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"INDUSTRIAL CONCENTRATION IN CANADA"

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CONCENTRATION IN GENERAL

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PART 1.

"Consciously or unconsciously we have built up a set of privileges and exemptions from competition, behind which it is easy for any, even the crudest form of combination, to organize monopoly, until at last nothing is obliged to stand the test of efficiency and economy in our world of business, and everything thrives by concerted arrangement."

(President Wilson.)

These words taken from a speech delivered by President Wilson to the United States Congress in 1913, though spoken with reference to conditions in the United States, would be equally as timely if spoken in regard to conditions in Canada at the present time. In fact, the element of competition, as the regulating factor in our economic life, has almost disappeared, and in its place we find in practically every important branch of trade in Canada an ever increasing tendency towards industrial concentration, that is the formation of trade associations, trusts, and combines, having as their principal objects the elimination of competition, the restriction of output and the control of prices, to the resulting detriment of the public as a whole.

#### CAUSES OF CONCENTRATION.

The chief causes of this increasing tendency towards industrial concentration in Canada are to be found in the following:-

(1) Stress of Competition. This is of course a most important cause, as where competition is allowed to operate unrestrictedly in any given industry, there is a very great resulting possibility that

the returns to the firms engaged in that industry will be driven down to a point, where they will barely cover the cost of production. Thus in an overcapitalised industry the absence of agreement among producers may under conditions of decreasing cost lead to a price war, in which business is conducted by many of the firms at a loss, and the weaker ones through the operation of the law of survival of the fittest are inevitably driven to the wall. Again in a rising market each individual firm may be afraid to raise its prices for fear the others will not follow, and similarly in the case of an extension of output under increasing cost.

The ups and downs, the fluctuations and uncertainties so created, will inevitably suggest to the competing firms the remedy of an association or combination, with a view to the regulation of prices and output, and the avoidance of this destructive competition.

(2) Increased Capital Available. This factor, though perhaps little recognised as such, is a further cause of the industrial concentration, which has already taken place, or is now underway in Canada, since for the flotation of the modern trust, or combine, a large amount of capital is required, and it is only in recent years that sufficient capital has become available for this purpose in part, through increased public accumulation, as a result of the ever increasing opportunities for the investment of surplus earnings, but more especially, owing to the fact that the capital formerly used in the financing of government loans, and later the railways, of this country, finding that the returns on these investments have grown too conservative, is now looking for a new outlet, and apparently also finding it in the exploitation of existing industries, where and the development of new industries, as well, there is a special risk,

and a corresponding special reward involved.

(3) Protection. The protective tariff however is probably the most important cause of industrial concentration this view being maintained by many who are its chief beneficiaries and we thus find Mr. Havemeyer the President of the American Sugar Refining Company testifying before the United States Industrial Commission that "the mother of all Trusts is the customs tariff law," his contention being that a high tariff, by making the particular industry affected more profitable, through the resulting opportunity of raising the price of the domestic product, by the amount of the tariff benefit conferred, will tempt many new rivals into that special field, a number of whom will not be adequately equipped to compete, further that these firms, through the pressure of the consequent acute competition, will see their anticipated profits disappear, and finally stimulated by the thought of these vanishing profits, will inevitably combine, with a view to their immediate restoration.

These combines, it might be also noted, though in nature defensive, or remedial, when first formed, later of necessity become thoroughly aggressive, in order to retain to the fullest degree the advantages thus gained, and to exploit any new situation, which may subsequently arise, and be found capable of being turned to their advantage.

Similarly in the case, where a tariff barrier is erected elsewhere against the product of an industry being carried on in a free trade country, and which does a large export business, the probable result will be the consolidation of that industry in the free trade country, with a view to offsetting the damage sustained, by the securing of a correspondingly increased productive efficiency, as the result of internal economies of operation, made available to the industry concerned, by reason of such



consolidation. Thus it will be evident that in protected countries the tariff offers both a cause for excessive competition, and a more or less generally applied means of remedy, and in free trade countries, it is the foreign tariff, which is the cause, and the differential producing advantage, which is the source of remedy.

#### FORMS OF CONCENTRATION.

Dealing next with the forms of organization, to which this tendency towards industrial concentration has given expression, we find these to include everything, from mere informal understandings between competing concerns, to the case where there is union of all the concerns under a single management. These different kinds of associations and combines, may be roughly classed as follows:

(1) Associations. This form of concentration is best illustrated by the various business and professional associations, organized for the general protection, or advancement of the mutual interests of its members, and almost every industry, it should be further noted, has at least one, if not several, of these associations. Examples of these are found in associations of lumbermen, salesmen, wholesalers, retailers, doctors, teachers etc. and these associations may be national, provincial, or local, or as in some cases all three.

A large number of these associations, such as that of the medical profession restrict their activities to merely meeting annually in convention, for the purpose of exchanging experiences, and also discussing matters of mutual interest, but without any implication however, that any one will be impelled, so far as his future conduct is concerned, to abide by any view then presented.

The next step, in the development of this type of concentration is

found, where the members of the association in question, besides meeting, and exchanging information of mutual interest, also arrive at some form of understanding, as to the prices they will charge, and while there is no hard and fast agreement, as to the maintenance of the price agreed on, there is a general understanding that such price will not be departed from, unless some very special circumstance should warrant it. One example of this is to be found in the weekly meetings of the Canadian Liner Committee, when the shipping rates on eastbound traffic from Canada are set, from time to time, and a general adherence to them agreed upon by the shipping interests then represented.

In this latter case of the Liner Committee, as the competitors are very few in number, and all represented at the meetings, no difficulty is experienced in securing voluntary adherence to the rates agreed upon, but in the case of similar associations, such as that of the Wholesale Grocers, where there is a large number of competing concerns, and all of whom are not represented in the association, it has been found necessary to establish as a deterrent to the practice of underselling, and more especially, where the "guilty" concern is not regarded as a legitimate competitor, and for that reason has been refused admission to the association, an understanding with the manufacturer, arrived at voluntarily, or as a result of pressure brought to bear on him, through threatened loss of trade, that where the article is shown to have been sold below the agreed, or "list" price, the concern in question will be refused a further supply of such article, and as has actually happened in a number of cases.

(2) Formal Agreements. The next stage in the development of industrial concentration is found in the definite agreements entered into between the competitors in any line of business providing for the restriction of output,

co-operation in marketing, regulation of sales, or the apportionment of profits, as the case may be.

The most highly developed form of this type of organization is found in the German "Cartels", where there is first a mutual agreement for the restriction of the output of each producer on some defined basis, and then a direct sale of the product to the central marketing association, or syndicate, at a fixed price in excess of, but based on, its cost of production. The syndicate then markets the product at a price, as much beyond this purchase price, as possible, after which any further profit secured in this way is distributed to the producers on the basis of their representation in the syndicate, and which representation is proportional according to the output allotment of each producer, as previously determined, this distribution, it should be further noted, being made to the members of the syndicate, as such, and not, as producers of the article marketed, so that at no time will they appear to receive more than a normal profit on the same.

Examples of this type of concentration in Canada though organized on a much more restricted basis than the "Cartel" are found in the numerous producers "pools", formed with a view to the co-operative marketing of grain, fruit, wool, and other products, through a central sales agency, which after making certain deductions for expenses, etc. or by way of commission, according to the terms of the governing agreement, turn over the balance of the sale proceeds in some cases, all in one payment, and in others by successive advances to the participating producers, according to the amount they have marketed through the pool in question.

These pools it should be further noted represent a defensive form of concentration, resulting from a desire on the part of the producers, realizing that practically every group in the community they dealt with is organized

and so long as they remained unorganized themselves they would be at the mercy of every combine that came along, to meet combination with combination, and also by the orderly marketing of their product on a scientific basis to bring back the returns received on their investment to a point where they would not only cover the cost of production but also yield a reasonable profit in addition.

Thus while the existence of these pools may possibly be justified, having regard to the objects of their formation already given, and even though one of the results has been the enhancement of prices to the consumer, it must be recognized there is a danger that as their success in their present sphere of operation continues they will come to more nearly resemble the combinations, against whose exactions they were organized, and whose methods they may have to adopt, if they are to retain to the full the advantages already gained.

In support of this view reference need only be made to a report of the recent American Convention of co-operative marketing associations, which, though longer established, are very similar in organization to our own, and where it is stated that those present were typical business men, strong for systematic organization, and the use of corporation methods, so far as applicable, also that "there was no talk of a coming co-operative commonwealth, and apparently no particular concern for the consumer, as witness the insistence of the poultry, dairy, and sugar beet producers on a high protective tariff. Indeed the fact that co-operation might " apparently through further competition being engendered, as a consequence of the increased profits secured " result in lower prices, was recognized as a danger, and there was some discussion as to how the co-operator could