation to minimize the reduction of money incomes, with the net result that Australia seems to have advanced farther out of the depression than most other countries. Whether or not her slogan, " first in and first out " shall

(1) *See* D. B. Copland, *Australia in the World Crisis, 1924-1933* (Cambridge, 1934); N. Skene Smith, *Economic Control,* (London, 1929).

prove later to be justified, the fact remains that by the intelligent use of three "institutions of national economic administration"—the Loan Council, the Arbitration Court and the Commonwealth Bank—a strong government was able to develop a policy which will always stand as an excellent example of intelligent social planning. It should serve effectively to answer the not uncommon contention that public regulation of business can never be flexible enough to meet a serious emergency.

c. The United States

The United States accepted more completely than England or any of the British dominions the philosophy of laissez faire individualism, and to a much greater extent than almost any other country crystallized this philosophy into statute law. Despite this fact, the economic development of the United States has not been fundamentally different from that of any other modern industrial country. One can find in its recent history the same trends toward the actual development of monopoly and the growing public dissatisfaction with competition that are found in countries which the United States likes to think of as paternalistic or socialistic. This trend can be shown most simply by a comparison of American anti-trust legislation with the recent developments under the so-called "New Deal."

The federal anti-trust policy of the United States was first formulated in the Sherman Anti-trust Act of 1890. This amplified and clarified the old common law doctrine by declaring illegal every contract, combination or conspiracy in restraint of interstate trade or commerce or any monopoly or attempt at monopoly in that field. In the beginning, no special agency was set up for the enforcement of the Act.

(1) *The Federal Trade Commission.*[1]

Very shortly after its passage, the Supreme Court of the United States held, in the E. C. Knight case of 1895, that the Sugar Trust had not violated the Sherman Act because "manufacturing" was not "commerce." There followed a series of decisions construing the statute, of which perhaps the most important was the Standard Oil decision of 1911. This interpreted the Act as prohibiting only "unreasonable" restraints of trade. For this and other reasons it was felt necessary to supplement this basic Act by two others. In 1914, therefore, Congress passed the Clayton, and Federal Trade Commission Acts. The first of these, so far as it relates to our immediate interest, prohibited certain defined unfair methods of competition, "where the effect . . . may be to substantially lessen competition or tend to create a monopoly." The second prohibited unfair methods of competition generally and created a commission of five members with the following functions:—

(*a*) to enquire into and report on corporations engaged in commerce;
(*b*) to secure information on corporate developments;
(*c*) to investigate trade conditions;
(*d*) to advise and assist the government in the enforcement of the anti-trust laws;
(*e*) to issue orders, enforceable however only through the courts, prohibiting unfair competitive practices.

According to one's point of view, it is very easy to use the United States experience since 1914 as a demonstration of either the value or the impossibility of attempting to enforce competition and assure fair competition. It is clear, nevertheless, that the attempt has not been as successful as the Wilsonian liberals hoped.

(1) See T. C. Blaisdell, Jr., *The Federal Trade Commission* (N.Y., 1932); M. Handler, ed., *The Federal Anti Trust Laws* (Chicago, 1932); G. C. Henderson, *The Federal Trade Commission* (New Haven, 1924); E. P. Herring, "Politics, Personalities, and the Federal Trade Commission," *American Political Science Review*, December, 1934, and February, 1935.

The major difficulties encountered by the Federal Trade Commission in administering anti-trust legislation and in regulating business practices can be summarized briefly under four headings: personnel, policy, procedure, and law.

As to the first, it has often been alleged in criticism of the commission that many of its appointees were out of sympathy with its avowed purpose, and were chosen for reasons other than their competence to perform the duties of their positions.

> Of the five members of the present Commission four are lawyers, one is a farmer, only one has had any substantial amount of business experience and none of the members is equipped by education and experience to deal with complicated questions that come before the Commission. . . . An examination of their biographies . . . [shows that they] are men of character and importance, but of "local" character and "local" importance, not men obviously qualified—as members of the Trade Commission should be qualified—by inclination, by long and specialized experience; by unquestioned masterly and standing in business, economics and law, to deal effectively with, and to promote the expeditious disposition of, the many highly complicated questions of nation-wide public and business policy that come before the Commission from day to day.[1]

It has further been stated by American students of the activities of the Commission that, as the political complexion of the national administration changed, a rapid turnover of commissioners occurred, at times for the purpose of deliberately weakening the Commission; that various kinds of pressure which none would dare think of applying to the courts were continually brought to bear upon its members; and finally, that the commissioners tended to be too legalistic in their attitude toward the problems confronting them. As a result, so it has been stated, the Commission never acquired the prestige that is an essential condition of successful regulation of business.

Personnel difficulties were further emphasized by the uncertainties of public policy. To a very considerable extent, the Commission was stultified by the swing in public policy away from the "trust-busting" attitude of pre-war days. The survival of this attitude among the Wilson appointees to the Commission and among the more permanent technical staff, confronted the sympathy with big business of more recent appointees. The clash of those two opposing points of view has been held to have prevented the formulation of clear-cut administrative policies, with consequent indecision and confusion of purpose.

The Commission procedure has often been attacked as slow and cumbersome. This may have resulted from certain legal requirements, but it has undoubtedly very seriously hampered the effectiveness of the Commission.

Finally, there has been the limiting and restrictive effect of court decisions which, under the American practice of judicial review, have very significantly narrowed its authority and have taken away from it the power which Congress intended to give of defining which competitive practices should be prohibited as unfair. It has also been alleged by commentators on the work of the Commission that the above legal difficulties were further magnified by unsatisfactory relations with the Department of Justice, in which ultimately the real power to enforce the anti-trust laws resided. All these things have, in the eyes of its critics, not merely impaired the Commission's power to regulate business practices, but have also greatly weakened its functions of investigation and publicity, although these are of fundamental importance in any program of public control.

Despite the considerations referred to above, the Federal Trade Commission has achieved sizeable results in raising the standards of business conduct and practice. It has rid business of many nuisances by diminishing the prevalence of price discrimination, misleading advertising, and other grossly unfair practices. By a series of trade practice conferences, it has encouraged hundreds of businesses to

(1) B. M. Webster, Jr., in Handler, *op. cit.*, p. 142.

develop codes of fair practice which, if not always legally enforceable, at least had important educational values. In a series of reports and investigations, it has built up a body of information about business practice which, if not adequate to answer all questions of public policy, is nevertheless unequalled in any other country.

Many of the difficulties which must qualify one's verdict about the success of the Federal Trade Commission and the American anti-trust laws, are of a kind that do not apply to Canada. If we solve the constitutional problem of Dominion or provincial jurisdiction, it is exceedingly unlikely that we shall meet the other legal restrictions which have so greatly hampered the Federal Trade Commission's work. Our only real difficulties would be those of personnel and policy. The British tradition of public service may help us to solve the problems of personnel, and those of policy could be gradually met by restricting the initial administrative functions of any similar Dominion commission and instructing it from time to time to advise the Government about those policies which should be crystallized into binding statute law.

In view of many popular misconceptions as to present American policy, it is interesting to note that there is no disposition in that country to permit unregulated private monopoly. President Roosevelt, in his message of February 20, 1935, asking for the extension of the N.R.A., said:—

> The fundamental principles of the anti-trust laws should be more adequately applied. Monopolies and private price-fixing within industries must not be allowed nor condoned.

Proposals are now before Congress both for the widening of the authority of the Federal Trade Commission and for the transfer to it of many of the functions of the National Recovery Administration.

There has, however, for years been much dissatisfaction with the traditional interpretation of anti-trust policy. This found expression, after the acute economic collapse of March, 1933, in certain provisions of the National Industrial Recovery Act. There can be no doubt that the passage of this Act in July, 1933, marks in some fashion a revolution in American economic history, but as yet it is impossible accurately to estimate its significance or success.

(2) *The National Recovery Administration.*[1]

The N.R.A., unfortunately, for purposes of analysis, does not stand alone. It is only one phase of a comprehensive legislative attack on all the problems of the depression. This involves:[2]

(*a*) *Relief*—to business and financial institutions by the Reconstruction Finance Corporation; to property owners by the Home Owners' Loan Corporation, Farm Credit Administration and miscellaneous inflationary measures; to individuals by the Federal Emergency Relief Administration.

(*b*) *Re-employment*—the whole program was directed toward the stimulation of employment, but special mention in this connection must be made to the Civilian Conservation Corps, the establishment of the United States and National Re-employment Services, and the Public Works Administration.

(*c*) *Reform*—of banking and finance, by the Banking Act of 1933, the Securities Act of 1933 and other miscellaneous measures; of transporta-

(1) See especially, N.R.A., Research and Planning Division, *Report on the Operation of the N.I.R.A.* (Washington, Feb., 1935).

(2) For a convenient summary, see Stuart Chase, "Government in Business," *Current History*, March, 1935.

International Labour Office, *Social and Economic Reconstruction in the United States* (B. No. 20, Geneva, 1934).

Leo Rogin, "The New Deal: A Survey of the Literature," *Quarterly Journal of Economics*, February, 1935.

tion, by the Emergency Railroad Transportation Act of 1933, and other legislation supplemented by the appointment of the Federal Co-ordinator of Transportation; of agriculture, by the improvement of agricultural credit facilities and the Agricultural Adjustment Act; of industry, by Part I of the National Industrial Recovery Act.

This summary is intended to do no more than indicate that the N.R.A., is but a small part of a tremendously varied organization and movement.

Taken even by itself, however, the N.R.A., is so complex that general analysis is almost useless. Its activities and results vary from code to code, industry to industry, place to place, and time to time. Even if its results are disregarded, a matter-of-fact summary of its activities and organization is almost impossible, for the N.R.A. program (as of Feb. 1, 1935) has really consisted of the following and much besides: the National Industrial Recovery Act, Title I; 70 Presidential Executive Orders; the National Recovery Administration with a staff of 4,500 persons and a budget now of about $1,000,000 per month; 731 codes and supplements; 585 code authorities with annual expenses of about $41,000,000; 139 general administrative orders; 11,346 code adminstration orders; 558 general code interpretations; 614 general stays or exemptions from individual code provisions; 1,171 exemptions to individual firms from specified code provisions; 680 code amendments and innumerable memoranda; releases, reports, hearings and conferences. The comment which follows professes to attempt only an exceedingly generalized summary which may assist in the formulation of a sound Canadian policy.

The purpose of the N.R.A. was to restore employment and stimulate business activity by increasing purchasing power and restricting unfair competitive practices. It was hoped to accomplish this purpose, first, by persuading each industry, through "voluntary" agreements or codes, to raise minimum wage rates and reduce maximum hours of labour; second, by encouraging collective bargaining through trade unions and trade associations; and third, by recompensing employers for increased costs by approved programs of production, price, and trade practice control.

In the beginning, the plan seemed to be to restrict codification to the ten major industries of the country. In August, 1933, however, the speculative anticipation of increased prices caused such a boom in industrial activity that the slow process of developing codes for each separate industry was interrupted by a nation-wide campaign to get every individual employer to sign the President's Re-employment Agreement, popularly known as the Blanket Code. Thereafter the slower work of hammering out agreement on the terms of the separate industrial codes was resumed. It is not yet entirely finished. To date about 90 per cent of all employees operate under one or other of the hundreds of codes which have been approved. These range from the retail distribution codes covering over 5,000,000 workers to the code for the animal soft-hair industry approved in December, 1934, covering only ten firms with 45 employees. It is impossible to exaggerate the magnitude of this achievement. It is equally impossible accurately to estimate its results.

It appears clear, however, that the program has not fulfilled the promises of its more enthusiastic supporters, while many business men have begun to lose those fears which two years ago made them in desperation rush to the government for assistance. A reaction against regulation as the price for such assistance seems to have set in—a reaction such as might be expected after any attempt so quickly to modify the underlying business habits of a nation.

It is also alleged that the N.R.A., itself, is in part responsible for this change of opinion, due to the uncertainty of its administrative policy. Its mandate, for instance, contained an order to relax certain anti-trust restrictions, but at

the same time to protect small business and not to encourage monopoly. The reconciliation of these two ideas has not been easy. Some would say it is impossible.

Further, in the haste to codify all industries, little time was left for the formulation of any well-rounded policy. There was, therefore, often a variation in objectives among those responsible for policy. This has naturally led at times to confusion and inconsistency. It would, indeed, have been surprising if, under the circumstances, this had not been so.

One thing, however, seems to be clearly emerging from the American experiment—that regulation of production and price by industry itself under government supervision is to be continued only in exceptional industries, where the public interest in the conservation of natural resources may justify this policy. There is also some evidence that the scope of trade-practice control will be considerably reduced and that the whole program will be narrowed down to a few large interstate industries. And it is quite certain that, regardless of the Recovery Administration's general jurisdiction, more and more emphasis will be placed on the labour provisions of the codes.

Quite apart from difficulties of policy, the N.R.A., it would appear, has developed administrative difficulties—a not surprising result of so comprehensive and complex an attempt to regulate almost every phase of business activity. Non-compliance with code provisions is admitted to be very general and no effective machinery for enforcing compliance has yet been devised. Certain authorities set up for this purpose have developed a vested interest in the continuation of the program and their methods and policies have been severely criticized. Even if the practical difficulties of administration were overcome, there would still remain almost insoluble theoretical difficulties relating to such matters as the classification of industries and the relationship of code provisions in one industry to those of others. It is not uncommon, for example, to find establishments simultaneously working under the provisions of many different codes.

The experience of the lumber industry under its code is, if somewhat extreme, very instructive. The lumber codes fixed 30,000 separate prices, and fixed them so high that 5,000 new sawmills were started despite a marked decrease in demand. As a result, price-fixing was abandoned after eighteen months of great confusion; but not before a poll of Pacific Coast lumber manufacturers showed that in August, 1934, 81 per cent of the fir manufacturers were selling at less than code prices.

It will not be possible to pass final judgment on the N.R.A. experiment for many years, but we feel that American experience under the Act has not been such as to justify Canada's imitating the experiment. Our conclusions on this point are the more definite because of our realization that, apart from the question of results achieved, conditions in Canada, economic and otherwise, are in so many important respects far from analogous to those existing in the United States.

d. Canada[1]

(1) The Board of Commerce, 1919

Canada's experience with the control of competitive activity dates from 1889 when an Act was passed, now to be found in Sections 496 to 498 of the Criminal Code, which make it an indictable offence to "unduly prevent or lessen competition."

This first legislation has since been supplemented by other acts. One of the most interesting of these was that establishing the Board of Commerce in 1919, with which was closely associated the Combines and Fair Prices Act of the same year. In summary, this legislation was designed to prohibit combinations detrimental to the public interest and to prevent the charging of prices

(1) See Francis Hankin and T. W. L. MacDermot, *Recovery by Control*, (Toronto, 1933).

which would unduly increase the cost of living. Its administration was put into the hands of a Board, which was established as a court of record and given very extensive powers of investigation and administration. It set up a number of local agencies and conducted many investigations into profiteering. In 1921, however, the Privy Council declared that the legislation was outside the competence of the Dominion Parliament, and the Board of Commerce came to an end.

The brief life of the Board was sufficient, however, to teach several very definite lessons, of which the most important were (1) the necessity of appointing to a tribunal of this kind only members who have had a thorough training in the analysis of economic and business problems and (2) the necessity of limiting its administrative duties in order that it might have an opportunity gradually to develop an effective policy. The Board of Commerce was so harassed by hundreds of unimportant complaints that it is doubtful whether it would ever have been able to make any serious contribution to the formulation of a wise policy of public control of business, even if it had continued to function.

(2) Combines Investigation Act, 1923[2]

In substitution for the 1919 legislation there was passed in 1923 the present Combines Investigation Act, the main purpose of which is to prohibit combines which "have operated or are likely to operate to the detriment of or against the interests of the public, whether consumers, producers or others;.." Within this limitation there are specific prohibitions of a variety of monopolistic arrangements and practices. On complaint, or on the initiative of the Registrar, or at the instance of the Minister of Labour, a preliminary enquiry is made by the Registrar into any alleged combine. If this discloses sufficient evidence to justify more extended investigation, such may be conducted by the Registrar or by a special commissioner appointed by the Governor in Council.

The remedies provided by the Act for illegal combines are those of publicity and penalty. The report of any investigation by a commissioner *must* be published in full and a report by the Registrar *may* be published at the discretion of the Minister of Labour. Sometimes such publicity by itself adequately remedies the situation, as in the case of the Proprietary Articles Trade Association. Sometimes the publicity, as that following the investigation of an alleged combine into the distribution of fruit and vegetables in Western Canada, leads to remedial provincial legislation.

The penalty provisions of the Combines Act include a fine not exceeding $10,000 or two years imprisonment for natural persons and a fine not exceeding $25,000 for corporations. Under certain circumstances, action under the Act may be taken in the Exchequer Court to revoke patents, and by the Governor in Council to reduce certain tariff duties.

This brief discussion of the regulation of monopoly cannot pretend to cover the whole field of government intervention in Canadian economic activities. A survey of such activities will show that government for one reason or another has been forced to intervene in many fields and in varying degrees, from the mere exercise of general supervision of private activity to complete public ownership and operation. The fields of transportation and communication, public utilities, commerce, manufacturing and agriculture all bear witness to the fact that the state is accepting more and more responsibility in this country for the supervision and direction of economic endeavour. It is estimated that to-day

(2) See Judgment of Judicial Committee of Privy Council, Appeal No. 118 of 1929, on Constitutionality of Combines Act (Reprinted, Canada *Labour Gazette*, Mar., 1931). Reports of the Registrar. J. A. Ball, Jr., *Canadian Anti Trust Legislation* (Baltimore, 1934); V. W. Bladen, "Combines and Public Policy," *Proceedings of the Canadian Political Science Association* Vol. IV (1932), pp. 168-70.

the state owns, operates or regulates about one quarter of the total wealth of Canada. Of this, approximately one half is directly under government administration.

4. The Objectives and Limitations of Public Control

a. Amendment of the Combines Act[1]

The brief survey in the preceding sections has been made to see what light it throws on our present problem of state control of business practices. In Canada there is a growing body of opinion that changed economic circumstances demand such control by what is described as "self-government of industry" with state supervision. To make this possible an abandonment or amendment of the Combines Act is advocated by some, in order to encourage quite innocent combinations of manufacturers to prevent the depression of prices, or innocent combinations not to impair but rather to foster fair competitive opportunities.

In our later recommendations for the establishment of a Federal Trade and Industry Commission, we shall return to the question of amendment of the Combines Act. Meanwhile, we recommend that, regardless of these later proposals, the Act be amended at least in one important particular, namely, the publicity provisions of Section 28, which reads as follows:—

PUBLICITY

28. Any report of a commissioner, other than an interim report, shall within fifteen days after its receipt by the Minister be made public, unless the commissioner is of the opinion that the public interest would be better served by withholding publication and so states in the report itself, in which case the Minister may exercise his discretion as to the publicity to be given to the report in whole or in part.
2. The Minister may publish and supply copies of any report, in such manner and upon such terms as to him seems most desirable.

Unfortunately, despite what seems to be the authorization to the Minister to publish *any* report, this section has recently been interpreted in such a way as to deprive the Minister of the power to publish a report of the Registrar.

Certain reports of the Registrar have been made public from time to time when the enquiries have beeen extensive enough to justify such a course. Our opinion is that, where the Registrar makes such an enquiry as a Commissioner would make, and where the requirements of Section 13 of the Inquiries Act have been met (as provided in Section 18 of the Combines Act), reports of such inquiries by the Registrar should be subject to the same provisions as apply to Commissioners' reports, and that Section 28 of the Combines Act should be amended accordingly. Otherwise, the policy of publication of reports might be defeated by the expedient of having all enquiries made by the Registrar and none by Commissioners.

Many proposals for additional changes to the Combines Act are based on a complete misunderstanding of the intent, purpose, and language of the Act, which does not at present prohibit any combination which is likely to operate in the interests of the public. Some of these proposals are based on a belief in the desirability of combinations to maintain prices and restrict output. Others seem to imply a desire on the part of manufacturers and distributors to make the consumer pay the cost of their efforts to cure what they regard as competitive wastes in their lines of business. The adoption of such proposals as these would, however, accentuate one of the major evils for the investigation of which this Commission was appointed, namely, that of the spread in prices between what the consumer pays and what the producer receives.

(1) Annex VIII, for a memorandum submitted to us on various proposed amendments.

If repeal or modification of the Combines Act had the effect of legalizing attempts to restrain price-cutting by schemes of price-fixing or resale price maintenance, the tendency would be to set prices assuring "fair" margins of profit to all distributors. These margins might be sufficiently large to permit a "fair" profit for the high cost or inefficient operator. This would increase price spreads and the costs of production and manufacture. Even if we admit all the alleged wastes and inefficiencies of competition, any general substitution therefor of private monopoly, without some effective regulation based on experience and slow growth, would further unbalance our economic structure.

b. Self-government in Business

Proposals for "self-government in business" as outlined above, represent in part an only-to-be-expected reaction against extreme individualism. Their sincere acceptance by many business men is often the product, however, of depression desperation. They have, we feel, dangerous implications and if widely accepted, might well lead to the formation of monopolistic combinations for the control of which governmental agencies in personnel, experience, policy and law are as yet unequipped. The brief experience in the United States under the N.R.A. and the rapid shift in opinion and policy which has followed it should be sufficient to warn us against any precipitate and unconsidered acceptance of this philosophy. We do not minimize its importance; we are merely suggesting that its acceptance should proceed slowly and by stages.

At the same time, it should be pointed out that the idea of "self-government in business" has received support from many economists and practical business men, who feel that something of this kind may be necessary, as the concentration of production and distribution into the hands of larger and larger corporations, goes on.[1]

We cite in this connection, the *Resolution on Cartelization* of the World Economic Conference, 1927.

> . . . Nevertheless, in certain branches of production they [cartels] can—subject to certain conditions and reservations—on the one hand, secure a more methodical organization of production and a reduction in costs by means of a better utilization of existing equipment, the development on more suitable lines of new plant, and a more rational grouping of undertakings, and, on the other hand, act as a check on economic competition and reduce the evils resulting from fluctuations in industrial activity.

Britain's Industrial Future, the Report of the Liberal Industrial Enquiry, 1928 (United Kingdom), has also an interesting reference to this matter.

> . . The instinctive public distrust of monopolies is well founded, because it is competition which has passed on to the consuming public, in the form of low prices, the results of industrial and economic progress. It is, however, useless to-day to attempt to restore the old conditions of competition, which often involved waste of effort and prevented full advantage being taken of large-scale production. In modern conditions some degree of monopoly is, in an increasing number of industries, inevitable, and even quite often desirable in the interests of efficiency. The progression from purely private Individualistic enterprises to the Public Concern is a gradual one. We must try to find room for large-scale semi-monopolistic private concerns. A monopoly, held in check by its vulnerability against concerted action by consumers, may serve the public well and offer many of the advantages of free competition simultaneously with the economics of concentration. But publicity is the necessary condition for the right use by the consumer of his ultimate weapons.

(1) See Bruno Burn, *Codes, Cartels, National Planning* (N.Y., 1934).

Nevertheless, we do not believe that any such formula as self-government or codification or cartelization is yet generally applicable to any wide range of industries in Canada, though there may well be industries, such as the needle trades, in which the peculiar conditions of the business call for some such measure of social reorganization.

We recommend, therefore, that the Federal Trade and Industry Commission, which is proposed later in this Report, should, as one of its major duties, carefully consider industrial and economic developments, so that when an industry finds itself in a position where some social reorganization under public supervision is necessary, the Commission may advise the Governor in Council what steps should be taken to deal with the situation. So far as any general scheme of "self-government" under state supervision and control is concerned, we feel that the remedies we are suggesting for specific problems will have the effect of bringing about adjustments in the existing organization of industry, which will obviate the necessity for such general reform.

We reach this conclusion on purely practical grounds, but we find support for it also from many students of economics.[1] The following extract from the *Economist* (London), February 2, 1935, is a typical statement of this position:—

> . . . In their very special circumstances the multiplicity of units has unquestionably led to excessive competition of a wasteful character, and a thoroughgoing reorganization of their structure is undoubtedly overdue. Some means must therefore be found for subordinating individual interests to the general good—which in the last resort means compulsion in some form or another. . . But this does not mean that a monopolistic cartel, composed of those at present in the industry, would be appropriate even to these industries. . . Thus even for the industries with permanent surplus capacity, it would not be easy to make a strong case for a general Enabling Act conferring powers of self-government. On the contrary, there is good reason to believe that the problem of each industry could best be handled separately. . . Moreover, even the much more limited powers of "self-government" exercised through restriction schemes of various kinds have, more often than not, done more harm than good, as the unfortunate history of the rubber industry, to take only one prominent example, plainly shows. Nor can very much reliance be placed upon the various safeguards enumerated in the Enabling Bills, for no "representation" of the consumer has ever been developed which has a tithe of the potency of free competition. . . A general invitation to industry to organize itself in restrictive cartels would be to risk losing in the twentieth century most of the economic gains of the nineteenth.

Our hesitation to accept the demand for general "self-government in industry" with government supervision and control is due largely to the fact that democratic governments have not yet perfected any mechanism for effective control. The problem of the regulation of public utilities is not completely solved. If regulation were suddenly extended over the much wider field of trade and industry generally, the problem would be correspondingly greater. Further, it would be dangerous to substitute for even the imperfect protection which "the market" now extends to labour and consumer, only general surveillance by government. Democratic self-government in industry can be achieved only by putting the control of industry under organizations that are equally representative of the interests not only of the producers themselves, but also of labour and consumers. As it has been well put:—

> . . . The interest of a single business man under genuine competition is to increase production, simply because competition will not let

(1) See Robert Liefmann, *Cartels, Concerns and Trusts* (London, 1932); Simon N. Whitney, *Trade Associations and Industrial Control* (N.Y., 1934).

> him gain by limiting production. The group that includes all the employers in one trade is proverbially the group whose interest lies in limiting production; and organizations of this sort, intended though they may be to promote social ends, have this basic force to reckon with. Once we have broadened the unit of organization beyond the single competing business enterprise, we must go a great deal farther before we shall have a group whose interest as a group lies in increasing production rather than limiting it. The group must incorporate—and not merely in an advisory capacity—labour, consumers, public.[1]

In short, while we are sympathetic to the idea of industrial self-government and accept its necessity in individual cases to be decided by the proposed Federal Commission, we feel that—having regard to the dangers of monopoly or fascism, and our lack of experience with far-reaching government control of business—we cannot recommend the general acceptance of this policy, except upon a basis very different from that now in the minds of many of its proponents. The representatives of numerous industries, as such, and many individual business men have appeared before us urging the acceptance of this program, whether it be called cartelization, authorized combination, NRA codification, or industrial self-government. We are not persuaded that they have given sufficient thought to the underlying implications of their proposals.

We feel, further, that before any such system of industrial self-government can function effectively and in the public interest, there must be already in existence well developed trade associations and trade unions.

We have suggested in previous chapters that government should support and encourage such associations and unions, and again we recommend here that the proposed Federal Trade and Industry Commission should co-operate with them to the utmost possible extent. Such co-operation should be for the purpose of abolishing unfair competition and stimulating the voluntary acceptance of codes of business practice. It should also be for the purpose of ensuring that, if reorganization of an industry becomes necessary, there will be well organized and experienced groups to represent workers and employers, well developed policies for effective government regulation, and experienced agencies to administer such policies.

c. The Complexity of the Problem

The examination we have made above of government intervention in business, though brief and inadequate, has been sufficient to show the complexity of the problem. The general purposes of such intervention are easy to state; that it should free initiative from existing restraints and not destroy initiative by merely adding new restraints; that it should be in the interests of the economic and social welfare of the mass of the people, and not of any one group or class; that social control should be designed to produce the maximum national income and to distribute it in the most equitable fashion. No one can quarrel with these objectives, but differences of opinion immediately arise when any attempt is made to recommend practical ways of attaining them. State socialism, communism, reformed and controlled capitalism, fascism—all have their adherents; and their opponents.

The questions raised are as pressing as the answers are various. How can the capacity of industry be adapted to human needs? How can production be related to demand? How can we remove the paradox of poverty in the midst of plenty; of unemployment, when there is so much work to be done? How can units be articulated into industries and industries into a national economic organization, without the sacrifice of political liberty.

(1) J. M. Clark, "Economics and the National Recovery Administration," *American Economic Review*, March, 1934.

d. Conclusions

We join those who agree that there is no single answer to all these questions; no single panacea for our economic ills. We would, however, submit the following considered conclusions:

(1) that in certain industries, such as public utilities, monopoly control requires complete regulation or government ownership;

(2) that in certain other industries competition can be satisfactorily restored by state action;

(3) that in some imperfectly competitive industries the attempts to restore competition must be *supplemented* at least by some sort of maximum price control, profit restriction, or other method of regulation.

(4) that in other industries where simple competition is operative, such competition may continue to be relied upon as the best method of control;

(5) and that, finally, there may be a *few* industries in which competition has become so cut-throat that some modification of it may be attempted, or permitted.

We recommend what may develop into important and far-reaching intervention by government for the control of competitive practices in business; but, drastic as these reforms may later prove to be, we are convinced that their development should be gradual and progressive. This, for two reasons: 1, our lack of experience with these problems, and the absence of a mechanism for dealing with them, warrants only a gradual approach; 2, no far-reaching change in social policy can be undertaken experimentally in the hope of a return to the status quo if the experiment should fail.

> While this policy [that of indirect control by competition] has not been completely satisfactory, there are many reasons for being slow to abandon it in favour of the other. Chief of these is the fact that the change would be likely to be irrevocable. It is easier to keep industrial units apart than to unscramble them after they have once combined, and a policy of permitting combination would almost certainly result in such a growth of mergers that if we should subsequently change our minds and desire to return to the plan of indirect control the necessary unscrambling would prove to be virtually impossible. Before committing ourselves to direct control, then, we should do our best to visualize its ultimate consequences as well as to try out all the possibilities of the plan we are now following.[1]

The proposals which follow represent our conception of what can safely be undertaken at this time.

2. GENERAL RECOMMENDATIONS

1. The Federal Trade and Industry Commission

This section deals with our *general* recommendations for government intervention in business, within the limits set by our terms of reference, limits which exclude many fundamental problems, such as currency and credit, transportation and communication, and other aspects of the general economic structure. Many of the specific recommendations which we have previously made are particular remedies for particular evils. We recommend them with greater confidence, however, since they are co-ordinated with the more general policy which we are now proposing. This policy is designed both to protect the various interests

(1) Clark, *op. cit.*, p. 439.

in our society, consumers, primary producers, wage-earners, investors, and employers, and to improve the general organization and functioning of our economic system.

There are only two ways by which democratic government can intervene in the affairs of private enterprise—by statute law, or administrative law. When statute law is used, the act (for example, Pure Food and Drug Act, Section 498 of the Criminal Code), sets out in detail what may or may not be done. Enforcement is left to the police, law officers and courts. When administrative law, as we should like to define the term here, is used its application to particular situations and its administration is placed in the hands of a semi-autonomous body, such as the Board of Railway Commissioners, the Tariff Board, or the Registrar under the Combines Act.

The more complex the problem, the less likely is it that statute law alone will meet the situation. As we have stated above, there can hardly be a more complex problem than that provided by the state regulation of competitive practices. We feel, therefore, that any policy dealing with this problem should be interpreted and enforced by a competent administrative agency. For this reason, we recommend the creation of an agency to be called the Federal Trade and Industry Commission.

2. Structure of the Commission

The Commission should, we think consist of five members appointed by the Governor in Council, as a semi-autonomous board under the President of the Privy Council. Its members should be appointed solely on the basis of their qualifications to approach economic and business problems in a thoroughly scientific and trained fashion. Indeed, the success or failure of the Commission will depend almost entirely on the competence of its members. An incompetent Commission, or one subject to outside pressure or influence, would be worse than none at all. Appointments should be for overlapping terms to give continuity, and for long terms to give security of tenure. The Commission should begin its duties with a minimum staff adequately paid, to secure maximum competence. Eventually, the Commission might have divisions for (1) Combines Act enforcement and monopoly regulation; (2) consumer protection; (3) the regulation of trade practices; (4) the regulation of security issues, etc.

We regard it as important that the Commission be independent of any existing department of government and under the responsibility of the Prime Minister as President of the Privy Council. Its status should be like that of the Board of Railway Commissioners, both in its authority and in its relation to the responsible Minister and Parliament. We make this recommendation with a full appreciation of the danger of unnecessarily duplicating governmental agencies and of the present necessity of more effectively co-ordinating existing departments and agencies. None the less, the very nature of the problem is such that the work of the Commission cannot be regarded as belonging to any one department rather than another. It would, in fact, have a function of attempting itself, by co-operation, to co-ordinate certain present activities of several other departments.

3. The General Functions of the Commission.

The Commission should be charged with the duty of protecting the interests of all classes and groups. Since the major problems with which the Commission would have to deal arise out of the growth of concentration, its basic functions would be concerned with the prevention or regulation of monopoly and monopolistic practices. It is in this way that the Commission would serve to protect the consumer and the primary producer. But the complexity of the

problem excludes any single formula or simple policy. We therefore make, in this particular connection, the following specific recommendations:

(*a*) Rigorous administration of the Combines Act;
(*b*) Sanction and regulation of monopoly where it is agreed by the government that competition cannot or should not be restored;
(*c*) Sanction and supervision of agreements within a trade or industry where it is agreed by the government that competition has become wasteful and demoralizing.

a. Administration of the Combines Act.

We regard the first, a rigorous enforcement of the Combines Act, as most important. We feel that, for this purpose, the Act should be administered by the proposed Commission. The Act does not by its terms, or by the manner of its present enforcement, hamper any combination that would operate in the public interest, and, in the light of our previous discussion, we consider it should be an integral and important part of any new mechanism of control, though some amendments may be necessary to the present provisions of the Act, and some change of emphasis in its administration. We feel that its administration has been concerned primarily with combinations and agreements and not sufficiently with single company monopolies which may not involve these elements. This defect might be remedied by the Commission developing the use of the Combines Act against monopolistic domination as well as monopolistic combination. For this purpose, the Combines Act should be amended to include a more comprehensive definition of monopolies or monopolistic practices. These situations and practices arise when the number of competitors is so small that the decisions of individual firms are able significantly to affect the total output of the industry or the market price of the product. We recommend a definition of monopoly to cover

any person, firm or corporation, or group or association of persons, firms, or corporations, carrying on any business in Canada, except railroads and other public utilities, which,

(*a*) by the magnitude and nature of its operations within its own class, exercises a dominating position in that class of business activity or
(b) by its huge buying power is able to exploit vendors, or to secure discriminating discounts or allowances or
(*c*) which excludes or attempts to exclude others from any class of business activity; or
(*d*) holds an exclusive franchise or right of operation in a given territory; or
(*e*) being composed of independent units allegedly associated for the promotion of better business conditions, endeavours unduly to enhance prices or unduly to restrict output, or in any other way acts in a manner prejudicial to public interest; or
(*f*) evidences monopolistic control or imperfect competition by an insufficiently flexible price policy.

In any such monopolistic situation the Commission should first exercise the full force of the Combines Act to restore competition. It should explore thoroughly the possible effectiveness of sections 23 and 24 of the Combines Act, which authorize, respectively, the reduction of tariff duties and the revocation of patents, when it appears that these have facilitated the development of monopolies inimical to the public interest. The unwarranted suppression of new patents is an abuse of a publicly conferred privilege which the Commission should be specifically authorized to check. For this reason, the Patent, Trademark and Design, and Unfair Competition Acts, themselves, should be amended in such a way as to ensure that their commercial aspects fall within the jurisdiction of the Federal Trade and Industry Commission.

b. The Regulation of Monopoly.

A second major function of the Commission should be the effective regulation of an industry where competition cannot or should not be restored or enforced. We feel the wisest course would be to recognize the existence of such a monopoly, and to regulate it in the public interest. The Commission should, therefore, after it has satisfied itself that such a course of action is socially desirable, be empowered to recommend to the Government that specific industries be declared monopolistic, exempt from the operation of the Combines Investigation Act, and subject to regulation by the Commission. The publication of each such recommendation should be mandatory. If the Government should accept the recommendation of the Trade Commission, then it should take the necessary steps to implement the advice.

In this connection one of the most important duties of the Commission would be to recommend to the Government which of the various possible methods of control should be used for each specific monopoly. Several methods have been proposed, of which we wish to mention four, as worthy of investigation by the Commission.

(1) Some measure of control over maximum prices might be established as in the regulation of public utilities. This method might be described as the "unfixing" of prices in situations where anti-social, though perhaps not conscious, restriction of output has raised them above the point that simple competition would have set and has diminished the national income of goods and services. It is not contended that the Commission would be able to determine "fair" prices, but it is possible that in such a situation it could help to establish prices less unfair than some present prices. This "unpegging" might encourage the low cost producers to increase their output in order to get the full economies of large-scale production. With a lower maximum price, it would no longer be profitable for them to restrict output in the fashion that characterizes both monopolistic and imperfectly competitive situations.

(2) A second method proposed is by the taxation of surplus profits beyond an allowed rate of return on the real investment in utilized capacity, after provision for approved allowances and reserves, the latter to be kept liquid. This might stimulate the more complete utilization of productive capacity and check the speculative over-expansion of productive facilities which is probably one of the contributing factors in business cycle fluctuations. Like price-fixing, this method would raise many familiar problems of valuing investment, determining proper rates of depreciation and fixing "fair" rates of earnings.

(3) A third proposed method is the taxation of excess profits, supplemented by the distribution of such excess between the State and the employees. This would be a form of mandatory profit-sharing, which might both restrain the attempt to extort monopoly profits and contribute to the broader distribution of purchasing power. There is the further possibility that this method might be even more generally applied to all industries, in which case the excess profits should be shared, in order to retain an incentive toward business efficiency, between the State, the employees and the employer.

(4) A fourth proposed method has previously been suggested in Chapter VII, with particular reference to the possible development of monopoly in the distributive trades. This is the unit taxation of multiple-unit organizations.[1]

It should here be emphasized that the regulation of monopoly, by these or any other appropriate methods, should be undertaken only as a supplement to —never as a substitute for—the vigorous enforcement of the Combines Act. Subject to this consideration, we do, however, strongly recommend the effective regulation of those industries in which public ownership seems undesirable and

[1] An argument in support of methods (3) and (4) is set out in Annex IX.

monopoly not otherwise preventable. We also recommend that the proposed Commission be instructed to explore the feasibility and effectiveness of these and other methods. When it has been decided which method should be adopted in a particular case, it should advise to that effect and the Government, if it accepts the advice, should thereupon authorize its implementation.

c. Price and Production Agreements.

The third function of the Commission would be the supervision of agreements on prices and production, as and when authorized by the Government according to the procedure outlined below. This function should be used only where it is clearly necessary to modify wasteful and demoralizing competition, as perhaps in the needle trades, or to offset the power of mass buying. The procedure of the Commission would be the same as that mentioned in connection with monopoly regulation, namely, it would recommend to the Government that, for reasons stated, agreements about control and regulation of prices and production should be sanctioned in each such industry, perhaps for a limited period. If the Government accepted this recommendation, the Commission would be authorized to approve such agreements, supervise their operation, and impose such regulations and restrictions as the situation seemed to call for.

Because publicity is and must continue to be one of the major weapons against monopoly, we recommend specifically that the Commission utilize it to the utmost in connection with all investigations and recommendations it may make for the regulation of monopoly or the authorization of price and production control. Within fifteen days of the completion of any investigation conducted under a procedure which provides such safeguards as are afforded by the Inquiries Act, the full report of the Commission thereon, and the recommendations, if any, made to the Governor in Council shall be published, in order that the Government may act promptly. Such recommendations, further, should be forthwith published in the *Canada Gazette.*

d. Consumer Protection.

The above functions of the Commission, through the enforcement of competition, or the regulation of monopoly, are designed to protect the consumer. Such protection, however, must be supplemented by other measures to prevent advantage being taken of the consumer because of his unavoidable ignorance of the qualities of goods and the contents of containers, etc. In Chapter VIII, it was pointed out that many of the manufacturing and merchandising practices harmful to the consumer could not continue if there were a comprehensive and co-ordinated system of enforcement of the many federal and provincial Acts designed for consumer protection. We recommended in that Chapter some modification of existing legislation, the extension of research into, and publicity for consumer standards, and the creation of some agency to enforce those laws designed to protect the consumer, for which no effective administrative or enforcing agency is otherwise provided. This work should be one of the functions of the Trade Commission. A member of the Commission should be the Chairman of the Consumer Commodity Standards Board, there recommended; the Board should submit recommendations for legislation or other government action to the Commission; and, except as otherwise provided, the Commission should be the central agency to supervise the enforcement of all laws designed for consumer protection.

The Trade Commission should also be a central agency for the receipt of complaints about violations of these or other laws relating to consumer protection. If the complaint involves primarily a technical question, e.g., unbalanced scales, adulterated foodstuffs, the complaint should be referred to the existing government agency, if any, already responsible for administration. If the complaint relates to a law, e.g., section 406 of the Criminal Code, for which no adminis-

trative agency exists, or if the complaint relates to a non-technical, primarily commercial aspect of the law, e.g., deliberate shortweighting, trade-mark imitation, suppression of patents, etc., then the Commission should be clothed with full authority itself to take the necessary action—hearing, investigation, adjustment, and prosecution. In other words, it should be the duty of the Commission,

(1) to enforce those present or new relevant laws (see Chapter VIII), for which no enforcing agency is provided,
(2) concurrently, with existing agencies, to enforce such laws in their non-technical or commercial aspects, and
(3) generally to co-operate with these agencies for the more effective enforcement of all laws designed for consumer protection.

We make below the same type of recommendation with respect to other laws relating to business practices and unfair competition. Experience will demonstrate the extent to which all such laws (Meat and Canned Foods Act, the Food and Drug Act, Patent Act, Trade Mark and Design Act, Unfair Competition Act, etc.) should be completely centralized under the sole jurisdiction of the Commission.

We desire to add a further word of explanation and possibly of caution in connection with this phase of the proposed Commission's activities. We do not feel that it should be an obligation of the Commission to relieve the individual of his right and duty to prosecute if he suffers an injury for which a legal remedy is available. Otherwise, the Commission's main duty of guiding and advising on business and industrial policy would be lost in the conduct of numerous petty prosecutions. We feel that the intervention of the Commission in the enforcement of existing laws, should be restricted to, (1) flagrant cases which are destructive of accepted standards of business morality, and concerning which the public interest demands that the State should not wait for private initiative in prosecution, (2) general complaints which have been received from public agencies and semi-public bodies, such as Boards of Trade, Chambers of Commerce and Producers or Co-operative Associations, where the Commission, after preliminary investigation, might initiate prosecution, or co-operate in such prosecution.

c. The Regulation of Trade Practices.

One of the most important functions of the Commission should be the regulation of competitive practices, a function which is allied in some degree to its administration of the Combines Act. Elsewhere in this report, we have recommended better and more adequately enforced labour legslation and have suggested that the administration of this be left in the hands of strengthened Departments of Labour. Our recommendations in this field, however, do not refer solely to problems in labour relations. They are also related very closely to the general policy of government control of unfair competitive practices. Effective protection of the wage-earner from cut-throat wage levels and the compulsory maintenance of certain minimum standards of working conditions, will go far to protect the progressive and responsible employer of labour from unfair competition. Uniformity in quality standards and the prohibition of merchandising tactics designed to confuse the consumer, will provide further protection. We do not contend, however, that these measures, however valuable, would entirely abolish unfair competition, and it is necessary therefore to supplement them by some direct regulation of unfair competitive practices.

(1) *The Definition of Unfair Trade Practices.*

Unfair competitive practices take many forms, some of which are now prohibited by law. In respect to those, the difficulty up to the present has been that there has been no administrative agency for the enforcement of such laws, and the prohibition has therefore, not been effective. A business man is never

anxious to proceed against his competitor for the violation of rules of business conduct, even though that violation may have been definitely illegal. We therefore recommend that the Trade and Industry Commission should, in the manner and to the extent previously recommended in connection with consumer protection, supervise the enforcement of existing laws which prohibit certain business practices.

There are, however, other competitive practices, which while not illegal, may be equally unfair. These take many forms, but the majority of them may be brought under the definition of unfair price discrimination; "unfair", because it operates inequitably as between competitors, because the burden of it is often pushed back to the wage-earner or primary producer, without corresponding benefits to the consumer, and because it deprives society of the benefits of fair and equal competition. Unfair price discrimination, or any other similarly unfair business practice, permits the survival of the powerful, rather than of the efficient. The Federal Trade and Industry Commission should be given the duty and power of prohibiting such unfair trade practices.

We feel, further, that it would be unwise to attempt to write at present into statute law a rigid definition of what constitutes an unfair practice, with a list of such practices. Such a list, if appropriate at the present time, would probably soon be rendered obsolete by changing conditions. At the same time we recommend that the Act creating the Trade Commission and giving it power to prohibit unfair competition should establish certain principles for the determination of "unfairness." We recognize that there is a very real danger of confusing the economic, legal, and ethical implications of "unfairness" and we feel that this danger might be removed to some extent if certain general criteria were laid down in the Act. We suggest that practices should be prohibited as unfair which are characterized by bad faith, fraud, misrepresentation, or oppression; which are resorted to for the purpose of destroying competition or eliminating a competitor; which facilitate the development of monopoly; or which destroy fair competitive opportunity and prevent the survival of those who can organize and carry on the production of goods most efficiently. It is in this sense that the word "unfair" should be used in the Act.

Without attempting to restrict the application of this test of "unfairness" by the Commission, we feel that certain practices which we have examined should very definitely be considered "unfair" under the Act. They are so widespread and generally condemned that their complete prohibition by the Commission is justified. We refer specifically to—

(1) discriminatory discounts, rebates and allowances,
(2) territorial price discrimination and predatory price-cutting.

(2) The Procedure and Power for Trade Practice Regulation

In outline, we think the procedure of the Commission, in its work of regulating unfair practices, should be as follows. Either on its own initiative, or on complaint, the Commission would make such investigation and hold such hearings as seems appropriate. Whenever any practice was found to be "unfair," the Commission should then issue an order "to cease and desist" from such practice. If an "order" of the Commission were not obeyed, the Commission should then have the authority both to prosecute for the violation of the Act and also to apply to the Courts for an injunction against the continued violation of its order: There should be the right of appeal to the Exchequer Court of Canada from these orders within, say, ten days. Such an appeal should not act as a stay on compliance with the orders, and should be final.

In more serious cases, instead of issuing a "cease and desist" order, the commission might, at its discretion, prosecute directly under the Act for the

offence of competing unfairly. The Act should provide adequate penalties to make this procedure by immediate prosecution effective.

This double procedure would seem to provide the Commission with sufficient authority to prevent unfair competition. If, however, experience should prove that despite its utmost efforts, unfair price discrimination persisted (our evidence shows this to be the most prevalent of unfair types of competition) then we recommend to the Trade Commission a thorough investigation of the feasibility of preventing such price discrimination by an amendment of the Sales Tax Act in the fasion set out in Annex X.

Exposure to the light of day is just as effective in suppressing unfair trade practices as in checking monopoly. We recommend, therefore, that the Commission be given the widest possible powers of investigation of, and publicity for, such practices. It should be required to publish the results of its investigations and of every major finding, and to require that firms or industries, where appropriate, publish their prices and discounts. Further, each decision published should state clearly the facts, the argument and the ruling, so that the reports would constitute a body of intelligible case law. But here again we should not wish to see the methods of the Commission too narrowly restricted by law. One of its main tasks would be to discover what technique could be made most effective in different types of situations, and to develop such techniques progressively.

There are many practices on the border line of unfairness. For the handling of these, and indeed where it seems appropriate for the handling of many others, we recommend that the Commission be authorized to use a quite informal procedure. Without impairing the Commission's power to apply the utmost rigour of the law, it will often be advisable to adjust complaints in an informal fashion. In such cases the Commission might function as a friendly *Referee* in business disputes, rather than as a judge or prosecutor. In fact, we regard the Commission's work in this field as in very large part educational. Although it should penalize those practices which are generally recognized as unfair and should generally prohibit those which can be demonstrated to be unfair, it should also assist in the development of customary disapproval of other practices which might then become "unfair" in the accepted standards of business conduct. "It is one of the tasks of control to attach the sentiment of unfairness to all practices which violate the social purpose . . . . of competition."(1) Informal adjustments, appropriate publicity, and the use of fair trade conferences are the major devices for this educational work.

(3) *Fair Trade Conferences*

A fair trade conference is a conference of the members of an industry, called together by the Commission, either on its own initiative or at the request of the industry, to draw up a list of unfair competitive practices within the industry and to discuss ways and means for their eradication.

We do not visualize in this procedure the enforcement of codes of fair practice on the industry concerned, but rather the encouragement by government of self-regulation of competitive practices and a method by which industry and the Commission could co-operate with advantage to all concerned. Further, when lists of unfair competitive practices have been agreed upon as a result of these conferences, they would simplify the Commission's work of determining what constitutes "unfairness" within the meaning of the law. This procedure would also help to remove the objection now so often levelled against the Combines Investigation Act that it prevents members of an industry co-operating with a view to the solution of competitive problems because of the difficulty of defining what is or is not "against the interest of the public," and

(1) Clark, *op. cit.*, p. 155.

the possible danger of prosecution under the Act. When fair trade conferences are called under official authority, with the results submitted to the Commission for official approval, there should be no hesitation on the part of industry to participate.

(4) *Co-operation with Boards of Trade*

Closely related to the establishment of standards of fairness in competition, is the work of commercial arbitration. The Boards of Trade Act authorizes each Board of Trade or Chamber of Commerce to set up Boards of Arbitration "which shall have power to arbitrate upon and make their award in any commercial case or difference which is voluntarily referred to them by parties concerned." It is submitted that this power might very well be exercised in conjunction with the Federal Trade and Industry Commission, and such Commission might use existing Boards of Trade or Chambers of Commerce with their Boards of Arbitration to investigate commercial disputes and develop a useful system of arbitration, which might in time grow into something similar to the French Courts of Commerce. It seems somewhat strange that, with the magnificent organizations of the Boards of Trade and Chambers of Commerce in our cities and towns throughout Canada, such little use has yet been made of them for this purpose. It is our opinion that these organizations lend themselves, in this and other fields, admirably to a co-operative administrative effort with the proposed Commission. The Federal Trade and Industry Commission and our Boards of Trade and Chambers of Commerce can, and should, be welded into a closely-knit organization to referee many types of commercial disputes. As this system develops the Commission might delegate many of its duties to such organizations, reserving for itself the right of final arbitration or decision on appeal.

We do not anticipate the immediate abolition of all practices alleged to be unfair, for many of the suggestions made to us in evidence seem unwise in policy and impossible to administer. But we are strongly of the conviction that the Commission must be given the maximum possible power, gradually in the light of experience, to develop sound policies and effective methods for the complete suppression of the evils of unfair trade practices.

In summary, the Commission, acting under broad powers, with right of appeal from its decisions, and assisted by Fair Trade Conference agreements and Boards of Trade, should be in a position, on the basis of decisions rendered and cases settled, effectively to regulate unfair trade practices and develop a law merchant for business and industry.

f. Economic Investigation

Another function of the Commission and one which we consider most important, would be that of conducting general economic enquiries. A Commission of the kind which we have outlined above would, we think, be a most suitable organization to conduct investigations, not merely into unfair competitive practices, but also into trade and business conditions generally. Possibly the most valuable feature of the Federal Trade Commission in the United States has been its work of economic investigation, though that has been hampered by certain legal difficulties which need not be anticipated in Canada.

Much of the work that we have done could, indeed, have been submitted to a Federal Trade and Industry Commission, if one had been available. In Chapter I of our Report, we referred to the numerous requests for investigation into conditions in various trades and industries, which we were not able to meet. This, in itself, shows how great the need is, and how useful a permanent body might be to carry on such investigations.

The greatest value of investigatory work of this kind is the publicity which it gives to the matter being investigated. Such publicity may often, of itself, provide adequate remedy for the problems involved or the charges made, and

thereby obviate the necessity of administrative action. We feel, therefore, that the Trade and Industry Commission should be required to publish reports of its investigations. For this, if for no other reason investigations should be undertaken by the Commission only after careful consideration and exhaustive preliminary preparation. Finally, this phase of the work of the Commission should be closely related to the facilities for general statistical investigation which the Dominion Bureau of Statistics now possesses.

We are prompted, at this point, to emphasize that investigations of the kind we have outlined, or indeed, the search for a solution of any of the problems of public control of business, cannot be successfully prosecuted without more knowledge than is now available from official sources. More extensive and continuous statistics and more complete analysis and interpretation are required. In connection with special matters, we have previously referred to this need for improved statistics. We would supplement these references with the following recommendations, which we feel bear directly on the work of our proposed Commission, and which envisage close co-operation between this body and the Bureau of Statistics.

Up to the present, statistics of industrial production and distribution, though they are published in considerable detail, have been lacking in interpretation and analysis from a general point of view. In other words, there has been little study of the broader tendencies and characteristics of industry and distribution in Canada, supremely important as these tendencies are, and extensive as is the body of materials for such study now in existence.

Such phenomena as the integration of industrial operations, the relationship of capitalization to real capital and of the latter to numbers of employees, the relationship of wages to salaries and of both to net production and prices, the relative productivity of capital and labour in large-scale and small-scale operations, power supply in relation to the utilization of labour, etc., should be made subjects of special analysis from time to time. It is only by viewing the economic structure from such standpoints that much of the significance of current trends can be appreciated.

Turning to wider fields, there are other factors and tendencies in the modern economic world that should be brought under systematic investigation and measurement. A subject of great importance is the distribution of the national income. As is well known, many aspects of the recent depression have been attributed by a certain school of thought to the mal-distribution of income or purchasing power. Some light would undoubtedly be thrown on this theory by adequate statistics showing the trend in savings and long-term debt, the effect of mechanization on wages, and other cardinal features in present trade and industry.

In the Dominion Bureau of Statistics the Government has an organization planned for general statistical research involving a conspectus of the economic structure as a whole. The Bureau works in co-operation with the various Dominion and Provincial Departments having jurisdiction in particular sections of the field, but it is thought that its machinery would be strengthened and its usefulness enlarged if there were attached to its administration an advisory council somewhat similar to the central statistical organizations of other countries—the Committee to include representation of Provincial Governments, and added representation of special economic interests *ad hoc*. Finally many of the gaps in our statistical information could be filled, in part at least, if there were made available to the Bureau the information now in the files of certain other departments, such as the Department of National Revenue.

In short, we recommend that the general statistical work of the Bureau be considerably extended and that the Federal Trade and Industry Commission should exhaust the information available in the Bureau before proceeding to its investigations into specific situations or into problems of the general economic significance of various policies between which it must choose.

g. The Regulation of New Securities Issues

A final function of the Trade and Industry Commission should be the protection of the investor. We have previously recommended several amendments of the Companies and other Acts, for which no new administrative provision is required. We have also recommended, however, the regulation of new security issues through a Securities Board. This new activity is so closely associated with other phases of the regulation of business practice, that the Board should constitute one of the divisions of the Commission.

h. Conclusion

In this discussion, we have not previously raised the question of constitutionality, which we simply refer to more competent authorities in the belief that what is necessary, from the point of view of economic and social policy for the Dominion as a whole, can and will be made constitutionally possible.

We have been forced by the evidence before us to conclude that the situation calls for a frank recognition of the necessity of more state intervention in business. We have proposed various detailed remedies for particular situations, but these alone are not sufficient. With a full recognition of the difficulties involved we urge that the problem be faced in a forthright and unified fashion by the creation of a Federal Trade and Industry Commission which, in summary, would have the following powers:—

(1) *Administration*

(*a*) To enforce the Combines Act for the purpose of retaining and restoring competition when possible.
(*b*) On instruction, to regulate monopoly.
(*c*) On instruction, to sanction and supervise agreements to modify cut-throat competition, and thereafter to regulate such industries.
(*d*) To prohibit unfair competitive practices.
(*e*) To supervise generally, or co-operate in the administration of existing laws relating to merchandising and business practices for which no other agency exists.
(*f*) To administer new laws for the protection of the consumer.
(*g*) To administer the regulation of new security issues for protection of the investor.
(*h*) To co-operate with Chambers of Commerce and Boards of Trade in the development of commercial arbitration or the refereeing of business disputes.
(*i*) To co-operate with other Government agencies, whether federal, provincial or municipal, in the solution of trade and industrial problems.

(2) *Advice*

(*a*) *To Government*

(i) To recommend to the Governor in Council the recognition and regulation of monopoly in special situations where competition cannot be restored.
(ii) 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.
(iii) To recommend to the Governor in Council such regulatory measures as each such situation seems to require under (i) or (ii).

(*b*) *To Industry*

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

(3) *Investigation and Publicity*

(*a*) Full power to inquire into the organization and practices of any industry.
(*b*) General economic investigation.
(*c*) Full publicity to the results of any investigation.
(*d*) Authority to require that firms or industry published such information about prices or other matters as may be in the public interest.

We recommend, that is to say, not only the most complete maintenance or restoration of competition, where that is possible, but also gradual, progressive, and effective regulation in that growing field of business enterprise where monopoly or imperfect competition will continue inevitably to develop, and, if unregulated, will continue to exploit the primary producer, the wage-earner, and the consumer, in the shameful ways so often disclosed by the evidence before us. We propose the first steps to the goal that has been well described as "the socialization of monopoly and the civilization of competition." Unless we can achieve this goal in the reasonably near future, there may well be forced upon us changes in our economic, social, and political organization beside which our proposals, important as we believe them to be, will pale into insignificance.

(Signed) W. W. KENNEDY,
Chairman,
H. H. STEVENS,
J. L. BARIBEAU,
THOMAS BELL,
O. L. BOULANGER,*
A. M. EDWARDS,
SAMUEL FACTOR,*
JAMES L. ILSLEY,*
D. M. KENNEDY,
MARK SENN

* Messrs. Boulanger, Factor and Ilsley have signed the Report subject to the reservations set forth in the memorandum which follows immediately.

MEMORANDUM OF RESERVATIONS

By Messrs. Oscar L. Boulanger, Samuel Factor, and James L. Ilsley

Although we concur in the main with the report, we feel that there are parts of it from which we should record our dissent. There are other parts where we are not in complete agreement with the text, but to which reference in detail would serve no useful purpose. Finally, there are sections which, in our opinion, place too much emphasis upon relatively unimportant matters and in others there are omissions of what we regard as significant facts and conclusions. We feel that, in part, this general situation in the report has developed because of the failure to follow logically the statements and implications contained in Chapter II which sets out the general economic principles involved. We are in entire concurrence with this Chapter and feel that our reservations are more in keeping with its spirit than are the corresponding parts of the majority report. In the following addendum we set forth our main points of dissent but before dealing with the chapters *seriatim* we desire to make the following general observations.

First, the report does not, in our opinion, sufficiently stress the importance of external trade in the Canadian economy. We believe that possibly the greatest single cause for the distress of the primary producers and the working population of this country is the collapse of our external markets and our foreign trade in or about the year 1930. We think that Mr. Young, in his dissenting report, traces correctly the root causes of the distress of the nation and that the majority report fails to lay sufficient emphasis upon these fundamental factors. We feel that the distressed farmer or workman reading the main report would conclude that the remedies suggested there, which are after all palliative in nature, will solve his problems. This result would be most unfortunate, for until there is a restoration of international trade these problems will not be solved. If external trade remains at its present low levels, or sinks to lower ones, this country will have a more greatly reduced national income and consequently lower standards of living. No redivision or redistribution of the national income—whatever it may achieve in the way of equity—can possibly prevent such a reduction. We desire to make this point perfectly clear for it is not given sufficient weight in the majority report.

Secondly, in parts of the main report there is a disposition to regard prices as being easily controllable by regulative measures of one sort or another, such as marketing schemes, regulation of business practices of large corporations, and control of corporate profits. We have been impressed time and again by the evidence presented before the Commission that such regulative measures have, and can have, only a very slight effect relatively upon the principle of supply and demand. Our point may be illustrated by a brief reference to the tobacco and live stock industries.

If there is one industry in Canada which lends itself to the adoption of a marketing scheme it is the tobacco industry. In respect to it a very ingenious marketing scheme has been agreed upon by the primary producer, the merchant buyer, and the manufacturer, under which the price was fixed at 25c a pound for the crop of 1934, whereas in 1933 it had been approximately 19c. We do not know to what extent this increase can be attributed to marketing control, for there was, in 1934, an increase in the price of tobacco in the United States to a level approximately 100 per cent higher than that of the years before, resulting in a demand in the English market for Canadian tobacco at prices higher than those fixed by the Canadian Marketing Agreement. As Canada produced

a surplus for export, which was purchased by the English buyers, this factor would have brought about in any event the increase which took place in the price of Canadian tobacco, a result to which the substantially smaller crop of 1934 would have also contributed. From this it can be seen that there were numerous factors at work, all of which would have contributed to increasing the price of tobacco even though the marketing technique in the industry had remained unchanged.

In respect to live stock it may be noted that the price of hogs in Canada remained at low levels until artificial scarcity occurred in 1933 in the English market because of the operation of the quota system on bacon. The effect of this was to increase the price of bacon in Great Britain, and consequently the price of hogs in Canada rose. It appears to us that without some such influence on supply or demand, or both, the same result could not have been attained.

Recently the relative scarcity of cattle in the United States has caused a rapid increase of prices there, with immediate effects upon Canadian cattle prices; these effects could not have been brought about by anything short of an alteration in fundamental market conditions as distinguished from marketing methods.

The three instances cited above all illustrate the rapid and irresistible operation of the law of supply and demand. It would be a mistake to minimize the importance of this law and to lead the producers of this country to believe that superficial and palliative measures, useful as they may be, would do for them what a fundamental alteration of market conditions will do. Except in so far as we dissent in these reservations from the recommendations of regulative measures contained in the main report, we agree with them; but we do not wish to over-emphasize their power to alter the fundamental and underlying conditions. Regulative measures must play a relatively unimportant part when compared with the general and powerful forces to which we have alluded.

Thirdly, it follows that the problem of the primary producers of this country is lack of profitable markets. The importance of markets as distinguished from marketing methods cannot be over-stressed. We do not, of course, deny that that the most efficient marketing methods should be adopted, but we feel that this relatively less important aspect should not be exalted over the vitally important one. There is, in our opinion, some tendency to do this in the main body of the report.

Fourthly, we would emphasize that there is no easy or effective regulation of monopoly, or quasi-monopoly, by government intervention. If competition practically disappears, in spite of every effort to preserve it, and monopoly develops, there is a more effective remedy at hand than regulation. We refer to a lowering of tariffs to permit foreign competition. Unless the monopoly is international in character, this remedy should prove effective. The customs tariff should not be regarded as something sacrosanct, but as a servant to be used for the protection of the public interest in free competition.

Fifthly, we feel that throughout the report there is a tendency to consider inadequately the interests of the consumer as such. Although we realize that the tendency of the present time is not to think of consumers as a coherent group but rather to think of the various subdivisions of society entirely in the capacity of producers, there is still a general problem here worthy of consideration. As we see it, our problem is not only to increase the income of certain groups, which idea seems to dominate the main report, but also to increase the total income of the country. Therefore, we consider that if the Commission which the report recommends should ever be involved in fixing prices, these prices should be altered downward, not upwards. We realize that there is a demand today that prices be raised, but the problem is not exclusively one of raising prices. It is mainly a problem of equalizing various price groups, and if it is urged that some prices should be raised, we wish to point out with equal force that

prices of many monopoly and semi-monopoly goods should be lowered. We feel that one of the greatest dangers of the present monopolistic concentration in industry and commerce in Canada is that the large organizations will fix prices at levels which are not too low, but too high; in this way the general consumer interest may be injuriously affected. Mr. Young, it may be noted, very pertinently points out in his dissenting report that the main general interest, as distinguished from particular interests, is that which we generally describe as the consumer.

It will be realized that the above view of the functions of the Federal Trade and Industry Commission is at variance with that expressed in parts of the report. At this junction, however, we should like to point out that the view expressed here is a logical development of the principles enunciated in Chapter II of the report. It is our firm conviction that the Commission's function, in so far as it is to interfere with prices, should be to unfix and unpeg, rather than to fix and to peg prices.

With these general observations in mind we now address ourselves to the main report, expressing our dissent at those points which we regard as significant. It should be fully understood, however, that where we do not dissent, we are in general accord with the report, subject to the foregoing general observations.

We concur in Chapter IV with the exception of that section devoted to the meat packing industry, concerning which we shall make certain observations in our discussion of the live stock producer (Chapter VI).

We concur in Chapter V, Labour and Wages, with very minor exceptions. In many of the industries investigated the working conditions disclosed were shocking, and with all the recommendations set out in this chapter and designed to improve those conditions, we are wholly in accord. We are of the opinion, however, that the section of the chapter relating to the effect of mass buying on labour fails to point out a significant and important fact. The activities of the mass buyers may have been harsh and selfish, but when consumption declined in 1930 and the succeeding years, due to loss of consumer purchasing power, they were instrumental in actually creating more employment in certain industries than would otherwise have been the case. This is particularly true, we think, in the furniture, clothing and, possibly, the boot and shoe industries, where the mass buyers' activities had very marked effects. The advertising of cheap goods at special sales, the successful and continuous pressure on the buying public to purchase, did, we think, have the effect of forcing into consumption a substantially greater volume of goods than would have been the case had these activities not been carried on. The result was that in the depression period, more workers were employed in producing these goods, though at a lower wage level, than would otherwise have been the case. For the labour directly employed, it would probably have been better for the wage level to have been maintained. Such a policy, however, would inevitably have resulted in less employment.

Though we are fully aware of the complexities and difficulties of this question of wage levels and their effect on consumption and employment, we desire to express here our opinion that employment, though often at disgracefully low wage levels, was indirectly provided by the mass buyers and their price-hammering tactics. To omit this fact would be to give an incomplete picture of the situation.

In respect to Chapter VI, we do not concur with any proposals or recommendations which, if carried into effect, would result in two price levels, domestic and foreign. In plain language, this merely means maintaining by government action a fixed price at home for certain selected commodities, and "dumping" the surplus abroad. Apart from the complexities of administration and execution involved in such a policy and its very doubtful efficacy, even as a palliative, we would point out that official recognition and encouragement of such a policy

of "dumping" might well provoke those retaliatory measures from foreign countries which we, ourselves, have shown such zeal in applying when goods are being imported into Canada.

With much of the section of Chapter VI dealing with the Livestock Producer, we are in disagreement; a disagreement which covers also part of the section of Chapter IV on the Meat Packing Industry.

In some instances, the evidence is not in our opinion correctly interpreted; for example, the statement in Chapter VI, to the effect that the evidence showed that trucked-in stock brought the farmers generally a much lower price than that sold otherwise, is inaccurate. The evidence on this point, as we read it, was rather to the effect that the dressed cost to the packer of trucked-in stock, was lower than the cost of that purchased otherwise—a very different thing. There are other statements in this section to which we could take similar exception. We are not however, so much concerned with isolated statements in these chapters with which we disagree, as we are with the major contentions and recommendations contained therein. As to these, we offer the following observations, not dogmatically, but as our considered opinions.

The majority report overstresses the monopolistic character of the Packing industry. The competition therein is still considerable. About 50 per cent of the livestock is purchased by buyers other than the packers. Among the packers, Canada Packers holds, it is true, a dominating position, but there is, we think, real competition between that company, Swift's, Burns, Gainer's, Wilsil's, Hunnisett's, and the smaller packers. There was direct evidence of such competition. The evidence to the contrary related to understandings between packer buyers at the stock yards. These arrangements do not appear to have been hard-and-fast, or binding, and we think that they would have been broken by any packer-buyer if they prevented him from obtaining the supplies required. Nevertheless, any further concentration in this industry would be dangerous. The resulting evils of monopoly would be very injurious and every precaution should be taken against such a development.

"Regulation of supply" is listed as one of the objectives of Governmental endeavour. We gather from the context that this means that farmers should be prohibited from selling cutters and canners and "old and thin" stock, for meat. We are opposed to this prohibition. No one has suggested that this low-quality beef is not nutritious. To prohibit the sale of this beef would deprive hard-pressed farmers who have it to sell, of part of their income, and it would mean that poor people who can now buy this low-quality but nutritious beef very cheaply, would be deprived of the benefits of cheap food. We agree that the most thorough steps should be taken to keep diseased meat off the market, and also to prevent the sale of poor-quality beef as good-quality beef, but this is as far as we should like to go.

We are not satisfied that direct shipments "break down" stock yard prices, at least to the extent indicated by the majority report. While it is true that direct shipments reduce packer-demand on the yards for live stock, it also reduces the supply proportionately, and it is quite possible that the net result on stock yard prices is negligible. A more valid objection to direct shipment of a large proportion of live stock to the plants is, we think, the resultant decrease in business done on the yards, and the consequent effect on stock yard charges, which are, of course, likely to be increased—the fixed charges being the same and the number of head going through the yards being smaller.

We do not consider ourselves justified on the evidence in concurring in the recommendation that fees to Commission Agents should be partially changed to a percentage basis. This would probably be advisable if live stock prices were stable. There have, however, been wide fluctuations in recent years. If the percentage were fixed at a level sufficient to give the agent a fair return for

his labour at a time of abnormally low prices, he would receive much more than a fair return for his labour in a period of high prices. In this event the farmer would lose, rather than gain, by the change. Moreover, if the agent is paid on a percentage basis, he will get much less in some cases than others for the same work. There is the same work in selling a car of cutters and canners as in selling a car of choice steers—perhaps more.

There appear to be too many Commission Agents in some of the yards. This would indicate that the fees at the present time may be at too high a level. This is the situation that should be corrected, rather than the basis of fees. There is a strong incentive now to Commission Agents to get as good a price as possible, so that they will retain and extend their business. We doubt if the additional incentive afforded by a percentage basis would be more than negligible. We concur in the recommendation that Commission Agents should be licensed directly by the Dominion Government. In particular, their numbers should be more carefully controlled.

While we think the evidence justifies a careful review of the price differentials between hog grades, with a view to having them fixed on the fairest possible basis, we doubt whether a change, as recommended, would give the farmer any greater return in the aggregate for his hogs, or result in the packer paying any more for them. The probability is that the packer would instantaneously adjust himself to the changed differential and pay on a basis that would involve the same outlay for hogs as on the old basis. The persons to whom a change of differential would be a benefit or a detriment are not the packers but the producers of the respective grades. Differentials that are too great operate unjustly against the producers of low-grade hogs, and differentials that are too small, operate unjustly against the producers of high-grade hogs.

We agree that farmers should be free, if they wish, to sell their hogs grade by grade, and we think that this may bring into play some additional competition from wholesale butchers, etc. Care must be taken, however, not to do away with the incentive to produce high-grade hogs, and the farmer should continue to be free to sell his hogs by the carload or lot, if he wishes.

We are of opinion that rail grading should be compulsory. Where adopted, this system has had the effect of giving the producers of high-grade hogs a better return. It is a much more exact method of grading than grading on the hoof. Every country, except Canada, shipping bacon to Great Britain grades hogs on the rail.

We do not concur in the recommendation that all cattle be graded, for the following reasons: (1) We have received no complaint that cattle are dishonestly or inaccurately classified at the present time. (2) The Commission Agents on the stockyards now bargain with the packer-buyers as to the price of the cattle, and are probably as good judges of the grades as the packer-buyers. (3) If Government graders were put into the packing houses, as well as on the yards to grade the cattle, direct shipment of cattle to the packing plants would increase, which, we think, would be unfortunate. (4) The institution of a system of cattle grading would further expand the number of Government employees, and the burden on the taxpayer.

We agree, however, with the recommendation that cattle should be graded for export, provided this means that qualitative regulations applicable to cattle for export should be made and enforced. In other words, there should be a standard up to which export cattle should be obliged to measure.

On the evidence, we are unable to come to the conclusion that a further limitation of the amount of bacon to be called Grade A, would be advantageous. The probabilities are that the packing companies are getting as much as they can for export bacon. The packers, we think, benefit, both from a rising market and from high prices, and not from a falling market and low prices, and it is

reasonable to assume that the nomenclature they apply to the bacon exported is fixed as nearly as they can determine in the interests of the maximum possible returns from the British market. If, say, 25 per cent instead of 75 per cent of the bacon exported were called Grade A, this 25 per cent would doubtless bring a higher price than the 75 per cent, but we are unable to see how the total return for all the bacon sold in Great Britain and Canada would be affected in the slightest degree by this narrowing of the A Grade.

The majority report appears to suggest that the existing channels of distribution of Canadian bacon in Great Britain should be in some way interfered with, or altered. We cannot agree with this suggestion. The distribution machinery of Great Britain is of long standing, and can be thrown out of gear very easily by indiscreet meddling on the part of overseas interests. We have already in another connection experienced unfortunate results from such interference. The important preferences which we have in the British market, should not be jeopardized by ill-timed efforts to improve the internal distributive arrangements in Britain. The packing interests of this country have, presumably, made such arrangements for the marketing of their bacon as net them the highest return, and we doubt the wisdom of interfering with those arrangements.

We agree with the recommendation that direct shipments to packers' yards be subject to the same rules of weighing and publication of prices and deliveries as the public stockyards, adding merely this word of caution that, if this is done, we may expect more direct shipments, rather than fewer, as one of the existing reasons for selling through the stockyards, would disappear. We disagree, however, with the recommendation that shipments to packers' yards be subject to the same rules of sales competition as shipments to the public stockyards. As we understand this recommendation, it means that direct shipments are not to be prohibited, and that farmers will still be free to sell their livestock by private treaty to the packers at their plants, without putting them through competitive bidding. Many farmers ship direct to avoid the expense of such bidding. The provision of the same facilities for sales competition at the plants as now exist on the public stockyards, would, in effect, mean that every packing plant in Canada would have to fit its yards up as public stockyards, subject to the provisions of the Livestock and Livestock Products Act. We have no estimate of the cost of this. Whatever it may be, it would eventually be passed on by the packer either to the farmer or the consumer, or both. The provision of competitive bidding facilities in every packing plant would involve a duplication as costly as it is unnecessary. We invite consideration of what would occur,—for example, in Toronto and Winnipeg. Moreover, these intra-plant stockyards would not be used. The farmer shipping direct to avoid yard charges, would not use them. The farmer desiring to sell on the yards, would use the stockyards already provided, where there would likely be more competition among buyers. We understand that if this recommendation were carried out, at least 35 packing plants in Canada would have to make important alterations in their yards, converting them virtually into public stockyards. There are a few points where there are no public stockyards, such as Kitchener, Stratford and Hamilton. If competitive facilities are to be furnished at these points, it should be by the establishment of public stockyards in the regular way, rather than by the provision of competitive facilities at the plants. Indeed, the principle of packer ownership of stockyard premises, is wrong, and should not be extended by the carrying out of any of such recommendation as the one in question. Moreover effort should be directed toward the elimination of duplication, not its extension.

The main recommendation of the livestock section of the report provides for the establishment of a Board of Livestock Commissioners. That recommendation we cannot accept.

We are only too anxious to support any proposal that would help the Livestock producer. Like other primary producers, his plight has been desperate and he is deserving of every possible assistance that government can afford him. At the same time we feel that proposals which hold out high hopes of beneficial results which cannot in fact be realized, can only bring disillusionment and further despair.

It is for this reason that we disagree with and doubt the wisdom of the recommendation for setting up the above mentioned Board. Our specific reasons for such disagreement are as follows:—

The duties of the Board enumerated in the majority report,—in so far as these are not what we consider improper, for the reasons mentioned above, or so vague as to be virtually meaningless,—are, in our opinion, all duties of the Department of Agriculture. It should be remembered that the promotion of the interest of livestock producers, is one of the main functions of the Dominion Department of Agriculture, and of every Provincial Department of Agriculture in Canada. A department of the Canadian Government is divided into branches, and branches into divisions. There are three branches of the Department having to do more or less with livestock, the Livestock Branch, the Health of Animals Branch, and the Experimental Farms Branch. The Livestock Branch has three divisions, as follows: (1) Livestock Market Services, including the administration of the Livestock and Livestock Products Act, with regard to supervision of central livestock markets (stockyard facilities and services, and operations of sales agencies), hog grading and publicity and statistical services regarding all phases of livestock marketing; (2) Livestock Field Services, including activities concerned with the improvement in production, breeding and feeding of cattle, sheep and swine; grading and distribution of pure bred sires; Boys and Girls Clubs; beef and bacon grading; record of performance of dairy cattle; and (3) Poultry Services, including production, inspection, grading, publicity and marketing activities concerning eggs, poultry and dressed poultry.

All these branches are adequately, and we think, efficiently staffed. In the Livestock Branch alone, the outside staff numbers 187 permanent and 86 temporary employees, with the addition of about 80 seasonal employees at certain periods, and the inside staff numbers 52 permanent and 13 temporary employees. It is undesirable to expand the Civil Service except in a case of clear necessity, and we are not satisfied that any such necessity exists. If the producers desire to organize under the Natural Products Marketing Act, that is a matter for themselves, and their scheme or schemes will, we assume, be dealt with by the Dominion Marketing Board and by the Governor in Council, on their merits. Meanwhile, a recommendation that a Board be arbitrarily imposed upon the industry from above is one that we cannot concur in, and strongly oppose.

With that part of Chapter VI, dealing with the Fishing Industry, we are for the most part in thorough agreement. The earnings of the fishermen of Eastern Canada are distressingly low, and every possible step should be taken to increase them. We do not think, however, that the disparity in bargaining power which the majority report stresses, is nearly as important as the lack of markets. The all-important market for fresh fish is the United States market. By far the greatest benefit that could be conferred on the fishing industry of Eastern Canada, would be free access to that market. Failing that, the supply so easily outstrips the Canadian demand that prices for fish marketed in Canada are insufficient under present conditions to yield the fisherman a living. Not all the bargaining power in the world can alter that fact. As to fish marketed abroad, foreign markets are bad, for reasons set out in the Report. While we agree that every possible improvement in marketing methods should be made, we feel that all such improvements are of minor importance as compared with the widening of markets. To pretend otherwise, is to delude the fisherman with false hopes.

The main recommendation of the Report is that a Fisheries Control Board be set up under the Natural Products Marketing Act, either on the request of the

fishing industry itself or, in the absence of such request, by the Governor-in-Council, this Board to include processors, as well as primary producers and to have control over all branches of the fishing industry. This Board would leave the marketing of fish in private hands, but would intervene from time to time for the purpose of eliminating the more pressing disabilities. The successive steps which it is suggested the Board might take are enumerated in Clauses (a) to (g) in the concluding section of this Chapter of the majority report. A system of licensing is proposed as a means of exercising administrative authority. At least five local Advisory Committees are to assist the Board, each Committee dealing with a branch of the industry. This proposal deserves, and has received from us, careful consideration. We have approached it in a spirit of receptivity, and of sympathy with the efforts of those striving to help the fisherman, whose interests we are most sincerely anxious to advance. It is, however, our matured opinion that the scheme would do more harm than good, for the following reasons:

There are so many branches of the industry, each with different problems, that one marketing board controlling them all, could not work effectively. Any organization for marketing should start from those engaged in the respective branches. The problems of each branch could then be dealt with by those familiar with such problems, and marketing plans or schemes could be worked out in a definite way, setting up such mechanism and objectives as thought fit by practical men engaged in the business. For example, the smoked herring fishery of Grand Manan might be advantageously organized for better marketing.

Then too, we doubt the practicability of including fishermen and distributors in the same Board. The distributors seem to feel very strongly that their marketing methods should not be interfered with by a Marketing Board, which would doubtless, at times be discouragingly slow-moving and, at other times, arbitrarily speedy. The marketing of fresh fish is difficult and complicated. The product is extremely perishable. There are many competing food products. Consumption fluctuates widely with consumers' purchasing power and consumers' taste. The price of competing foods has an important bearing on the quantity and price of fish sold. As a result, those engaged in distribution can have few set rules. A wide knowledge of markets all over the United States and Canada is required, as well as the ability to make rapid and right decisions, and the capacity for adaptability to sudden changes in conditions. A business such as this is not suited to marketing-board operation. If the Board intervenes to any extent, the sensitive marketing mechanism is thrown out of gear and markets are lost, with disastrous results to the fisherman.

For these reasons, those engaged in the distribution of fish are strongly opposed to Governmental or Board interference with their marketing activities. This attitude is only material in so far as it bears on the fisherman's welfare, for we are looking at the problem from his point of view, but the retention and extension of the market is the foundation upon which the fisherman's livelihood depends. Therefore, we fear that well-meant, but inept intervention by such a Marketing Board as is recommended, might damage or even paralyse the entire fresh fish industry, with the result of still greater distress for the thousands of fishermen on the coasts of eastern Canada.

Furthermore, we do not know how the fish companies of Nova Scotia can be compelled to co-operate either with each other or with the fishermen. Co-operation must be, at least to a large degree, voluntary. We think, therefore, that the emphasis should rather be laid on the encouragement of the co-operative efforts that are being made by the fishermen themselves. The Reverend Dr. Coady told us something of these efforts. He and his associates have rendered highly valuable services to the fishermen in organizing and encouraging co-operatives. These are, however, producers' and consumers' co-operatives, each one restricted in territorial scope and operating on a principle very different from that which would govern a large organization of producers and distributors. Dr. Coady, in his evidence stated that any steps towards organization of the

fresh fish business and the marketing of fresh fish, should be taken very cautiously. He did not suggest that they should be in the direction of a Marketing Board such as is proposed. Indeed, it is a striking fact that, although the fishermen who presented their case to the Commission, had leadership and advice in its preparation, they did not submit any marketing scheme or plan of organization. Had any such scheme been practicable, it is reasonable to conclude that it would have been so submitted. There is a noticeable lack of detail, both in the evidence and in the majority recommendation, as to the proposed Board. It is too general in character to be helpful. We would not be justified in concurring in a recommendation to set up a Board with such vague and undefined functions. On the contrary, organization should be initiated by those in the industry who have something definite in mind, and should to a great extent be governed by the principles of self-regulation and self-discipline.

We have read with interest Clauses (*a*) to (*g*), enumerating the steps the Board might take. Agencies already exist, or are elsewhere proposed in this report, for the discharge of these duties. The elimination of consignment shipments, of "cut-throat" competition and other unsound trade practices, would be desirable if possible but, although these practices have been under fire for many years, no definite proposal for their elemination has ever been made, nor is one made in the report.

As to licensing, we do not know what the majority report contemplates, but a Board would undoubtedly have to resort to licensing if it were really to control the industry. Control of distribution, in order to control price, would involve control of production. The licensing of fishermen and the restriction of fishermen to quotas of catch, would doubtless follow. This is not practicable, nor would it be welcome.

The fish trade should be kept under vigilant surveillance and the remedies provided by the Combines Investigation Act should be promptly and vigorously applied when necessary, to preserve real competition in the buying of fish. We think that, despite suggestions to the contrary, there is a fair measure of competition at the present time. Destruction of this competition either by monopolistic combination or by Governmental intervention, would be most injurious to the fisherman. The strengthening of the administration of the Combines Investigation Act, later recommended in this report, should prove of value to the producers in this connection, and should prevent the development of abuses in the purchase and handling of fresh fish by the distributors.

For these reasons, and because costly extension of Governmental or semi-Governmental Commissions and Boards (in danger of being carried to excess at the present time) is undesirable unless imperative—we cannot concur in the recommendation in question.

We have signed Chapter VII, Distribution, subject to the following reservations:—

We frankly admit that there is much to be said for what our Report describes as "the persuasive argument often advanced in the defence of mass buying"; an argument which contends that when the farmer has lost the greater part of his income due to the collapse of essential foreign markets, the goods which he buys must be made cheaper. We admit that it would be better to raise the price of what he sells rather than to lower that of what he buys. Efforts of governments in recent years however directed to the raising of agricultural prices, have, for the most part failed. They certainly have not succeeded in Canada. We, therefore, cannot feel sanguine over the possibility of helping the farmer by this method. In respect to the alternative, therefore, we cannot help but feel that agencies such as mass merchandisers have to some extent rendered a social service in forcing prices down sharply and promptly at the beginning of the depression to the benefit of the consumer. We admit this without prejudice to our condemnation of those unfair competitive practices which have crept into the mass merchandising system, and to which we refer more fully below.

One practice, that of loss leaders, has, we think, been overstressed as a factor in depressing prices to the primary producer. We agree that as sometimes used, this practice should be condemned but we would like it clearly understood that our disapproval in this connection does not imply any approval of the policy of resale price maintenance.

Finally, we would prefer to phrase the conclusions to Chapter VII as follows:—

First, by reason of certain economies it has effected, large-scale merchandising has won for itself a permanent and important place in our economic system. Sympathy for those individuals injured or displaced by this development should not obscure the net gain which has resulted from the application of improved business methods in merchandising generally. More scientific buying, better credit control, better accounting methods, and other characteristic economies, first introduced by large-scale merchandisers are economically desirable, and are now accepted as such by all merchants.

Second, the development of mass merchandising has not resulted in unqualified social gain. Like any other social change, its benefits and services have been mixed with some losses and disservices. Such losses centre around the gradual disappearance of the personal factor in business.

Third, despite this general change, there is strong evidence that, in the field of merchandising, this personal factor is still so cherished that, even in modern life, there remains a definite place for efficient individual merchants. Despite the rapid growth of chain and department stores during our last period of prosperity, there seems to be no reasonable ground for the fear that a small group of large corporations can preempt the entire field. Large-scale organizations anywhere, but especially in a field still relatively so little subject to standardization of product and service as merchandising, reach a point of development at which operating and managerial efficiency is at its maximum and beyond this point they cannot profitably expand.

Finally, mass merchandising has thrown into clear light and in some cases has induced certain "unfair" practices. Some of these, price discrimination, secret and discriminatory rebates, loss leaders as sometimes used, unearned advertising allowances, and discriminatory free deals, are, we agree, unfair in the economic sense; others such as deceptive packaging, misleading advertising, and short weighing are unfair in the ethical sense. We condemn these, but feel that such condemnation need not, or should not be extended to mass merchandising, as such.

We are in general agreement with the recommendations contained in Chapter IX. We must dissent, however, from recommendation (*c*), which gives the proposed Federal Trade and Industry Commission the power to recommend that combination be allowed in a competitive industry. We realize that when this recommendation is read in conjunction with the section of the Chapter dealing with the problems of control, it (recommendation (*c*)) may appear to have less significance than when it is read alone. Nevertheless we are of the opinion that this recommendation tends in the wrong direction and is not sound.

Industries which ask for such power usually want it—despite assurances to the contrary—for one purpose, and that is to control prices. We have stated before, and need not repeat here, that such price control is generally undesirable. If a competitive industry is in a chaotic condition—then the quickest and in the end the least injurious method of recovery is to allow economic forces to work themselves out. There is abundant evidence available to support this view. It seems to us that many of the economic problems raised in the evidence given before us, arose primarily out of, and were manifestations of, monopolistic power. And indeed, much of the main report has been directed to the solution of this very problem. Therefore, it seems illogical to permit, and indeed, to assist by, law, these very conditions of monopoly which have led to so much difficulty. We

can see no sufficient reason for sanctioning such power, especially in view of the difficulties in the way of monopoly control. It may be possible that experience may in time demonstrate the need for it, but for the present we most strongly oppose this recommendation.

It may be objected that to confer on the Commission (as is done in recommendation 2) the power to recommend that specific industries be declared monopolistic, exempt from the operation of the Combines Investigation Act and subject to regulation by the Commission, is itself to countenance, approve and sanction monopolies. We do not view the recommendation in this light. We are strongly of the opinion however, that no industry should be declared a monopoly unless all attempts to restore competition and make it a competitive industry have failed and unless it is clear that all such attempts are likely to fail. It is only in these instances, which we hope will be very rare, that the Commission should recommend that the industry be declared a monopoly and subject to regulation as such. It should be realized that to declare an industry to be monopolistic in character, and therefore subject to Commission regulation, is to make an exception to the rule that competition alone should be the regulating factor. As our whole competitive economy is based upon the desirability and reality of competition between the industries responsible for the bulk of the production and business of the country, no industry should be enabled by application to the Commission to change its status and thereby qualify itself for exceptional treatment, which in some instances might possibly be of advantage to it, without solemn sanction by some governing body or institution. The majority report recommends that this governing body or institution should be the Governor in Council; we think it should be Parliament itself. There are situations in which prompt action is imperative and in which such action should be taken by the Governor in Council; but this is not one of these situations. In the very nature of the case there will be no great urgency, no need for emergency action. There will first be the fullest investigation of the industry; next there will be a recommendation by the Commission, and there seems to be no good reason why the matter should not then remain in *statu quo* until Parliament considers the evidence and the recommendation, and gives its sanction, after such debate as may be considered necessary to that fundamental alteration in the status of the industry which will be involved in declaring it a monopoly.

We should like to point out an apparent duplication of jurisdiction if the majority recommendations are carried out. Under a provision of the Natural Products Marketing Act the Governor in Council, upon the recommendation of the Dominion Marketing Board, has the power to approve of schemes for the regulation of the marketing of certain manufactured products. We are informed that under this provision several important manufacturing industries have applied to the Dominion Marketing Board for the sanction of schemes. These schemes may involve control of production and fixing of prices. We do not approve of these provisions of the Natural Products Marketing Act. They are, however, not our concern here. But we are concerned to see that Parliament does not set up another code-making or code-sanctioning authority which will have identical or similar powers. The erection of boards and commissions who gather around them a substantial service at considerable expense to the State should be avoided wherever possible. All the more is the duplication of such Commissions undesirable. We wish to call attention to the apparent duplication that will take place if the Commission is endowed with power to sanction combines as is recommended in the majority report.

We desire finally to refer to one further question, namely, that of the constitutionality of the legislation creating the Federal Trade and Industry Commission which it is proposed to set up.

The majority report recommends that the general functions of the Commission, among others, be as follows:—

(*a*) Administration of the Combines Act.

(*b*) To supervise generally, or co-operate in the administration of existing laws relating to merchandising and business practices for which no other agency exists.
(*c*) To administer new laws for the protection of the consumer.
(*d*) To administer a Securities Board for the protection of the investor.

It is well to remember that Parliament, in the latter part of 1919, passed two Acts, the Board of Commerce Act (9-10 George V, Chapter 37) and the Combines and Fair Prices Act (9-10 George V, Chapter 45). The purposes of these acts were in some respects analogous to the proposed Trade and Industry Commission. Their constitutional validity was challenged in 1920, and, by decision of the Privy Council, they were held to be ultra vires of the Dominion Parliament.

As a result of this decision there was no legislation on the Statute books of the Dominion concerning combinations in restraint of trade until subsequently in the year 1923 the Government of the day re-enacted the Combines Investigation Act.

We are not here questioning the constitutional validity of the proposals under consideration. We are merely emphasizing that it is of paramount importance that the constitutionality of the legislation creating the proposed Commission be established beyond doubt by the proper authorities before the functions above enumerated are actually assigned to it by legislation. Otherwise, in the event of the creation of this Commission being declared unconstitutional, the important legislation now on the Statute Books, the administration of which is being transferred to this Commission, will have no agency for its administration or enforcement. As a result, many of the Acts now being enforced by the present agencies would practically be useless.

In our opinion the adoption of the majority report, without the reservations which we have made above, would be attended with grave dangers. If the proposed Commission is given the power to recommend that competitive industries be allowed to combine for the purpose of regulating production and fixing prices; if it uses this power to any substantial extent, and if the Governor in Council approves of the recommendations made, there will be a rapid growth in the number of combines in Canada. This is a development which we cannot view with equanimity. If, combined with this growth of government-sanctioned monopoly in industry, there is a marked increase in the dumping of surpluses abroad at prices lower than domestic prices, the internal and external organization of the trade and industry of Canada will approximate that of a Fascist state. The political implications of such a development may be extremely serious; not improbably involving abandonment of parliamentary institutions and the loss of personal and political liberty.

We quote the following passage from the evidence of one witness who appeared before us (page 5090):—

> I should like to suggest to the Commission that unless there is some vision beyond these group interests that society may be split up into a number of competing groups, each struggling for its own advantage. If governments find it increasingly necessary to take a hand in the preservation of a balance between struggling groups, then it seems to me that we might very easily drift into fascism without knowing it. I have been watching the development in Europe, and although we have a different attitude towards those matters from what they have, still I wonder whether we may not drift quite unconsciously into those types of government control of business, which are proving so disastrous, at least from my point of view, and I think from the point of view of most Canadians, in such countries as Italy and Germany.

We commend these observations to the serious consideration of the Canadian people.

DISSENTING REPORT

OF MR. E. J. YOUNG

We were instructed to investigate the causes of the large spread between the prices received for commodities by the producers thereof and the prices paid by the consumers thereof; the system of distribution in Canada of farm and other natural products, as well as manufactured products; the effect of mass buying by department and chain store organizations upon the regular retail trade of the country, as well as on the business of manufacturers and producers; 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 among those employed in such industries and organizations; 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; 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.

Primary producers, manufacturers, merchants and employees investigated, all reported that their troubles started about 1929 or 1930. Prior to that time employers seemed to have little trouble in making ends meet and in keeping their employees at work; merchants had a sufficient volume of business at a fair profit and employees could always find work at fair wages. Towards the end of 1929, the wheels of industry began to slow down. This slowing down process spread rapidly through every branch of our national life, and all classes in the community found their business falling off and their incomes reduced.

A glance at the following figures will show what happened at that time to cause this sudden slump in business activity:—

Net value of agricultural production in Canada:—

1928	$ 1,501,000,000
1929	1,034,000,000
1930	860,000,000
1931	538,000,000
1932	475,000,000
1933	464,000,000
1934	525,000,000

Whatever the cause of this drastic decline in the value of agricultural production, the result was that in the year—

1929	the farmers'	income	was $ 467,000,000	less than	in 1928
1930	"	"	641,000,000	"	"
1931	"	"	963,000,000	"	"
1932	"	"	1,026,000,000	"	"
1933	"	"	1,037,000,000	"	"
1934	"	"	976,000,000	"	"
Average for 6 yrs.	"	"	851,000,000	"	"

Some people attribute our troubles to the collapse of stock market securities in the fall of 1929. The grand total of all securities sold to the public from 1927 to 1929 was $512,000,000. If every dollar of this vast sum had been lost completely it would have amounted to only about 60 per cent of what the farmers lost in each and every year from 1929 to 1934.

If all the farmer's expenses had declined as rapidly as his income, his purchasing power would not have been affected by this sudden decline in the dollar value of his production. He could still have bought the same quantity of goods on the lower price level as he had formerly bought on the higher level, and the production and distribution of these goods would have given just as much employment and distributed just as much purchasing power to those employed as ever it did.

But the farmer's expenses did not come down. His taxes did not come down. His interest did not come down. Retail prices did not come down. Manufacturers and merchandisers did everything in their power to maintain the prices of their wares. The government lent its aid to this short sighted policy by shutting out cheap imports that might have forced a reduction in the prices of manufactured goods. "Maintain prices in order to maintain wages!" became a popular cry. The extent to which this policy of price maintenance was carried is revealed in the following figures from the Bureau of Statistics:—

Index figures of retail prices 1926=100.

1928	98·9
1929	99·9
1930	99·2
1931	89·6
1932	81·4
1933	77·7
1934 (Dec.)	79·0

It will be seen from the above that during the first two years of the depression there was practically no reduction in the price of the things the farmers had to buy while his income declined nearly 50 per cent. This precipitate decline in his income, accompanied by practically no reduction in the price of things he had to buy, left the farmer in a position where he could buy only the barest necessities. In many lines he practically withdrew from the market.

There are 728,000 farmers in Canada. These, with their wives and families and their hired help, constitute a population of 5,473,000 people. To this can be added some 65,000 fishermen and 100,000 men engaged in woods operations, and their dependents, all of whom found themselves in the same plight as the farmers. These three classes, together, constitute about 60 per cent of the entire population of the Dominion—all in the position where they were unable to buy the things they needed. What did they do? There was only one thing they could do. They stopped buying. They did without things.

The first people to feel the effects of this cessation of buying were the retail merchants. Their sales fell off. Unable to sell, they ceased to buy, and manufacturers found it increasingly difficult to secure orders. With nothing for their employees to do and no revenue coming in, merchants and manufacturers alike were compelled to reduce their staffs. But every employee laid off meant one more added to the number who could not buy and a further restriction in the demand for goods, which in its turn was followed by the laying off of still more men. Soon we had an army of 500,000 unemployed. Add this number, with their dependents, to the number of primary producers, and we find that the large majority of our people were not able to buy their normal requirements. Under the circumstances, it was obvious that all merchants, all distributors and all manufacturers must suffer from declining business.

It is clear from the above that the trouble originated in the decline of the purchasing power of the primary producer. He could no longer exchange the product of his labour for the product of the factory or the service of the clerk; and the remedy lay in restoring a parity between the prices of primary and of secondary products—in restoring the exchangibility of labour. Various attempts

were made to do this by raising the prices of primary products. Governments throughout the world have tried every conceivable device to raise these prices but without avail. These products are sold largely on the world's market at prices fixed by world conditions and we can no more control them than we can control the tides.

The true remedy lay in reducing retail prices and fixed charges to the same level as the prices of primary products.

Why did retail prices not decline along with the prices of primary products? Because certain factors in the price structure had become rigid and refused to adjust to altered conditions. The factors that make up the retail price of an article are as follows: cost of material, cost of labour, interest, taxes, rent, fuel, freight, profit, depreciation.

Referring to the first item in the above, we find that the fall in the price of raw material was not followed by a corresponding decline in the price of the finished article. Taking 100 as the base price in 1926, the Bureau of Statistics reports that by 1933 the price of raw wool had fallen to 47, while the price of woollen cloth fell to only 73·9. During the same period, the price of raw silk fell to 28·2, but the price of silk fabrics to only 51·5. Similarly, while raw cotton dropped to 53·1, cotton fabrics fell to only 77·6 and the price of ginghams actually increased to 103·5. The other factors in the price structure all resisted the decline as long as they could. Taxes, freight, rent, interest, labour, profit, all refused to yield.

With 60 per cent of our people unable to buy at the old prices and prices refusing to adjust themselves to the altered conditions, business was bound to languish until some force came into the market strong enough to break down the resistance of the rigid factors in the price structure. That force was supplied by the consumer. Unorganized and voiceless, he found selfish interests on every hand conspiring to extract more from him. In this they were encouraged by public and semi-public bodies and public men who should have known better. Governments were urged to spend more of the people's money and thus increase taxation. Employers were urged not to reduce production costs. Selfish groups throughout the country preached that the way out of the difficulty was to give them a larger share of the dwindling national income and in many cases they got it.

What did the consumer do? He exercised the only right he had left—the right to do without things. Then his problem became everybody's problem. The merchant was compelled to find goods at a price the consumer could pay. In many cases, to reduce prices, meant to take losses. Nobody would reduce prices if he could help it. Nobody would take losses if he could help it. But unless something had been done to bring that great body of consumers back into the market, merchants, manufacturers, wage-earners and all, would have found themselves on the street. It is useless to blame the merchants. The pressure had to be applied. It was exerted on the merchant by the consuming public. The merchant passed it on to his employees and to the manufacturer. The manufacturer passed it on to his employees and to whomsoever else he could. It is folly to blame the mass buyer. If there had been no mass buyer the pressure would have been the same and would have been exerted by the small buyers. Those who refused, or were not strong enough to exert it, would have found their business disappearing. The mass buyer was better able to exert the pressure than the small buyer. He was the first to realize the situation and to apply the remedy. It was unpleasant but it was necessary and the sooner it was done the better for all concerned.

Unfortunately, the pressure was not applied equally on all factors in the price structure or on all classes in the community. Some, through organization, or because they occupied sheltered or favoured positions, were able to resist

the pressure. But they did so at the expense of their weaker or less fortunate fellows. If all classes had borne their share equally and promptly, the adjustment could have taken place with a minimum of suffering.

One might say that the best adjustment of prices is the one at which the greatest quantity of goods will pass into consumption, for this adjustment places the greatest quantity of real wealth in the hands of the people and gives the greatest amount of employment to the workers in producing that wealth.

This being the case, it is important that no great section of the community be deprived of its purchasing power by a mal-adjustment of prices and whenever such mal-adjustment occurs, steps should at once be taken to correct it. This does not mean more government intereference in business. It will generally be found that prices will adjust themselves if we remove certain hampering restrictions and privileges which interfere with the free play of economic forces.

Sound merchandising practice requires that retail prices be adjusted to changes in the prices of primary products with the least possible delay and every force that retards such adjustment might well be termed anti-social.

It will be argued that in times of falling prices because of the rigid factors in the price structure—because so many classes in the community refuse to take their share of the general deflation—it is almost impossible to adjust retail prices in keeping with the decline in the price of primary products. The difficulty is admitted but we do not consider it as formidable as the difficulty presented by the other alternative, viz., to raise the prices of primary products. In the one case, we are dealing with forces largely within our own borders. In the other, with world forces that no government has ever been able to control.

Turning again to the price structure referred to above, we find that the rigid factors in it are labour, interest, taxes, rent, fuel, freight, profit and depreciation. As prices fell, each of these endeavored to maintain its charges at the old level, regardless of the relation those charges bore to the reward of the primary producer. In so far as they were successful they secured for themselves a greater share of the national production—but they prevented the price adjustment which was essential to keep the primary producer in the market as a buyer.

As it became more apparent that the market could not absorb goods at the prices asked, pressure to reduce prices increased and forced the weaker of these factors to yield. Profits went first. With a few notable exceptions, there has been no profiteering discovered in the investigation. Most firms have been taking losses, and took considerable losses before they attempted to cut wages. In many cases, reserves also disappeared. But the sacrifice of profits was not enough to restore the balance of purchasing power. Labour was the next to suffer. In the unorganized trades, and in some of the organized trades, workers, confronted with the choice of accepting lower wages or going without work, chose the former, and consented to drastic reductions in their wage rates. These concessions on the part of some employees did not go far toward solving the problem, for the reason that their total wages formed only a small percentage of the retail price of the product. It is estimated that the factory labour cost of producing a suit of clothes, which was about 25 per cent of the retail price of the suit in 1929, had fallen to about 15 per cent of a lower selling price by 1934. But the *total* labour cost of producing and selling a suit which was estimated at between 80 and 90 per cent [1] of the retail price in 1929 has remained fairly constant. This would seem to indicate that whatever reduction has taken place in the labour cost of the suit has not been borne equally by all classes of labour.

In some cases, labour refused to consent to a reduction in wage rates but accepted a reduction in hours instead. This was done with the idea of distribut-

[1] Estimate only, accurate figures not available.

ing the work among a larger number of people, while at the same time maintaining wage rates. The idea behind this arrangement was praiseworthy but it did not help to solve the problem. It reduced the weekly earnings of the individual worker but it did not reduce the cost of producing the article.

Taxes, rent, interest, depreciation and such charges remain fixed regardless of variations in output. But with a reduction in output their effect on prices increases. That is to say, in a factory producing 1,000 units, if these charges amount to $1.00 a unit, and the production is reduced to 500 units, these fixed charges will amount to $2.00 a unit and will increase the prices accordingly. This has been an important factor in increasing the price spread during the years of the depression when production has been low.

It is not easy to get rid of these charges. Taxes, in particular, tend to increase during hard times. The remedy seems to lie in the direction of devoting all our efforts toward increasing the total volume of business—toward increasing the total wealth production of the country, in order that the burden of these fixed charges may be spread over a larger volume of goods.

Attention should be called to the increasing part taxation plays in the cost of living. Nearly one-third of our national income goes to pay taxes. More than half of these taxes are concealed in the prices of the things we buy. The demand for more and more government service is insistent—but it all has to be paid for, and every additional expenditure on the part of the government must be followed by an increase in retail prices, by a widening of the price spread. Our people would do well to remember these things when asking for further government services.

Granting that prices had to come down and granting that the mass buyers have taken the lead in forcing them down, the question arises—have the mass buyers resorted to unfair practices in performing this service?

Numerous charges of unfair and unethical practices have been made against them in the evidence. Most of these charges are mere piffle—but as they have been given considerable publicity, it may be as well to deal with them. Without reciting all these charges in detail, one might summarize them as follows:

(1) That the mass buyers are hard buyers and accept no responsibility for the prosperity of those from whom they buy.
(2) That they show a callous indifference to the fate of their competitors.
(3) That they grind down their employees by paying them low wages and working them long hours.
(4) That they deceive the public by false and misleading advertising.
(5) That they are such inefficient merchandisers that the only way they can continue in business is by brutally using the inducement of large cash orders to force prices down to ruinous levels.

The first two charges are probably true. The mass buyers as a class do not appear to consider whether the prices they offer are profitable to their suppliers or whether the prices at which they sell are ruinous to their competors, but the rule seems to work both ways. No evidence was submitted that manufacturers or independent merchants were at all concerned about the fate of the mass buyers. In fact, some witnesses frankly stated that they would like to see them forced out of business.

It is ridiculous to hold the merchant responsible for the prosperity of everyone with whom he deals. If the merchants, or any other class of people in this country, are to be held responsible for the prosperity of our manufacturers and also of their competitors, the outlook for the merchant is blue and the outlook for the consumer is black. When that day comes, we can consider economic progress at an end.

In regard to the third charge, the Commission found that in some cases the large distributors were working their employees long hours and paying very

low wages. This, however, does not apply to all the department and chain stores. Some of them are model employers. The evidence did not show that, as a class, they were greater offenders than the independent merchants or any other class of employers in the country.

Very few authentic cases of false advertising came to our notice and we have no evidence that this practice is peculiar to the mass buyer.

As for the fifth charge, viz: that they are inefficient merchandisers—this Commission is not qualified to judge in that matter. The public will deal where they can get the best value. The most efficient merchant is the one who can give the best value. If the mass buyer is inefficient, the public will soon find it out and will transfer its business to the more efficient independent merchant. If there is any truth in the charge that the mass buyer makes up for his inefficiency by using the brutal power of his large cash orders to gouge his suppliers, that advantage will disappear with the return of prosperity. For, once the consuming public is able to buy all its requirements, manufacturers and suppliers will be able to sell their wares without submitting to the dictation of any one class of distributors.

It should not be forgotten that the test of efficiency in the production and distribution of goods is the price at which those goods can be placed in the hands of the consumer. Numerous efforts are being made to legislate in favour of the producer, and attempts are made to justify this kind of legislation on the grounds that we are all producers. It is true we are all producers—but we are not all producers of the particular article or articles about which we are legislating and therefore we cannot all benefit from such legislation.

The only common ground on which we all stand is as consumers. The only legislation that can be just to all is legislation in the interests of the consumer. The man or the system that best serves the human race is the one that serves the interest of the consumer. The test, then, of the efficiency of any merchandising system must be "How does it serve the consumer," and in this test the consumer, himself, will be the judge.

We have seen that the decline in business which caused so much distress among the workers, the manufacturers and the merchants, was due to the failure of retail prices to decline in keeping with the decline in the prices of primary products. We have seen that this failure was due to the fact that some classes in the community were able to maintain the prices of their goods or services in the face of the general price decline.

The question then arises—"was the advantage enjoyed by these favoured groups through their ability to maintain prices, sufficient to compensate them for the losses they sustained through the general decline in business?" It is impossible to say what the turnover of a given firm or a given industry would have been under conditions different from those that have prevailed. But this is clear—if the same relationship had prevailed between the prices of primary and of secondary products during the last five years as prevailed during the preceding five years, the physical volume of business would have been the same—the number of people employed in production and distribution would have been the same, and whatever variation there may have been in their monetary rewards, their real wages, as represented in purchasing power, would have remained the same. That is to say, neither employment nor real wages would have declined during the period. Cases can be cited where the ability to maintain prices increased the rewards of certain favoured groups; but when we contemplate the effects of this policy on the country as a whole, the results are appalling.

It remains to consider how these favoured groups were able to maintain their prices. In every case investigated, price maintenance was achieved by the elimination of competition. Witnesses appearing before the Commission were quite frank in asking that some restraint be placed on competition in order that they might be enabled to establish some sort of control over prices. It is clear

that price control is impossible under free competition. If competition can be eliminated or confined to a small group, it is comparatively easy for that group to get together and agree on a price maintenance policy. It is sometimes possible for such a group to maintain prices without any agreement, if they are protected from outside competition. In the case of Imperial Tobacco, this company is able, because of its commanding position in the market, not only to control the prices of its own products, but to insist that the prices of competing products be maintained at the same level. This is done by threatening to refuse supplies to retailers who sell any goods below the price stipulated by Imperial.

Most price control schemes have grown up under the shelter of a protective tariff, and without such protection they cannot long survive. The best corrective for the abuses of price control is to open other sources of supply.

TOBACCO

Prices realized by farmers for raw leaf tobacco were very profitable during the years 1925-1930. These prices led to a rapid increase in the acreage devoted to this crop, particularly in south western Ontario where flue-cured tobacco is grown. As a result there was soon more of this product grown than the Canadian market could absorb. In 1933, after all the requirements of the Canadian market had been taken care of and one company had bought 5,000,000 pounds more than it required, there still remained 10,000,000 pounds in the hands of the farmers. This condition forced prices down almost to an export basis, the average price paid the growers for the 1933 crop being only 17 cents a pound.

The Imperial Tobacco Company is the largest buyer in Canada. No other buyers will venture into the market at all until they know what price Imperial is going to pay. The system of buying followed by this company is to have its agents watch the crop carefully during the growing season and send regular reports of the probable yield and quality to the Head Office. The curing also is carefully watched and checked with the idea of knowing exactly where the highest quality product can be secured. All this information, together with reports on market and crop conditions in other countries, is carefully studied by the company in an effort to estimate what price the market will pay. When this price is decided on, if the market looks strong, the company has no hesitation in sending its buyers out to contract with growers for its supplies. On the other hand, if the market looks weak or uncertain, if there is more tobacco in sight than is likely to be required, they hesitate to start buying. They are afraid that after they have contracted for their requirements at a given figure, their competitors might come in behind them and get their supplies at lower prices.

The price at which the company decides to open the market is an average price and the local buyers will vary this upwards or downwards according to the quality of the individual lot they are buying. The company is not so much concerned about the price of an individual lot as about the average price for all purchases. Under such a system it is hardly possible to treat all growers alike. The price offered for each sample will always be determined not by its absolute but by its relative quality, as compared with other samples the buyer has seen. In consequence, if all the tobacco on a buyer's route is of high quality, it will bring only the average price; whereas the same quality of tobacco on another route where much of the crop is inferior, might bring a higher price.

This difficulty might be overcome by the establishment of standard grades and buying on grade. Witnesses expressed the opinion that this would be very difficult with a product like tobacco. We believe, however, that the matter is worth considering and would suggest that growers, buyers and government officials get together and study the possibilities of such a system.

The evidence disclosed that Imperial generally pays one cent a pound more than its competitors. The company claims that it gets a better quality of tobacco by paying this extra cent, but this is denied by other manufacturers.

During the years of the depression some of the larger growers tried exporting their tobacco to the British market and they report that the price received was decidedly less than Imperial was paying in Canada.

There is no evidence that the tobacco manufacturers were exploiting the growers. The sudden increase in acreage, due to the entry of large syndicates into the production of this crop, increased the supply far beyond the requirements of the Canadian market. This expansion went on in spite of warnings from Imperial Tobacco Company that it would result in more tobacco being produced than the market could absorb and a crash in prices would be inevitable. These large syndicates, who upset the markets by their own over-expansion, are now asking the small grower to reduce his acreage in order to help undo the mischief that they have wrought. It should be noted that the head of the largest of these syndicates, a man who was responsible for bringing 7,300 acres into production, has been given authority under the Marketing Act to require all growers, large and small, to reduce their acreage.

A scheme for the marketing of this crop has been approved and put into operation under the Natural Products Marketing Act. Under this scheme all buyers are required to pay an average of 25 cents a pound for the 1934 crop, which is considered a fair price. Buyers did not hesitate to pay this because the price of flue-cured tobacco had risen to 32 cents a pound in United States. As this price was considered excessive, British buyers turned to Canada and bought up our entire surplus, including the 10,000,000 pounds carry-over, at the price agreed on, namely, 25 cents a pound. Making due allowance for freight and other charges, this price is slightly lower than the price in Britain.

The huge profits made by the large tobacco manufacturers appear to be due to their ability to maintain retail prices at profitable levels. They can do this because of lack of effective competition in the market.

The retail dealers appear to be having a hard time to make ends meet. This is largely due to the fact that there are too many engaged in the business. The consumers cannot afford to pay them all a living wage.

The products of Imperial Tobacco Company are so many, so varied and so firmly established in the market that no retailer can survive who does not handle them. The company fixes the price at which all its goods shall be sold. It has a preferred list of retailers who get their supplies at lower prices than others. It is charged that the company insists on the retailer pushing the sale of its goods in preference to the goods of competitors and also insists on the prices of competing goods being maintained.

If these charges are true, the remedy is quite simple.

The excise duty on cigarettes made in Canada is $4 per thousand. Customs duty on imported cigarettes is $11 per thousand ($4.10 a pound plus 25 per cent). This customs duty is prohibitive; practically no cigarettes are imported. If the customs duty were lowered to the level of the excise duty, any dealer who was refused supplies by Canadian manufacturers could get his requirements from abroad, at prices that would enable him to compete in the market. This would not in any way affect the revenue of the Government as the duty collected on the imports would be the same as the excise now collected on the Canadian product. It might also reduce prices to the consumer and leave him more money to spend on other things.

MILLING AND BAKING

Canada's milling industry might well be considered as a branch of Canada's wheat growing industry. Because of the peculiar qualities of Canadian wheat, a demand has arisen in nearly every country for quantities of it to blend with other wheats. This demand is due in part, at least, to the fact that Canadian millers have pushed the sale of their flour into markets the world over, where its superior quality has appealed to the consumers and forced the millers of other countries to include a percentage of Canadian wheat in their blends. Outside of our own borders, Canadian wheat is seldom milled in its purity. In some countries there grew up a demand for pure Canadian flour. Our flour has always been the best advertisement for the sale of our wheat.

The amount of flour being imported by other countries was never considered as having much bearing on the question of the extent to which we should expand our milling industry. It was always felt that as the quality of our flour became better known throughout the world, the demand for it would increase and new markets would constantly open up to receive it.

Perhaps this is the reason why Canadian millers so confidently extended their operations during the first quarter of the present century. They figured, as our grain growers figured, on an ever-expanding world market. They never dreamed that countries once having acquired a taste for Canadian wheat and Canadian flour would deliberately close their doors against it and compel their people to eat an inferior article.

The fear of having their food supplies cut off, in the event of war, and the desire for national self-sufficiency has prompted many countries that formerly imported large quantities of our wheat and flour to shut out imports of these commodities in order to encourage their own farmers to grow wheat.

Our best market has always been the British market, and there Canadian wheat and flour was always in demand. That market has never been closed to us. But the closing of other markets, notably Italy, France and Germany, caused a keener competition in the British market. For some years past, Canada has adopted the policy of refusing to sell her wheat at the prevailing world price. Normally, our wheat will sell for about 10 cents a bushel above Argentine wheat in Liverpool. During recent months we have been holding it as much as 30 cents above Argentine. As a result of this holding policy the English miller is using as little of our wheat as possible in his blends. Gradually he has reduced the percentage of Canadian wheat to about 8 per cent of the total or approximately one-fifth of what it formerly was.

The policy of holding our wheat above world prices compels our millers to pay more than their English competitors for their raw material. As a result, we are unable to sell our flour on the open market. Annual exports of Canadian flour have declined over 5,000,000 barrels since 1928 and the Canadian milling industry is suffering in consequence.

The more flour that is ground for export, the more bran and shorts we have for home consumption. The tremendous decline in our exports of flour has resulted in a shortage of these feeds and a consequent increase in the prices they command in the market.

Competition between Canadian millers in the domestic market is very keen. The loss of the export market has intensified this competition and has prevented any exploitation of the consumer. The industry has maintained wages, but has been compelled to reduce the number of its employees.

There appears to be a strong temptation for milling companies to speculate in wheat. The evidence does not disclose that they are any more successful at this game than the man on the street. Some of them have lost tremendous sums in the market. Heavy losses have also been incurred from over-expansion of the industry. These losses have not been taken out of the farmer nor have

they been passed on to the consumer. Competition both in buying wheat and selling flour has seen to that. They have either been taken out of reserves or are being carried by the creditors of the companies involved.

The hope of the industry lies in recovering the export business. Failing that, it would appear that some mills will have to close down permanently.

Failure of the export market has intensified competition in the domestic market. This competition has prevented the millers from passing their losses on to the consumer and it is in the public interest that it be maintained. One of the larger milling companies has not over-expanded to the same extent as the others and by its competition is preventing a rise in the price of flour. Any plan for rationalization of the industry would probably restrain the competitive activities of this company and might result in making the consuming public pay for the mistakes of the industry.

AGRICULTURAL IMPLEMENTS

In the time at its disposal the Commission was not able to make any effective comparison between the prices of farm implements in Canada and in the United States. The systems of distribution in the two countries are so different that comparisons of catalogue prices are of little value. It was possible, however, to compare Canadian prices in pre-war and in post-war years.

A study of the accompanying table, taken from the majority report, shows that from 1913 to 1934 the average price of a list of nine implements rose from $86.39 to $130, an increase of about 50 per cent.

	International Harvester Co. of Canada Aver. of 6 implements		Massey-Harris Co., Ltd. Aver. of 9 implements	
	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	7·63x	26·42x
Gross profit before selling expen's, etc.	23·81	·37	25·88	17·67

x Includes figures for factory overhead and administrative expense.

This increase is accounted for as follows:

	1913	1934	Increase
Agents' Commission	$ 9.94	$20.92	$10.98
Freight	12.43	16.58	4.15
Material	25.54	42.08	16.54
Factory labour	4.97	6.38	1.36
Other factory expense	7.63	26.42	18.79
Total increase			$51.82

Of this increased cost, $43.61 is added to the price of the implement and the balance $8.21 is taken out of the gross profit of the manufacturer.

The majority report states that a portion of this increase in prices is no doubt due to technical improvements but the table would seem to indicate that it must be a very small portion.

Management, pensions, selling costs, collection expenses, bad debts, depreciation, experiments, and other general expenses on this list of implements would amount to approximately $50. This has to be paid out of the $17.67 gross profit of the manufacturers. Clearly they are not making any money. They are taking heavy losses.

The largest increase shown in the table is in the item labelled "Other factory expense." This increase is probably due to the fact that the factories are working to only about one-sixth of their capacity and it would be remedied by a revival in business.

The next largest increase is in the cost of material which is nearly 65 per cent higher than it was in 1913. A reduction in the duty on iron and steel might help to reduce this item.

Selling costs average about 20 per cent of the retail price of implements. This is the selling cost to the company and does not include anything for the local agent. It does include the cost of maintaining branches and warehouses in different parts of the country where supplies are carried in stock. These branches and warehouses are necessary if the farmer is to have reasonable service. But it costs money to operate them and with the small amount of business being done, the cost per implement comes high. An increased volume of business would reduce this item considerably.

Credit is a very large item in the cost of implements to the farmer. A higher price is charged for implements sold on time. This additional price known as a carrying charge varies from 6 per cent to 17 per cent of the amount of credit extended. In addition to that there is the interest on the farmer's note, generally about 7 per cent. Though an exact average cannot be struck, one could safely say that the farmer who buys an implement on time pays about 15 per cent for the credit he receives.

The manufacturers also find the credit business expensive. Ten per cent of their credit sales is lost through bad debts and another 10 per cent is eaten up in collection expenses. All these things have to be paid for and it is the farmer who does the paying.

The implement manufacturers made a mistake many years ago when they joined the Canadian Manufacturers Association in support of a fiscal policy calculated to exploit the only customers they had. Now that the exploitation is complete they find themselves without customers. Had they joined the farmers' associations in their fight against tariffs they might have created a saner sentiment in regard to these matters throughout the country and perhaps have saved us from some of the extreme tariff rates we now endure, and which have been the major factor in rendering the farmer unable to buy the implements he needs.

LIVE STOCK

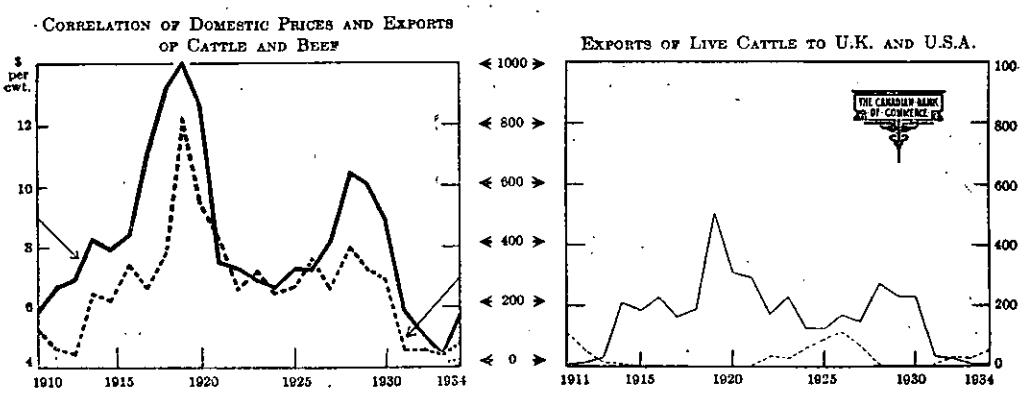
The live stock problem of Canada is a problem of markets. We produce annually 300,000 more cattle and 1,000,000 more hogs than we consume.

When we have an export outlet for these surplus animals, prices go up. When we have no export outlet, this surplus is thrown onto the domestic market and prices go down. A glance at the accompanying chart, published by the Canadian Bank of Commerce, will show how closely the rise and fall in prices of domestic cattle follows the rise and fall in the number of animals exported.

For many years we exported to the United States about 250,000 head of cattle annually. With the passing of the Hawley-Smoot Tariff, this outlet was closed and the cattle were thrown back on our own market. Prices fell immediately and have been low ever since. Unless we can find another export market for these surplus animals, prices in Canada will remain at unprofitable levels until production has adjusted itself to the requirements of the domestic market. Some 93,000 head were exported in 1934, mostly to the British market. But this is not a very profitable market owing to its distance. It is also an uncertain market as it is the policy of the British Government to reduce rather than increase importations. The recent advance in cattle prices is due entirely to the fact

that prices in United States have gone so high that Canadian cattle are able to enter the American market over the tariff wall.

The price of hogs began to rise in the early part of 1933. This was due to a rise in the price of hogs in Great Britain. If that market were to be closed to us, prices would fall immediately.



The scale on the left applies only to the heavy solid line, which represents the yearly average price of steers at Toronto; the broken heavy line represents the number of both live and dressed cattle exported. The chart on the right shows exports of live cattle to the United Kingdom (broken line), and the United States (solid line). Both charts omit cattle shipped "for the improvement of stock."

It is futile to blame the packers for the low prices of live stock. Though one large company handles 59 per cent and another one 26 per cent of the packing house business, there was no evidence of monopoly in the industry. It is true Canada Packers made money during the depression. It is not true that they made it by depressing the price of live stock. The evidence clearly shows that as prices declined, their profits declined and as prices increased, their profits increased. They made their money on a rising market.

In the year ending March, 1934, their profits amounted to $1,429,670. This was their most profitable year since 1930. These profits were due to the continued rise in the price of hogs throughout the year. A profit of $1,429,670 is a lot of money but it amounts to only $\frac{1}{4}$ of a cent a pound on the total sales of the company. Assuming that they sold as many pounds as they bought (which is doubtful) it would mean that if their entire profit had been turned over to the farmer, it would have increased the price he received for his stock by only $\frac{1}{4}$ of a cent per pound. Other packers did not fare so well as this company. Some of them lost money.

It is clear that we cannot get the farmer a better price by taking it out of the packers. It is only throwing dust in his eyes to tell him we can; and we cannot help the farmer by throwing dust in his eyes.

The report recommends the establishment of a "Live Stock Board to have administrative jurisdiction in matters connected with all phases of stock-marketing."

I am opposed to this recommendation for two reasons: first, because the proposed Commission would be another burden on the taxpayer and, second, because it could do nothing toward solving the real problem, which is the problem of markets. There is already plenty of staff in the Department of Agriculture to do all that the government should do, or can do, in the way of disseminating information and helping producers to improve the quality of their stock and to meet market requirements.

The establishment of a board with a policing function to be carried out by a staff of inspectors would, in my opinion, be neither helpful nor welcome. The activities of such a board are apt to become both meddlesome and mischievous.

I am in agreement with the Commission's recommendation that diseased cattle be kept off the market. But when they would place the same ban on old and thin stock, they are going entirely too far. Such action would be a grave injustice, both to the farmers, who find themselves with this kind of stock on their hands, and to large numbers of consumers who cannot afford the more expensive meats.

The proposal to prohibit truckers from selling stock themselves cannot be too strongly condemned. If a farmer who sends his stock to market in charge of a trucker wishes to instruct that trucker to sell wherever he can do best, it is the farmer's own business, and he should not be compelled to turn his stock over to a commission man unless he wishes to do so.

The idea behind this proposal is to stop truckers from selling stock at the packing plants and to force them to deliver it to the yards where the stockyard operators and the commission men can get a chance to levy toll on it. In my opinion, this would be a mistake and would work an injustice to the producers.

Putting stock through the yards is expensive and wasteful. Feed in these places is expensive. There is considerable loss through shrinkage. In most cases the animals have to be loaded again to get them to the packing plants, which entails the risk of additional loss through bruising. All this waste and expense comes out of the prices paid to the farmer. It ought to be possible to eliminate this expense, while at the same time preserving competition between buyers. Certainly, the farmer or the trucker who wishes to avoid it by selling direct to the packer should not be prevented from doing so. We have no evidence that the commission man is any better salesman than the trucker.

The suggestion that supplies be stabilized and that a balance be maintained between production and demand should be viewed with suspicion. The best balance will be maintained by the free play of Nature's law of supply and demand. In matters of this kind, "artifice and legislation punish themselves by reactions, gluts and bankruptcies."

Since the whole live stock problem is a problem of markets, and since our natural and most profitable market is in the United States, every effort should be made to have the American tariff against our live stock removed. This may not be an easy task. It certainly cannot be done unless we are willing to admit some American products into our market. If we can secure access to the American market for our live stock by admitting a worth while list of American manufactured goods into our market, it ought to be done. If we refuse to do so, we will be deliberately sacrificing the live stock industry for the benefit of some secondary industry.

There still remains the question of what to do if it is found impossible to market our surplus abroad. In such an event, production would have to be reduced to the requirements of the domestic market. More employment in Canada would increase the demand for meat somewhat, but not enough to use up the surplus and it would be necessary to raise fewer cattle. It has been suggested that this can be done by regulating production through the instrument of a live stock board. Cattle should be raised where they can be raised most

economically. It would be impossible for a regulating board to license producers on that basis. Such a board would be expected to treat everybody alike, assigning quotas to producers on some basis that would be considered equitable and not on the basis of most economic production. As a result, the marginal producer would be kept in a business of which he could not make a success and the efficient producer would find his hands tied and his activities restricted.

On the other hand, if economic forces are allowed free play, the marginal producer will be the first to go and the field will be left to the more efficient. In this way the industry would be put on a sounder and more economic basis than would be possible under a regulating board.

TEXTILES

The textile industry is the favourite child of the tariff. Always highly protected—it was the first to receive additional consideration when the depression descended upon us. Excessive duties were imposed on textiles entering the country in order to assure the Canadian market to the Canadian manufacturer. When the government took this action to assist the industry, it believed that the Canadian manufacturers could and would supply the market. The industry has not done so. Imports of cotton fabrics were reduced by 50,000,000 yards—but the Canadian manufacturers did not supply the deficiency. They reduced their own production by approximately 20 per cent. Perhaps they had to do so. Perhaps they could not produce the goods at the price our people could pay—but other countries could, and had it not been for the tariff, would have sold us textile fabrics at prices more within our reach than the prices asked by Canadian manufacturers.

Imports of woollen fabrics declined by 10,600,000 yards but only 8,000,000 yards of this was replaced by the product of Canadian mills. "The increased demand for cheaper lines" referred to in the Commission's report is only another way of saying that the people of Canada are not wearing as good clothes as they formerly did.

When an industry seeks and obtains from the government an advantage over outside competition in the domestic market, it is under a moral obligation to see that this market is supplied and that the people do not suffer either in the quality, the quantity or the price of the goods in question. The textile industry has not recognized this responsibility and the people of Canada have suffered in consequence.

During the year 1933 the industry as a whole employed 47,567 people at an average wage of $13.23 per week. The total wage bill is equal to 24·21 per cent of the selling price of the products. Though the average weekly wage in the industry is $13.23, the majority of those employed received less than that.

The total duty collected on imported textiles in the year ending March 31st, 1934, from British countries was 29·09 per cent and from foreign countries 44·25 per cent of the value of the goods. The protection afforded this industry is greater than the amount it pays in wages.

The Tariff Board has reported that the present tariff rates on textiles are necessary if we wish to equalize production costs between Canada and other countries.

This raises the question of whether this industry is not costing us too much. If the people of Canada are required to pay $1.44 for a dollar's worth of goods in order that Canadian workers may receive about 35c (24·21% of $1.44) in wages, it would seem to be a losing venture and we might be better off if we were to pay these people to do nothing, and import all our textiles.

This is one of a number of industries in Canada that do not appear to be standing on their own feet. Such industries are not a source of wealth to the country. Their existence retards the general prosperity, and in the long run

they must suffer with the rest. It is possible for some of the people to ride on the backs of the others. It is not possible for all the people to do so. The doubtful comfort of riding on someone else's back is poor compensation for the lack of progress due to that method of travelling.

FISHERIES

The problem of the fisherman, like the live stock problem, is a problem of markets. The American government denies him the right to sell his fish in the American market. The Canadian government denies him the right to buy his supplies in the same market. The first prohibition costs him varying amounts in the price he receives for his fish. The second costs him about $100 a year extra for his equipment. (Page 111, Commission evidence).

More fish are produced than the Canadian market can absorb. It is charged that there is not sufficient competition among the buyers. Competition among buyers is never keen when the supply exceeds the demand.

At present prices the Atlantic Coast fisherman receives for his work about $300 a year. In some districts he earns as low as $75 to $100 a year. The large companies who buy and distribute the fish are blamed for these meagre rewards. The evidence did not disclose that these distributors were making any money. It has been suggested that they may be inefficient. If there is any inefficiency the Commission failed to locate it.

Fish is such a perishable product that it requires considerable skill to distribute it to the various markets while it is still in prime condition. If, from some high altitude, one could take a bird's eye view of the whole process of marketing, one would probably be amazed at the efficiency of a system that from day to day and from hour to hour can find markets all over the continent for fish as fast as they are landed and can despatch to each and every market sufficient for its requirements with as little loss through spoilage as occurs.

To an outsider the trouble with the industry appears to be that the fisherman in his small boat cannot catch enough fish to give him a decent living at present prices. The evidence disclosed that while the hook and line fisherman can earn only $300 a year, the fisherman engaged on the steam trawler earns about $1,000 a year.

The objection to the trawler is that it throws men out of employment—that 20 men on a trawler will catch as many fish as 100 men in small boats. That is true—but the same objection could have been taken to the small boat when it was first invented. Two men in a small boat would have caught more fish than ten men standing on the shore. But the small boat justified its existence and no one would suggest that we should go back to the days when men did their fishing from the shore.

It is true that trawler fishing does not require as many men as small boat fishing—but it provides steadier work and it pays much higher wages to those employed. It should not be discouraged. The fishermen displaced by it should be assisted to find employment in some other line.

The fishermen in the eastern part of Nova Scotia seem to be the greatest sufferers from adverse conditions. They are isolated from the rest of the world. Their harbours are ice bound for five months of the year. There are places on that rugged coast where they have no soil on which to grow anything. In some parts they have not even timber for fuel. The best thing to do with them would be to help them to move to some more favoured location. It is no kindness to encourage them to stay in a place where they can never hope for anything but the direst poverty.

The most helpful thing that could be done for the Canadian fisherman would be to let him sell his fish in the American market. The next best thing

would be to let him buy his supplies and equipment in the same market. This industry, like the live stock industry, should not be sacrificed on the altar of protection.

It has been suggested that something might be done under the Natural Products Marketing Act to improve the lot of the fisherman. Similar suggestions have been made in regard to live stock, and a number of other commodities. All these schemes contemplate raising prices to the producer by equating the supply to the demand—that is by limiting production to what the market will readily absorb.

Assuming that all these schemes are adopted and put into successful operation; that is to say, assuming that it is found possible to determine the exact degree of scarcity necessary to raise the price of each commodity to the desired level, and assuming that it has been found possible to create that exact degree of scarcity—neither more nor less—and in this we are assuming much, what position will we then find ourselves in?

We will have created an artificial scarcity of all natural products and the manufacturers thereof. We will have created famine or near famine conditions in most of the necessities of life. Possibly the fisherman will get more money for his fish—but he will have to pay more for his flour. It will take as many pounds of fish to buy a barrel of flour as ever it did—but because of the restriction of production he will not have as many fish to buy it with. The same thing will be true of nearly everything he buys. He will have less of everything because he will have less to buy with and his last condition will be worse than the first.

When one contemplates the havoc that would be wrought by the successful operation of these schemes, one feels thankful that they cannot be made to work.

LABOUR AND WAGES

In considering the question of wages in Canada, there are a few things that should not be forgotten.

Canada is not a self-contained country. We use a great many things in our everyday life that we cannot produce within our own borders.

If we would maintain our present standard of living, we must bring these things in from abroad.

The only way we can pay for these imports is by exporting commodities of which we have a surplus.

In order to dispose of our exports, we must sell them at prices the people of other countries can pay.

To do this, it is necessary to keep our production costs down to a point that will enable us to compete in the markets of the world, with other countries producing similar products.

If we increase our production costs, we will make it more difficult for those engaged in our export industries.

If these costs exceed the price we can get for our exports, those engaged in the export industries will find their incomes cut off.

One-fifth of our wealth production is exported. One-fifth of our people are directly dependent on the export market for their earnings. Wages in the export industries must be determined by export prices.

Four-fifths of our wealth production is consumed at home. Four-fifths of our people are dependent on the domestic market. If the one-fifth who depend on the export market lose their purchasing power, they cease to buy from the other four-fifths. The result is a reduced domestic market and unemployment among those who supply that market. These unemployed, themselves, cease to buy and the market is still further restricted, with the result that still more men are thrown out of work. Thus unemployment becomes wide-spread and unemployment is the cause of low wages.

When the demand for goods is heavy, it requires more men to supply them. When jobs are plentiful, wages rise. No man is going to work for low wages if he can better himself.

No power on earth can maintain wages when there are not enough jobs to go round. No power on earth can depress wages when there are not enough men for the jobs. In the language of Wilkins Micawber the matter might be stated thus:—

Jobs	4
Applicants	5
Result	Low wages
Jobs	5
Applicants	4
Result	High wages

The corrective for low wages is to increase the demand for goods and services. Artificial attempts to increase wages can have only one effect, that is to increase the price of goods. This results in fewer goods being bought, which in its turn leads to more unemployment and therefore to lower wages.

The only effective way to raise wages in Canada to-day is to restore the purchasing power of those who depend on the export market and put them in a position to buy the products of the others. This can be done only by restoring a parity between export and domestic prices.

But so long as tariffs, quotas, regulations, agreements, etc., whether imposed by governments or by other bodies, are permitted to artificially maintain domestic prices above export prices, there can be no hope of satisfactory wage conditions or employment conditions in Canada.

The right of the worker to sell his labour to the highest bidder should not be interferred with.

Conditions arise where unscrupulous employers take advantage of the inability of their workers to find other employment and force them to accept wages on which it is impossible to live.

Minimum wage laws are intended to protect the helpless worker from the unscrupulous employer. Their purpose is not to fix a standard wage—but to see that no worker gets less than a living wage. The minimum set is determined by the cost of living. As living costs vary in different provinces of the Dominion, different minima have been set.

It has been suggested that we should have a uniform minimum wage throughout the Dominion. In my opinion, this would be unfair as it would make real wages much higher in provinces where living is cheap than where it is dear.

The avowed purpose of those who advocate a uniform, nation-wide minimum wage, is to equalize production costs throughout the Dominion. In my opinion, minimum wage laws were never intended as a means of equalizing production costs in different parts of the country and could not be justified on such grounds. To use these laws for such a purpose would be a gross discrimination against certain districts. The Commission discovered cases where whole communities were out of employment. Some geographical or other natural handicap made it impossible for their industries to carry on in competition with more favoured districts. The only way they could overcome that handicap was by putting more of their own effort into their product, that is by taking lower

wages. Uniform minimum wage laws applied to all industries would mean that some of these less favoured communities would be denied the right to engage in any industry at all.

Since the cost of living and local conditions are the governing factors in determining minimum wage rates, and since these factors vary in different parts of the Dominion, it would appear that the provincial governments are the proper authorities to deal with these matters. It would also seem that the provinces are in a better position to enforce minimum wage laws than is the Dominion.

I can see no good purpose in amending the B.N.A. Act so as to give the Dominion jurisdiction in these matters.

In its concluding chapter the report recommends the appointment of a Federal Trade and Industry Commission with wide powers to control and regulate business and industry.

The powers and duties of this Commission are outlined in Chapter IX of the report.

Some of the things there suggested should be done and some of them should not be done.

There is plenty of machinery already in existence to do all that should be done and there is no need of setting up any more.

The Combines Act is being administered by an efficient staff. Some slight amendments to the Act and a simplifying of the procedure and a sympathetic attitude on the part of the government is all that is required to make it effective.

The regulation of monopoly pre-supposes the sanctioning of it. The two principle objections to monopoly are, first, that it oppresses the consumer, and, second, that it becomes extravagant, unprogressive and inefficient. All the proposed Commission could do with monopoly would be to regulate its dealings with the public. It could not provide for efficiency and progressive management. The only effective way to deal with monopolistic organizations is to expose them to merciless competition, which will force them to efficiency or to bankruptcy. There are very few international monopolies and those that exist are likely to be short-lived. Monopolies grow up under the shelter of a protective tariff and cannot survive without such shelter. The remedy is to remove the tariff. Any government commission would be a long time in suggesting such a remedy.

For the protection of the consumer the majority report recommends that the proposed Commission be empowered to deal with such matters as short weights, false advertising, trade mark imitation, suppression of patents, misrepresentation of goods, etc. Already we have laws against these things. If such laws are not effective they ought to be made so. Sufficient machinery exists in the Departments of Trade and Commerce, Agriculture and Labour, and in the police courts, to enforce the law. If that machinery does not operate, steps should be taken to see that it does. I see no necessity for setting up new machinery for the purpose.

There is something to be said in favour of consumer standards; but there is grave danger that such standards might be so arranged as to play into the hands of monopoly or big business. It might easily happen that designing persons would succeed in having standards set and rules and regulations established that would work injustice to their competitors and even have the effect of eliminating effective competition from the market.

Corporations wishing to sell their securities in Canada must apply to the Secretary of State or to one of the Provincial Governments for a charter. There

is no reason why the authorities issuing these charters should not examine closely into the financial structure of such corporations and do everything the proposed Securities Investment Board could do to protect the investing public from the machinations of dishonest promoters.

The suggestion that the proposed Commission might advise the Governor-in-Council to grant powers of self-government in industry simply means that power be given to set aside the Combines Act and allow certain groups to form themselves into combines and monopolies.

Any proposal to empower a commission to modify "cut-throat competition" and thereafter regulate industries that indulge in it, should be condemned. Who will define " cut-throat competition"? Any competition that a man cannot meet is " cut-throat " to him. The only way to prevent such competition is to resort to price-fixing, and price-fixing means a further sacrifice of the general interest to the interest of a particular group.

The idea of setting up a commission with power not only to prohibit unfair competitive practices but also to define what is fair and what is unfair is repugnant to our sense of freedom and justice. The majority report clearly indicates that the Commission have in mind making it a crime to give discriminatory discounts, rebates or allowances, or to sell cheaper in some districts than in others or to indulge in predatory price cutting—whatever that is.

However much these things might inconvenience competitors I cannot regard them as crimes. Where a system of price maintenance prevails, they may be the first indication of a break in the line and the lower prices they give to some people to-day might be the forerunner of lower prices to everybody to-morrow.

The following extract from a letter written by a retail merchant in British Columbia to the Premier of that province, and widely published, sets forth the case very clearly:—

> While we are now members of the Retail Merchants Association, we are not at all in sympathy with, nor do we believe any form of Government interference, is the solution to our difficulties. We recognize the problem about which the Retail Merchants are complaining. Undoubtedly it is a serious one, but we cannot endorse the remedy proposed because we do not think it is based on an intelligent understanding of the cause of our trouble. We further believe that any form of Government interference or restriction would merely have the effect of alienating the sympathy of the consumer, whose burden is already heavy enough and who might very properly resent what certainly could be interpreted as an attempt at trade restriction within the borders of Canada.

The proposed Commission would, if set up, add considerably to the cost of government and would be another burden on the taxpayers. It would soon develop into a nation-wide organization, with officials and inspectors all over the Dominion. Its activities would be meddlesome and mischievous. Its authority could be used to promote combines and monopolies. Its tendency would be more and more to regulate and restrict business, to discourage enterprise and initiative and to sacrifice the consumer's interests to the interests of the particular classes with which it would be in constant touch.

When one considers that one-third of our total national income is collected in taxes by the various taxing bodies, and when one considers how little we get for that third as compared with what we get for the other two-thirds, one is forced to the conclusion that there is more extravagance and inefficiency in government than there is in business. Under the circumstances it would be the height of impertinence for governments to assume that efficiency could be promoted or waste eliminated by letting them regulate business.

We have studied the problem of the small merchant and the large merchant, of the manufacturer and the wage-earner, of the stock raiser and the fisherman, of the export industries and the domestic industries, and we have found that the same problem is common to them all. It is the problem of finding buyers for their wares. Buyers cannot be found because the disparity between prices of primary and of secondary products makes it impossible for primary producers to purchase the goods or the services of other classes. The remedy lies in restoring that parity.

The great defect in the majority report is, that it seeks to do this by artificially raising the prices of primary products above world levels, on the domestic market, and dumping our surplus abroad. If we should succeed in doing this it would only mean that we would be taxing our own people and bonusing our foreign competitors in their efforts to undersell us in the markets of the world. At best, this policy could benefit only a few classes in the community and that by adding to the burden of others who are already bearing more than their share of the load. The only interest that is not a class interest is the consumer interest. The only legislation that is not class legislation is legislation in the interests of the consumer. In seeking the remedy for our economic ills, we should always keep the consumer's interest uppermost in our minds for "the consumer's interest is the interest of the human race."

(Signed)

E. J. YOUNG.

ANNEX I

LIST OF WITNESSES AND COUNSEL

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ARSENAULT, NAPOLEON ..... Representing the fishermen of Mount Carmel, P.E.I.
ATKINSON, STANLEY ..... Ex-Manager, Dominion Stores, Limited, Toronto, Ont.
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BADDEN, H. J. ..... Secretary, Rubber Footwear Association, Toronto, Ont.
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BAINARD, R. H. ..... Comptroller, National Grocers Co. Ltd., Toronto, Ont.
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BANNINGA, P. P. ..... Merchandising Manager, Metropolitan Stores, Ltd., London, Ont.
BARNES, DR. ROBERT ..... Chief, Meat and Canned Foods Division, Department of Agriculture, Ottawa, Ont.
BARR, G. H., K.C. ..... Solicitor for Saskatchewan Co-operative Live Stock Association.
BEEBE, L. W. ..... Manager, Montreal Division, Great Atlantic & Pacific Tea Co. Ltd., Montreal, Que.
BERGES, E. A. ..... Representing Berges & Shelley, Kitchener, Ont.
BERKSTRESSER, HAROLD ..... General Manager, Great Atlantic and Pacific Tea Co. Ltd., Toronto, Ont.
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BIGGER, H. J. ..... General Manager, American Can Company (Canadian District) Hamilton, Ont.
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BUCKLE, HON. WALTER C. ..... Minister of Agriculture, Province of Saskatchewan.
BUELL, HENRY P. ..... Vice-President, The Imperial Tobacco Company of Canada, Ltd., Montreal, Que.
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BYERS, JACK ..... Manager, Western Stock Growers' Association, Calgary, Alta.
CAHAN, HON. C. H. ..... Secretary of State, Ottawa, Ont.
CARLISLE, C. H. ..... President, Goodyear Tire and Rubber Company, Toronto, Ont.
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FRANCQ, GUSTAVE..... Chairman, Women's Minimum Wage Commission, Province of Quebec.
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FREEMAN, H. A..... Tobacco Grower, Simcoe, Ont.
FREER, OSWALD..... Representative of United Stockmen Limited, Winnipeg, Man.
FRENETTE, CHARLES..... Tobacco dealer, St. Charles de Bellechasse, Que.
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HAMEL, MISS NOLEA..... Ex-employee, Rubin Brothers, Limited, Victoriaville, Que.
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HANEY, ARTHUR M..... Representing the weir fishing industry of Deer Island, N.B.
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HARRISON, W. H..... Representing Harrison Brothers, Ltd. Montreal, Que.
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LEA, T. L.....Manager, Ontario Leaf Department, The Imperial Tobacco Company of Canada Ltd.
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