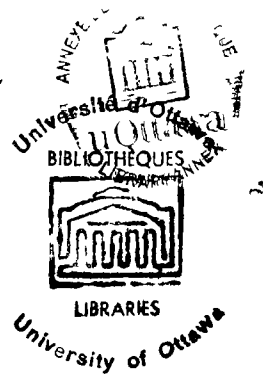


THE CORPORATE PROBLEM

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Thesis presented to the School of
Political Science of the University
of Ottawa with a view to obtaining
the degree of Master of Arts in Po-
litical Science.



Ottawa, 1945

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INTRODUCTION

Today, we hear references to such phrases as "free enterprise", "private initiative" and "economic laws" made by men in public life and representatives of the business world in support of "laissez-faire" and the economic tenets of the classical school of economists. The economic theory of Adam Smith, however was based upon conditions markedly different from those in existence today. Enterprise in Adam Smith's time consisted of a small business, usually privately-owned, in which the owner and a few labourers produced goods and carried on trade. The stock corporation, he repudiated as follows:-

"The directors of such companies being managers rather of other peoples' money than their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master's honour, and very easily give themselves a dispensation from having it. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company. It is on this account that joint stock companies for foreign trade have seldom been able to maintain the competition against private adventurers. They have, accordingly, very seldom succeeded without an exclusive privilege, and frequently have not succeeded with one. Without an exclusive privilege they commonly mismanaged the trade. With an exclusive privilege they have both mismanaged and confined it." ¹

¹ Adam Smith, "The Wealth of Nations" - Everyman's Library edition, Vol. 11, p., 229.

On the whole, the protagonists of "free enterprise" and laissez-faire" today are largely the representatives of the joint-stock corporations repudiated by Smith. They advocate a system of economics based upon private property and ownership that no longer obtains in the sense visualized by Smith when he pictured private initiative, motivated by a desire for personal profit to produce goods better and/or cheaper than that produced by competitors. The "individual initiative" of Smith's period has been replaced by group-effort under control of management instead of ownership. Today, by means of the corporate structure, related enterprises are integrated into monopolistic aggregates. Oftentimes the source of raw materials as well as the distributive machinery (wholesale and/or retail) are linked to the manufacturing corporation under the control of management or other small group.

The Stock Corporation, which Adam Smith contended required an exclusive privilege to assure successful operation, is today the dominant type of ownership organization. Perhaps it should not even be classed as an "ownership" organization as in its ultimate development, ownership is divorced from control and does not enjoy the "fruits" or benefits of ownership enjoyed by the owner of private-property of Adam Smith's day. The shareholder in the corporation has rented his capital for wages in the form of dividends just as the

individual craftsman hired out his labour to the factory-owner after the industrial revolution.

Through their ability to recruit capital, these corporations, through progressive injections of cash, have been able to organize whole industries on a mass-production basis. Through certain economies, possible through elimination of duplicate services and increased production relative to overhead, they have been able to expand and gradually encompass the entire field of productive and distributive activity, or at least share the field with fewer competitors.

The exclusive privilege referred to by Smith as necessary for the successful operation of such corporations appears in the ultimate monopoly of a field enterprise that is eventually obtained through the progressive development of a large modern corporation.

This is accomplished through control of the source of raw materials, control of the agents of distribution and by eliminating competition by means of merger, combination or trade association.

The exclusive privilege required is present also in the form of patents and patent-licenses. This makes possible the exclusive trade in a particular article so-protected for a period of 17 years. Augmenting this privilege, we have the pooling of such patents by international groups by means of the cartel agreement whereby trade territories are allocated,

production controlled, exclusive processes exchanged, etc.

Competition, as visualized by the classical economist, exists today on a very limited scale, confined almost wholly to a few small struggling new-comers and die-hards in the industrial world, to the retail trade to a greater extent, and mostly to the professional and agricultural fields. Manufacturing, public utilities, mining, finance and transportation are corporately organized. The stock corporation today dominates the fields of industry and finance, for the most part attempting to eliminate (or regulate) what small element of "private initiative" remains to compete.

It is strange, or perhaps a little whimsical then, that in schools today we study economic laws of supply and demand, private property, private initiative, and the over-all regulatory profit motive based upon the teachings of Adam Smith designed to cover a type of private ownership that has been supplanted by one that the old master himself denounced as uneconomic. It is also a bit ironical that the representatives of this type organization are the most vociferous champions of "free enterprise" and "laissez-faire", - However, they cannot be advocating the "free enterprise" of Adam Smith for the "private initiative", on which his "Wealth of Nations" was predicated, was the antithesis of the stock corporation - the predominant structure in industrial organization today. Oddly enough, under laissez-faire, private initiative (which

"laissez-faire" was designed to maintain) inflated, encompassing all, until it burst the bonds of private ownership replacing it by quasi-public ownership.

It would appear then, that some new system of economics is operative today - some modification of the classical theories to fit them to the larger units of group enterprise and property ownership divorced from control. We now have a property with increased liquidity easily transferred in the form of securities, everchanging in value with the vagaries of the stock market and the psychological aspect of market conditions. We have wealth made up of intangibles such as good-will, market expectations, options, etc., rather than merely the physical types of property reckoned with by Adam Smith. Price competition is rapidly being replaced by fixed price agreements. Supply is being controlled through regulated production and demand is being created by means of high pressure advertising and credit selling plans.

Whatever are the economic forces governing our affairs today, one thing is certain, economic laws, if there be such, have been conditioned, if not changed, by the corporate organization of industry since Adam Smith gave us his "Wealth of Nations." Any system of economic theory predicated upon a type of ownership organization that has been shoved into the background, if not superseded by another condemned as uneconomic by the old master, cannot help but have suffered

a mortal blow, or become at least largely inapplicable.

A.A. Berle, Jr. of the Secretary of State Department, U.S. Government, in his preface to "The Modern Corporation and Private Property", written July, 1932, made the following observation:-

"It is of the essence of revolutions of the more silent sort that they are unrecognized until they are far advanced. This was the case of the so-called "industrial revolution" and is the case with the corporate revolution through which we are passing.

The translation of perhaps two thirds of the industrial wealth of the country from individual ownership to ownership by the large, publicly financed corporation vitally changes the lives of property owners, the lives of workers, and the methods of property tenure. The divorce of ownership from control consequent on that process almost necessarily involves a new form of economic organization of society." ²

Pondering on the above observation, and at the behest of Father Danis, this thesis attempts to show that the modern corporation so affects the property-owner, the consumer, the worker, the producer of raw materials and the State, that the "laissez-faire" policies of Adam Smith's classical economic theory, designed to meet conditions entirely different from those that obtain today, should be shelved in favour of some sort of government regulation.

In the pages that follow, chapters will be devoted to the historical background and development of the corporation,

² "The Modern Corporation and Private Property", Berle and Means, N.Y. 1933 p., ¶11

the corporation in relation to the suppliers of capital, the corporation and the consumer, the corporation and the primary producer, the corporation and labour and finally the corporation as it effects the State. Some attempt will be made to show corporate abuses relative to the above sections of our economy and corrective or regulative measures will be suggested where possible. Quite often the solution to the various problems will be found already at hand but requiring more energetic application.

In any case, the place to start is at the beginning, hence, the first chapter follows with a brief outline of the historical development of the corporate form from the days of the Romans to the modern publicly financed institution.

CHAPTER 1

THE EVOLUTION OF THE CORPORATION

The corporate form is not a new thing. Indeed, it was known in the days of the Romans. The Encyclopaedia

Britannica states:-

"The term in Roman law corresponding to the modern corporation is "collegium", a more general term is "universitas." A "collegium" or "corpus" must have consisted of at least three persons, who were said to be "corporati - habere corpus". They could hold property in common and had a common chest. They might sue and be sued by their agent (syndicus or actor). There was complete separation in law between the rights of the "collegium" as a body and those of its individual members. The "collegium" remained in existence although all its original members were changed. It was governed by its own by-laws, provided these were not contrary to the common law. The power of forming "collegia" was restrained, and societies pretending to act as corporations were often suppressed. In all these points the "collegia" of Roman closely resemble the corporations of English law. There is a similar parallel between the purposes for which the formation of such societies is authorized in English and Roman law. Thus, among the Roman "collegia" the following classes are distinguished:- (1) Public governing bodies, or municipalities, "civitates"; (2) religious societies, such as the "collegia" of priests and Vestal Virgins; (3) official societies, e.g., the "scribae", employed in the administration of the state; (4) trade societies, e.g., "fabri, pictores, navicularii, etc. This class shades down into the "societates" not incorporated, just as our own trading corporations partake largely of the character of ordinary partnerships." ¹

Around the 17th century, English companies were first incorporated to trade in England although previous to that

¹ Encyclopaedia Britannica, 11th Ed. Vol. 7, p., 190

English merchants had been granted corporate charters to engage in foreign trade. These were the joint stock trading corporations which built the merchant empire of England. (The Russia Company, 1553, Levant 1581, East India, 1600, Hudson's Bay, 1670, Royal Africa, 1672, Bank of England, 1694).

The "joint stock" plan appears first in history associated with the development of trading empires. As early as 1346, various parties loaned money to Genoa, for conquest purposes, and she gave the shareholders an interest in the conquered lands. In 1407, the bank of Genoa took over the state loans and issued a consolidated stock divided into shares, to those who had put up the money, and these were given the right to do a banking business, (1408), and later (1453), to administer the colonies. In the 17th century, the joint stock companies occupied an important place in the founding of the merchant empire of England and Holland.

With the replacement in England of the "gild" system of "regulated" company by the "joint stock" company, a new type of property appeared - the stockholders' share - quickly followed by stock exchanges to give it greater liquidity. Stock quotations began to be published in 1692 for both incorporated and unincorporated companies organized on the joint-stock plan. Speculation became rife and soon was followed by the panic of 1720. The Bubble Act, 1720, forbade the creation of joint-stock companies, or transferable shares,

unless they were incorporated, but failed to provide regulation of those incorporated. With the passage of this Act, the joint-stock plan and the corporate-form were wedded. The use of the transferable share, became the exclusive right of the corporation.

Incorporation was a privilege granted by the sovereign power, whereby a group of associates was created a legal entity, having a given name and purpose and having those powers and rights as conferred upon it by its charter. This type of business structure, employing the "joint stock" plan of capitalization, developed rapidly and at first, was employed, almost wholly, as a means of organizing companies for the furtherance of trade and public services, such as banking and insurance, where a high element of risk was involved.

The corporation introduced into ownership organization an entirely new concept. Heretofore, when an individual or a group of men went into business, the partners or shareholders were liable for the losses of the association or non-incorporated joint stock company, over and above the entire property of the company itself. For this reason, men of means hesitated to invest in enterprises of a hazardous nature, as it meant risking unduly the balance of their wealth. The corporation, however, was thought of as a separate entity, a legal person, and like a natural person

had the right to maintain business in its own name, to sue or be sued, and continued this entity although the individuals in it changed. The shareholder's liability was limited to the amount of his investment. In other types of ownership organization, the quality of responsibility was always attached to ownership. As one writer aptly put it:- "If the horse lived the owner must feed it, if he let it die, he must at least bury it." The corporate form divorced ownership of this responsibility.

This privilege was granted by the state to encourage enterprising groups of business men to undertake projects involving great risk and magnitude, or of public interest. However, through injudicious control on the part of the state in the granting of this privilege, and the wanton exploitation of the public by irresponsible promoters, the use of this instrument was abused and, as a result, the government repealed the Bubble Act in 1825 and authorized the Crown to incorporate companies, making the members individually liable for the corporate debts. Through this legislation, ownership was served notice that it again would have to shoulder the responsibilities attached to property-ownership.

The corporate structure, with its limited liability feature, was not to be discarded, however - it was too excellent a means of mobilizing capital for large ventures.

In 1844, a general incorporation act was passed, authorizing the formation of companies by a "Certificate of Incorporation" without special charter from King and Parliament, but with individual membership still liable to creditors for debts in excess of the corporation's assets. In 1855 and 1856, however, laws were passed whereby limited liability was extended to shareholders. These features were later consolidated in the Companies Act of 1862 which formed the basis of our present English Corporation Law.

Now, let us follow the development of the corporation as it took place on this continent with particular reference to the United States where it has come to be the principal form of business structure. Up to 1800, the corporation generally involved a modest number of partners or shareholders and was devoted principally to undertakings of public interest such as the construction of bridges, canals and the operation of banks, insurance companies and other public services. As in Britain, these first companies were formed to exploit some franchise granted by the government and the act of incorporation was hence in the form of a charter granted by the state.

The charter outlined the powers and rights of the corporation. Among other things, it listed the name of the corporation, head office, the nature and objects of the

business, the capitalization, (i.e. the number and classes of shares authorized), the officials to whom immediate management was to be delegated, indicating by whom and under what conditions they were to be selected, and included provisions establishing both how the profits were to be distributed and how the assets were to be disposed of on ultimate dissolution. As more and more businesses attempted to take advantage of this type of organization, the various legislative bodies found it more economical of their time and the public found it less conducive to favouritism and corruption if corporation advantages were made available to everyone on specified terms. Accordingly, general incorporation laws were adopted by the various states commencing with Connecticut (1837). These provided for the incorporation of "any lawful business" without special action of the legislature.

Corporate development in the industrial field was virtually unknown until the 19th century. Early in the century, several New England textile companies were incorporated, but the introduction of the corporate system into the railroad field during the latter half of the century assured greater use of this type structure in industry. One aspect of economic life after another followed until by the early years of the 20th century very few fields of industry had failed to adopt the corporate form.

Today, incorporated companies are encountered in every

phase of our economic life. Some fields have been geared to this type of organization to a greater extent than others, and yet there is hardly a field of economic activity in which they are not today the leading force in terms of business handled and wealth controlled. The 13th Census² of United States, 1910 reported 66.7 percent of all manufactured goods in the year 1899 were made by corporations. The 14th Census³ of United States, 1920, showed 87 percent of manufactured products as being produced by corporations as of 1919, and it was estimated⁴ that in 1929 over 94 percent of all manufactured goods were produced by corporations. Manufacturing corporations employed 65 percent of all wage earners in the manufacturing field in 1899. This increased to an estimated 92 percent in 1929.⁵

Public utilities are almost 100% corporate. Mining and quarrying were 86.3% corporate by 1902 and 93.6% by 1919.⁶ According to an abstract of the 14th Census of the United States, 1920,⁷ over 90% of all employees in the copper, iron ore, lead, zinc, petroleum and natural gas industries were employed by corporations. The mercantile field is being exploited to a rapidly increasing degree by incorporated chain-

² 13th Census of United States, 1910, Vol. VIII, p. 135
³ 14th Census of United States, 1920, Vol. VIII, pp.14, 108
⁴ Berle & Means, "The Modern Corporation" p. 14, footnote 13
⁵ Ibid, p. 14
⁶ Statistical Abstract of the United States, 1925, p. 103
⁷ Abstract of the 14th Census of the United States, 1920, p. 1278

stores, 5 and 10 cent stores, department stores and wholesale houses. The amusement and entertainment field has the large moving picture corporations, producers and theatres, radio broadcasting companies and incorporated sports palaces.

Agriculture and real estate are two fields in which corporations appear only to a minor degree, but they are to be found. Banking and insurance, of course, used this form from the first, but along with other financial corporations will not be considered here, as these provide subject matter for separate study.

One of the outstanding characteristics of the modern corporation is its ability to draw unto itself large aggregations of wealth of increasing size. This ability to mobilize capital, drawn from an ever-widening area, has made possible the mass production business aggregates common to our modern economy.

The extent to which economic activity is today carried on by such large enterprises is graphically pictured in Berle and Means book, "The Modern Corporation and Private Property." A list of the two hundred largest non-banking corporations, compiled as of January 1, 1930, disclosed combined assets amounting to \$81,000,000,000.00 or nearly half of all the corporate wealth in the United States. (See Appendix 1). In an effort to determine the relation of these large corporations to the whole of American economy, they were examined in

relation to (1) the New York Stock Markets (2) all corporate wealth (3) all business wealth (4) the national wealth. The following findings were made by Berle and Means:-

- (1) Examination of the New York stock market listings,⁸ March 9, 1929, disclosed 130 out of 573 independent American corporations represented "could be classed as huge companies, each reporting assets of over \$100,000,000.00. These 130 companies controlled more than 80% of the assets of all companies represented." (See Appendix 2).
- (2) A comparison of the combined assets of the two hundred largest non-banking corporations with the assets of all non-banking corporations, at the beginning of 1930, disclosed combined assets of \$81,074,000,000.00⁹ as against estimated total assets of all non-banking corporations of \$165,000,000,000. for the same period as computed from Income Tax figures. This would indicate 49.2 percent of all non-banking corporate wealth controlled by the two hundred large companies, with the remainder owned by more than 300,000 smaller companies. In a comparison of net income of the largest corporations with the net income of all non-banking corporations on a basis of 1929 Income Tax Statistics, the two hundred largest non-banking corporations received 43.2 percent of the total income of all

⁸ As published in "Commercial & Financial Chronicle" N.Y. - see footnote 7, p.27, "The Modern Corporation & Private Property - Berle & Means, N. Y. 1933.

⁹ The Modern Corporation & Private Property, Berle & Means, p.28

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corporations in this class. It is pointed out that figures based on income were low due to the fact that the Treasury Department did not require consolidated income statements to include subsidiary companies.

(3) A very rough estimate by Berle and Means¹¹ indicated that "at least 78%, and probably a larger proportion of American business wealth, is corporate wealth." Taking this as a basis for comparison, the two hundred largest corporations controlling 49% of all corporate wealth would therefore control 38% or more of all business wealth.

(4) On the basis of National Industrial Conference Board estimates,¹² the national wealth of the United States at the end of 1928 amounted to \$360,062,000,000.00. Projecting this to 1929, using the basis of growth during the previous six years, it was estimated that the national wealth for that year would be \$367,000,000,000.00 approximately. In comparison with the total assets of the two hundred large companies in that year amounting to \$81,077,000,000.00, it was estimated that they controlled approximately 22% of national wealth in 1929. Berle and Means observed that "the lower relative importance of the large corporations in comparison with national wealth was due, in a large measure, to the importance

¹⁰ Ibid - p. 29

¹¹ Ibid - p. 31

¹² The Conference Board Bulletin No. 38 (Feb.25/30) p. 303, National Industrial Conference Board, N. Y.

of "agricultural land and improvements, residential real-estate, personal property including automobiles and the large volume of government property."

The above findings were recapitulated in Table 1, shown below as taken from their book.¹³

TABLE 1
RELATIVE IMPORTANCE OF LARGE CORPORATIONS
(On or about January 1, 1930)

	Results obtained by actual computation	Probable limits
Proportion of corporate wealth (other than banking), controlled by the 200 largest corporations	49.2%	45-53%
Proportion of business wealth (other than banking), controlled by the 200 largest corporations	38.0% ¹	35-45%
Proportion of national wealth controlled by the 200 largest corporations	22.0%	15-25%

¹Unadjusted for unconsolidated income tax returns.

From the above figures it is apparent that a large portion of the industrial wealth of the United States has been concentrated under the control of a few large units. As of 1929, there were 300,000 non-financial corporations in the country, yet nearly half the corporate wealth was controlled by only

¹³"The Modern Corporation & Private Property" Berle & Means - p. 32.

two hundred of these, or less than $7/100$ of 1 percent.

It was also pointed out by Berle and Means that this concentration of economic power by the corporations, was progressive. This was shown in a study of the assets of the two hundred largest non-banking corporations for the following years: 1909 - \$26,000,000,000.00, 1919 - 43.7 billion, 1929 - 81.1 billion. The table shown as Appendix 3 shows the growth of 150 identical corporations included in the two hundred largest companies in both 1919 and 1928.

In considering the growth of large corporations as compared with the growth of all industrial wealth, considering non-banking corporations only, it was noted that for the period 1909 to 1928, the annual rate of growth for the two hundred largest corporations was 5.4 percent, whereas, for the same period, corporations other than the largest, only 2.0 percent. The annual rate of growth for all corporations for the same period was estimated to amount to 3.6 percent. From the above figures, it would appear that the two hundred largest companies are growing over 50% faster than all corporations, $2\frac{1}{2}$ times as fast as small corporations. Comparison of income substantiated this comparison of rate of growth, (See Appendices 4 and 5).

When one considers that an increased proportion of industrial wealth is coming under corporate sway, it would appear that the proportion of industrial wealth controlled

by the 200 largest corporations has been increasing at a more rapid rate than their proportion of all corporate wealth. On the basis of a rough estimate of the rate of growth of the national wealth made by the National Industrial Conference Board¹⁴ between the years 1922 to 1928, a rate of growth of 12.5 percent is shown, compared with the rate of growth in assets of the two hundred largest of 45.6 percent or annual rates of growth of 2 percent and 6.3 percent respectively.

The following conclusions were reached by Berle and Means on the above figures regarding the rate of growth:¹⁵

- (1) On the basis of gross assets, the large corporations appear to be growing between two and three times as fast as all other non-financial corporations.
- (2) This conclusion is supported by the figures of corporate income.
- (3) Since an increased proportion of industrial wealth presumably continues to come under corporate sway, the proportion of industrial wealth controlled by the large corporations has been increasing at a rate even faster than the proportion of corporate wealth controlled by them.
- (4) Since estimates of the national wealth are extremely approximate, it is not possible to determine the growth in proportion of national wealth controlled by the large corporations, but there can be little question that the proportion has been increasing at a rapid rate."

Based on the figures for twenty years from 1909 to 1929, a prediction was made for the next twenty years in an effort to show what this rapid rate of growth of the big companies

¹⁴ National Industrial Conference Board, Conference Board Bulletin No. 38 (Feb.25/30) p.303

¹⁵ The Modern Corporation and Private Property, Berle & Means - p.40

would bring in the future. Assuming the same average annual rate of growth, it was estimated that -

"70% of all corporate activity would be carried on by the two hundred corporations by 1950.....It would take only forty years.....for all corporate activity and practically all industrial activity to be absorbed by the two hundred large companies, and nearly half of the national wealth would be under the control of these companies, at the end of this period."

The uneven rate of growth shown on the table in Appendix 4 would indicate, however, that no such forecast could be accurately made. The depression years and the war years that followed during the past six years have proved this to be so. A study of profit statistics of 627 companies classified by asset size for 1936 to 1942 as compiled by the Bank of Canada (see Appendix 6) seems to indicate that the greatest percentage of gain in income made during these years was made by the smaller corporations. This has probably been due, in a large part, to the excess profits tax, and the fact that the larger companies have engaged to a greater extent on war contracts on which pressure has been exerted in an effort to keep profits down to around 5%.

TABLE 11
RATE OF GROWTH OF NET INCOME
625 CANADIAN COMPANIES - 1936-1942

YEAR	Total of 625 Cos.	GROUP 1 42 Cos. Assets over \$25mm.	GROUP 2 129 Cos. Assets \$5-25mm.	GROUP 3 243 Cos. Assets \$1-5mm.	GROUP 4 211 Cos. Assets under \$1mm.
1936	231.4	137.7	64.3	25.8	3.6
1937	296.5	179.1	77.6	34.7	5.1
1938	241.5	138.3	66.6	32.5	4.2
1939	285.5	151.4	87.3	40.9	5.8
1940	284.2	156.8	83.3	38.5	5.6
1941	306.6	164.6	91.6	43.3	7.1
1942	306.5	165.3	90.9	42.9	7.3
Increase in Net Income 1936-42	75.1	27.6	26.6	17.1	3.7
% In- crease in Net Income 1936-42	32.5%	20.0%	41.4%	66.3%	102.8%

Table 11 shows the rate of growth of net income before depreciation charges and excess profits tax provisions as made for various groups classified by asset size in a report on 625 companies, compiled by the Bank of Canada.¹⁶ 211 companies with assets under one million dollars showed by far the largest percentage increase, amounting to over 100%. During this same period, the national income showed an increase from 4.4 billions of dollars in 1937 to 8.8 billions of dollars in 1942,^a rate of growth of approximately 200%.

¹⁶ See Appendix 7

TABLE 111
 RATE OF GROWTH OF TOTAL ASSETS
 625 CANADIAN COMPANIES - 1936-1942

YEAR	Total of 625 Cos.	GROUP 1 42 Cos. Assets over \$25mm.	GROUP 2 129 Cos. Assets \$5-25mm.	GROUP 3 243 Cos. Assets \$1-5mm.	GROUP 4 211 Cos. Assets under \$1mm.
1936 ¹	4,278.1	2,511.6	1,213.1	467.8	85.7
1937	4,368.6	2,563.5	1,233.5	482.6	88.9
1938	4,295.2	2,523.7	1,213.0	473.7	84.6
1939	4,418.4	2,578.2	1,255.5	495.7	88.9
1940	4,603.1	2,657.2	1,321.2	529.7	95.0
1941	4,894.0	2,788.1	1,425.7	572.9	107.2
1942	5,025.7	2,858.1	1,461.0	593.3	113.4
Increase in Total Assets 1936-42	747.6	346.5	247.9	125.5	27.7
% In- crease in Total Assets 1936-42	17.5%	13.8%	20.4%	26.8%	32.3%

The rate of growth of total assets for total 625 Canadian companies in June and July in the period 1936 to 1942, as compiled by the Bank of Canada statistical summary, showed an increase of 4,278.1 millions of dollars to 5025.7 millions of dollars or an increase of 17.5%. The rate of increase is given in Table 111 for the 625 companies classified by asset size. The greatest percentage again appears to be made by the 211 smaller companies with assets under one million dollars.

This reversal in the trend during the period 1936-1942 is not to be taken to indicate any slackening of the rate of growth of the large corporations established by Berle and Means on the basis of their study of the 20-year period, 1919-1929. The period considered covers only 7 years of which four were under wartime conditions and three depression years. It is unfortunate that Appendices Nos. 4 and 5 do not show the rate of increase for the war years separately so that a comparison could be made of the rate of growth during World War I and World War II. However, the reversed trend for the period 1936-1942 plus the erratic rate of growth shown in Appendices Nos. 4 and 5, would seem to indicate that no accurate forecast of ^{the} future importance of the large corporations can be safely attempted. Figures for 1936-1942, might portend slackening of concentration as the saturation point is approached, but on so short a period considered, it is much more likely that a period of reduced expansion has been entered comparable to the period 1909-1921 which covered World War I and the depression which followed in 1921.

Personal income taxes might also explain the greater increase in assets in the smaller companies during wartime. As ownership is a greater factor in the control of these smaller companies, there is greater likelihood of profits being "ploughed back" into the company during a period of

high income taxation. Another factor contributing to the lower rate of increase in assets of the larger companies is the Crown financing of assets used on certain large munitions projects. As the larger corporations are engaged to a greater extent than the smaller companies on crown financed projects, the total assets under the control of these corporations is probably greater than indicated by the above figures.

A glance at Table 11 discloses that over 72% of the increased income accrued to the 171 companies with assets over \$5,000,000.00. The remaining 27% was earned by the remaining 454 companies. This would seem to indicate that the concentration of wealth into the hands of a few large companies, as found by Messrs. Berle and Means for the United States, is also true for Canada. According to the figures in Table 111, over 55% of the total assets of 625 Canadian companies were controlled by 42 companies, or less than 7% of the companies considered for the year 1942.

Berle and Means found the large corporations to be increasing at a rate two or three times as fast as all other non-financial corporations. It appeared that the proportion of industrial wealth controlled by these corporations increased at a rate even faster than the rate of increase of proportion of corporate wealth controlled. An increasing proportion of the national wealth also accrued to these larger corporations with the passage of

years. Whilst a study of statistics for 625 Canadian companies, 1936-1942 does not seem to entirely support the conclusions reached by Berle and Means, it is thought that due to shortness of the period considered and the fact that the period covers depression and war years, that the conclusions arrived at by these gentlemen can be taken as indicative of the trend. Accordingly, in an attempt to understand this progressive concentrate of wealth, the methods employed by corporations to increase the amount of wealth under their control are examined below.

A corporation usually increases the wealth under its control in one of three ways; by reinvesting its earnings, by raising new capital through the sale of securities in the public market, and by acquiring control of other corporations by purchase or by exchange of securities. Berle and Means found in the six-year period from 1922 to 1927 inclusive, that 108 corporations, out of the two hundred largest, saved 38.5 percent of their net income available for dividends. For the same period, all corporations combined saved only 29.4 percent of their net incomes, indicating that the larger companies reinvested their earnings to a greater extent than the smaller companies. A study of the financial statistics of the 625 companies from 1936 to 1942 by the Bank of Canada seems to indicate that this trend has been reversed for the period studied in

that the total for all companies indicates 18% of net income shown as undistributed profits, whereas, the 211 companies with assets under one million dollars showed undistributed profits amounting to 30% of their net incomes.

The second method, that is, the raising of new capital through the sale of securities in the public markets, has been a much more important means of expanding the larger corporations. Berle and Means found from 1922 to 1927 inclusive, "a sample study indicates that 2/3 of all public offerings of new securities, (as reported by the Commercial Financial Chronicle - excluding banking companies), were made by the two hundred largest companies or their subsidiaries." Toronto and Montreal market reports will show substantially the same result, if mining and banking stocks are not considered.

There is good reason for this, viz. - it costs approximately \$25,000.00 to float a stock issue on the public market, whether the issue be for 5,000 shares or for 5,000,000 shares. It has been estimated that to float an issue smaller than \$1,000,000.00 on the New York Exchange is uneconomical due to the costs incidental to flotation. Mining securities are an exception to this rule, in that they are highly speculative and with a small capital investment are capable, (if they are successful in striking "pay-dirt" and are blessed with able management) of yielding

a substantial return. On the Toronto and Montreal Exchanges the minimum economical issue of industrial securities would be lower than on the New York Exchange due to slightly reduced cost of flotation, however, this factor has a tendency to limit flotation of new security issues to the larger companies.

Expansion by consolidation or merger is the third method used to develop some of our largest corporations. Berle and Means found "that in the eleven years 1919 through 1929, no less than 49 corporations recorded among the largest two hundred at one time or another during the period, disappeared by merging with other large companies on the list." (See Appendix 9)

During approximately the same period, 1920-30, 131 mergers were effected involving Canadian Companies, however, with the disappointing results that only 15 showed improved earnings after consolidation.¹⁸

Nineteen out of eighty-seven important consolidations taking place in Canada between 1900 and 1920, were compelled to liquidate or reorganize within four years of their formation.¹⁹ However, this does not necessarily indicate that such consolidations are weakened and result in early dissolution.

¹⁸ The Control of Competition in Canada - Lloyd G. Reynolds - p. 175

¹⁹ Ibid - p. 175

Table IV shows the condition in 1928 of the 200 companies in the United States which were the largest in 1919. There is little in the figures shown to suggest that the large corporation has a short life cycle, ending in dissolution. The table shows only 25 companies disappearing in 9 years, or a rate of dissolution of 1.4 percent per year.

TABLE IV²⁰
STATUS IN 1928 of 200 LARGEST CORPORATIONS IN U.S. AS OF 1919

23 merged with larger companies
154 were included in list of largest 200 corporations in 1928
21 remained large and active concerns though 7 of them went through reorganization.
<u>2 liquidated or the equivalent</u>
200

It would appear then, that three major methods are utilized by the Modern Corporation to increase the amount of wealth under its control. The figures shown in Table V afford some indication as to the relative employment of these methods in the growth of the large companies.

TABLE V²¹
GROWTH OF ASSETS 1922-1927 OF THE 200 LARGEST U.S. CORPS.

Estimated savings out of earnings	\$5,748,000,000.00-26.5%
" new capital from sale of securities	11,813,000,000.00-55.0%
" growth as result of mergers	4,000,000,000.00-18.5%
	<u>21,561,000,000.00-100%</u>
Estimated reduction from re-appraisals etc. & error in estimates	\$ 2,000,000,000.00
Net growth in assets, 1922-27 inc.	<u>\$19,561,000,000.00</u>

²⁰ Berle & Means "The Modern Corporation & Private Property p.43

²¹ Ibid - p. 43

Such is the character of the corporate system - ever-building itself into greater aggregates. It is now necessary to think of industry in terms of these great corporations rather than in terms of a host of competing units of private enterprise. Over 90% of all goods manufactured in the United States is corporatively produced. Mining, transportation and public utility companies are almost wholly corporate. Over half of industry is under corporate sway and with 200 companies controlling 49% of all corporate wealth in the United States in 1929, approximately 38% of the business wealth of that great country was under the control of less than 7/100 of 1 percent of the non-financial corporations as of that year.

Berle and Means, in pondering the possible effect upon society of this translation of approximately two-thirds of the industrial wealth of the country from individual ownership to ownership by large publicly financed corporations, arrived at the following conclusions -

"2. Competition has changed in character and the principles applicable to present conditions are radically different from those which apply when the dominant competing units are smaller and more numerous. The principles of duopoly have become more important than those of free competition.

4. The nature of capital has changed. To an increasing extent, it is composed not of tangible goods, but of organizations built in the past and available to function in the future. Even the value of tangible goods tends to become increasingly dependent upon their organized relationship to other tangible goods composing the property of one of these great units.

5. A society in which production is governed by blind economic forces is being replaced by one in which production is carried on under the ultimate control of a handful of individuals. Approximately 2,000 men were directors of the 200 largest corporations in 1933; an important number of these are inactive, the ultimate control of nearly half of industry was actually in the hands of a few hundred men. The economic power in the hands of a few persons who control giant corporations is a tremendous force which can harm or benefit a multitude of individuals, affect whole districts, shift the currents of trade, bring ruin to one community and prosperity to another. The organizations which they control have passed far beyond the realm of private enterprises—they have become more nearly social institutions." 22

That the development of the corporation has not proceeded to the same degree in Canada as it has in the United States makes it still a force to be reckoned with. Due to the agricultural nature of our economy and the slowness of adoption of the corporate structure in this field, corporations do not play as great a part in the percentage of control over the national wealth of the country. However, due to geographical lay-out and the smallness of population, the effects of the few large corporations in the country are felt possibly just as greatly as they are in the United States. Due to these two factors, it is much easier for one or two large corporations to dominate any particular field of industrial life in the country. The domestic market is small and can be supplied by one or two large corporations. This makes for monopoly or duopoly just as readily as does the

22 Ibid p. 45

rapid expansion and development of large corporations in the United States.

Accepting the institution of the large corporation (as we must), in the chapters that follow an attempt will be made to view the corporation in relation to capital, to the consumer, to the primary producer, to labour and lastly to the state. So wide a field can be but briefly touched upon in an attempt to give an overall picture of the corporation as it affects us in our everyday lives.

CHAPTER 11THE CORPORATION AND THE SHAREHOLDER

The classical conception of private property was altered with the divorce of control from ownership through the introduction of the joint stock plan to the corporate structure. Today shareholders in a corporation invest their capital surrendering control over it to a legal entity known as the corporation. This entity is expected to administer the sum total of such funds in trust for the shareholders who, in return, expect compensation in the form of dividends as a wage on their capital invested. As, during the industrial revolution, labour changed from private initiative to hire out for wages and have its task coordinated by management, now capital turns from beneficial ownership to hire out for wages. As seen in the previous chapter, this is a progressive movement with more and more fields of industry coming under corporate sway each year.

One might almost say today that wealth is conscripted by corporations. It was shown in the previous chapter that a large percentage of the total wealth of the country was voluntarily invested by shareholders in corporations. Naturally there is also a large involuntary contribution when one considers that savings, either in the form of bank accounts or insurance policies, are in turn invested in corporate securities. A study of the portfolios of insurance

companies, civic sinking funds, or banks will disclose a large investment in such securities.

If then, we are all directly or indirectly shareholders or investors in corporate securities in some form or other, it is of primary importance to us that capital invested in such enterprises secure fair treatment. Every protection should be given the shareholder and investor to ensure that he receives a fair run for his money. That is, if capital is now to be hired out for a wage, legal safeguards are necessary to assure the investor a proper return on such capital proportionate with the risk undertaken. It is, however, just as important in the interest of the consumer concerned that disproportionately high returns be not allowed.

With the introduction of the corporate structure into ownership organization, the joint stock plan of ownership was employed. Participants in the enterprise contributed capital for which they were given a share in the earnings and the assets of the corporation relative to the amount of the total capitalization contributed. The investors pooled their funds to form a company of a limited liability to carry out a specific project or type of business as outlined in the charter granted by the state. The charter set forth the securities to be issued, and the rights of the shareholders as to participation in the profits and assets of the company. As such, the charter was not only a Deed of Privilege

granted by the state but was also a contract between the shareholders and the corporation. This contract, being granted by the state, was closely scrutinized by the legislature and an attempt was made to protect the shareholders. Shares in the company had a par value, meaning that every shareholder was expected to contribute a minimum amount for his share. Any change in the terms of the charter had to be passed upon by a unanimous vote of the shareholders. Each shareholder had a pre-emptive right to subscribe to any additionally issued stock in the corporation, thus enabling him to maintain his relative position of control in the enterprise. Dividends were only permitted to be paid out of surplus profits, and the corporation was allowed to engage only in the type of business specified in its charter.

This rigid control over management by the state was weakened with the passage of general incorporation laws. The first of these in the United States was that of Connecticut in 1837 which permitted incorporation for "any lawful business." Whereas before, the shareholders invested their money for a specific purpose, or rather in a company to carry on business along a specified line, the door was now open for the inclusion in the charter of a very general description of the nature of the business to be engaged in, allowing ^{the} corporation to enter fields circumscribed only by the lack of the imagination of the drafter of this charter.

Also with the appearance of general laws of incorporation, the Certificate of Incorporation which replaced the charter was now drawn up by the officers of the company instead of being drafted under government supervision as heretofore. Whereas before, there was a charter granted by the state, general incorporation laws only required the drawing of a document or charter which would comply with the state laws.

With the growth of corporations in size and the consequent dispersion of stock to shareholders over a wide area the development of the proxy appeared. Designed as a convenience to the absent shareholder this slowly but surely developed into the means by which the shareholder was deprived of his control over his investment in the company. As the proxy is chosen by the management, or group in control, the shareholder who could not attend the shareholders' meeting had now the option of signing over his vote to this proxy or of not voting at all.

Today amendments to charters do not require the unanimous approval of shareholders, and may be made by a majority, usually two thirds but never less than a majority, depending upon the state or provincial laws under which the company is incorporated. Voting trusts are now legal in which shareholders may more or less permanently delegate their control by vote and corporations are able to create certain classes of stock that do not carry voting rights. So complete is the latitude now granted management through various state laws

(particularly Delaware) that today a majority may authorize the sale or lease of the assets of the corporation thereby handing the enterprise over to a different group beyond the control of the former participants in the company. The shareholder might stop such procedure by taking court action but this would probably prove too costly for him as an individual. Whereas a stockholder at one time had control through his vote, under present regulations he might well be said to have lost control over the capital in which he has invested in the corporation.

One by one, the legal checks over those in control of the corporate enterprise were removed as the modern corporation evolved. As mentioned above, shares were granted in accordance with the proportion of the money invested in the enterprise. This presupposed that a share in the enterprise had to be purchased for cash, at a stated par value. Any shareholder, obtaining shares for lower than par value, in case of debt on the part of the company was liable for the difference in amount paid and the par value of the stock. This ruling still obtains in the case of par value shares. This protected the shareholder against the watering his equity in the company through the weakening of his position by selling blocks of shares at a lower price than he originally paid. Towards the end of the nineteenth century, however, it was determined by the courts that stock could be issued in exchange

for property as well as cash. The shareholder's position was immediately weakened due to the divergence of opinion in the evaluation of intangibles that could be included under the name of property. Acceptance of property in payment for shares made possible the exploiting of shareholders through various types of manipulation. As long as the directors were able to prove that they acted "in good faith" in evaluating the property, they ran little risk of legal prosecution.

Shareholders' protection disappeared completely with the advent of no-par value stock. This first appeared in New York in 1912. Non-par stock may be issued at whatever figure the directors feel is desirable. The shareholders may purchase this stock at varying amounts depending upon the figure set at the time of the issue of a certain block of shares. Whereas the shareholder was originally required to pay a fixed amount for shares in cash, today, he may secure shares in exchange for property (or various intangibles included under this name) or may purchase non-par stock at varying figures as set by the Board of Directors.

Pre-emptive rights whereby shareholders were able to maintain their relative position in the control of the company through the right to subscribe to any new issues of stock offered by the company in proportion to their holdings, have been avoided through various legal rulings and devices.

This is done by including in the charter authorization for

many more shares than it is contemplated issuing by the company at the commencement of business. Also, through a legal ruling recently made, stock exchanged for property is not subject to pre-emptive rights. Another dodge employed is to include in charters or certificates a clause whereby the shareholder waives his pre-emptive right to new stock issues in advance.

The same procedure, namely through a clause placed in the charter, was employed in an effort to avoid the requirement of unanimous approval or two thirds majority approval of charter amendments. Clauses are also included whereby the relative position of various classes of stock insofar as participation in earnings and/or assets may be changed by majority vote, the shareholder in advance accepting the decision of the majority as final.

Earlier regulations governing the corporation (and many present day laws) permitted dividends to be paid only out of surplus, that is, out of earned profits of the corporation. With the advent of non-par stock, a new surplus appeared known as paid-in surplus, this being the difference between the price of stock fixed by the directors for sale on the market, the amount received for the stock. No personal liability non-par stock is perhaps the most common type today and is used almost exclusively as the means of raising capital by those corporations engaged in the promotion of mining.

The main advantage of this type of stock over the par value type is the avoidance of liability to creditors for the difference between price paid and the par value of the stock where it is purchased below par value, or where a block of stock is exchanged for property or services over which there may be some doubt as to the proper evaluation. No-par value stock is therefore preferred by promoters who may take a block of this stock in return for services without fear of future liability to creditors in the event that the corporation gets into difficulties. It is also attractive to unscrupulous promoters, in that it can be used to create a paid-in surplus from which dividends can be declared in an effort to make the stock more attractive to prospective buyers. This can be done despite the fact the corporation may not have earned any profit from operations.

If non-par stock can be issued for any price at the discretion of the directors there is nothing to prevent blocks of stock being issued at a low price to insiders. Any of the old stockholders who have paid a higher price, may appeal to court in an effort to block the sale on the basis of it being sold below an equitable minimum. In practice this is seldom done due to the high cost to the individual in bringing court action. As stated before, it is the safest type of security to use in exchange for over-valued property or services without fear of legal action taken on the part of the stockholder.

Stock purchase warrants or options further weaken the position of the stockholder in that they entitle the holder to purchase a number of shares of stock at prices fixed by the directors. They may run for a specified period of time or in perpetuity. They trade on the open market the same as other securities such as common stock or preferred stock. Usually issued in connection with a bond issue or a preferred stock issue as an inducement to float the issue, they are a threat to the stockholder's position or equity in earnings and assets of the corporation. As they will not be exercised unless the stock is trading at a figure well in excess of the fixed price stated on the warrant they become a definite drain on the earnings that rightfully should channel to the shareholders.

Corporation laws today give the group in control almost unlimited latitude. It might well be said that the investor entirely depends on the integrity of the people in control. Income may be manipulatively apportioned to the advantage of certain groups by means of:- freezing out certain classes of shareholders through withholding of dividends; the voting of stock warrants for option to insiders; the increase of stock outstanding; the use of holding companies and subsidiaries; price manipulation of the stock through information given out by the control, or through dealings with other corporations by means of contracts, leasing of assets or some such means

so as to milk the corporation in question of the profits that should normally go to the shareholders as dividends.

The controlling group may alter charter provisions through proxy control of a majority of votes, to change the participations of the various classes of shareholders, and divert these to their own advantage through the issue of "parasitic" shares.

These can be any one of a number of forms whereby one class of shares is entitled to greater percentage of the earnings than another class. By increasing the issue of one class in relation to the other, a greater or lesser percentage of the earnings can thereby be directed to one or other class of shareholders. For instance, one class receives two thirds of all income before the other which then receives the remaining third. Suppose the first class to be "A" Common and second "B" Common carrying voting rights. If an additional thousand shares of one dollar par value stock Class "A" Common is issued, Class "B" Voting Stock is entitled to one third of the earning power of the new capital invested by Class "A" shareholder. The Class "B" shareholder contributes nothing but enjoys one-third of the earning power of the new capital invested by Class "A" shareholders.

The shareholder's participations in both earnings and assets may be altered by the group in control by means of charter amendment; by buying and selling of the corporation's securities on the open market, using the surplus-fund of the

corporation for such transactions; through the issue of stock for purchase warrants; or by the option given to convert from one class of security to another.

Another method employed to concentrate control and/or alter the participations of shareholders is the use of "blank" stock. This is permitted by some corporation laws. It is authorized stock whose participation, preferences and privileges are fixed by resolution of the board of directors at any time prior to issuance. If issued to those wishing to assure their control under corporation charters denying pre-emptive rights to all stockholders and provided the blank stock was given adequate voting power, a minority in control would have little difficulty in perpetuating such control. Through proper assignment of participations, profits could also be diverted to this group.

In present day corporations, ownership is often so widely held that these companies might well be said to be quasi-public institutions. This is particularly true in the railroad field, and it is to be noted that in many of your larger companies the largest shareholders hold less than 1% of the total stock outstanding. This was true of the three largest corporations in the United States; the American Telephone and Telegraph Company, the United States Steel Corporation, Pennsylvania Railroad, according to figures compiled in 1929.¹ A study of the Appendix Vlll

¹ Berle and Means - The Modern Corporation & Private Property, p. 47

would seem to indicate that there is a tendency for stock dispersion to increase with the size of the company. This dispersion of stock is also shown to be a progressive movement with the distribution of shareholders becoming wider each year.² More recently, this movement has been stimulated through the selling to customers, particularly by public utility companies, and through the selling of shares to employees. In 1929 in United States it was estimated that over 50% of all dividends paid out were received by people with taxable incomes below \$25,000.00.³

With ownership being progressively dispersed over ever widening areas, and with the rapid increase in the total number of shareholders as the corporation grows, shareholders become further removed from the capital invested in the company. Whereas the proxy machinery was originally adopted as a convenience for out-of-town shareholders, this instrument eventually became the means whereby he was, to a large extent, deprived of having any control whatsoever over the affairs of the corporation. A shareholder who could not attend a shareholder's meeting to cast his vote, had now the alternative of transferring his vote to a proxy appointed by the management or forgoing his voting privileges altogether. Whichever of

² See Appendix 1X

³ Berle and Means - The Modern Corporation and Private Property, p. 60

these alternatives the shareholder chose, the group in control benefited either by having his vote through proxy, or by controlling a greater percentage of the votes cast through a reduction in the total number voting.

Up to this point we have discussed control in connection with many phases of the corporate structure and its management. As first constituted, control generally referred to the majority of stockholders or rather to that group which controlled the company through majority ownership of shares carrying voting privileges. With the development of the corporate structure and the corresponding dispersion of ownership that went with this development, various types of control developed other than the traditionally recognized majority control. First the dispersion of ownership made possible what is known as minority control. Such control is said to be exercised by an individual or group in control of minority block of stock sufficiently large to act as a nucleus for attracting proxies sufficient to gain a working majority of the voting rights. In that minority control depends upon a proxy machine and this machinery is under control of management, to effectively maintain such control a minority control must maintain harmonious relationship with management at all times. In view of this, minority control shades down into another type of control known as management control. If too small a minority ownership is held, and stock

dispersion is very wide it is possible for management through utilizing the proxy machinery to its own end to take the control by appointing directors favourable to the management and subservient to management, thereby wresting control from any particular group of shareholders. When this is done the shareholder might well be said to depend entirely upon the integrity of the men comprising the management to administer the company in their interests.

Where minority control is loosely held due to too small a stockholding, and is dependent upon a favourable management to hold control, a joint control is sometimes said to be in effect. This type of control is intermediate between minority control and outright management control. The two groups are inter-dependent with neither having clear cut control over the company.

There is still another type of control, namely a control through a legal device. There are three principal legal instruments, whereby control may be maintained namely:- a holding company, a trust form of organization, and the concentration of voting rights to one class of stock.

Voting common stock and non-voting preferred stock is one of the oldest devices for concentrating control, so much so that it is now accepted as common practice. Control may be maintained through very small common share issues. Minority control is often maintained through a very large and wide issue of common stock, using no-par stock for the purpose.

More commonly however, such control is assured through the classification of the common stock. A large issue of Class A common having non-voting rights is generally floated along with Class B common voting stock of limited circulation. A variation of this method of maintaining control is sometimes employed whereby one class of common stock may have plural voting rights.

Trust form of organization has been employed to create voting trusts and also patent trusts. The business trust is a very old legal form, stemming from the same principles of law by which a father provides in a will for the management of his estate until his son becomes of age. The usual practice is to organize the business as a business trust with self perpetuating board of trustees. Unless breach of trust can be proven control may be maintained for the statutory life of the trust. A voting trust is formed in which the stock in a specific company is transferred to a trustee or board of trustees by a group of shareholders, who are issued in return trust certificates usually of the same par value as the stock. If the trustee by means of this device gets control of the majority of the voting common stock, he then controls the company. This device severs control entirely from the shareholder and places it in the hands of the trustee. It has been abused by unscrupulous organizers in the past and as a result has been subject to scrutiny by the state and some "trust-busting" has resulted. Some States

have limited the period during which stock can be trusted to five or ten years.

The holding company method, employing the corporate structure of organization, has been long a favourite method whereby organizers pyramided holdings in various companies in such a way that a relatively small amount of capital was required to control assets amounting to ten or twenty or even fifty times the amount invested. For example, an enterprising organizer buys 50% of the voting stock of Company A. Company B is formed to control this stock which, let us say, is worth \$1,000,000.00. 10,000 shares of \$100.00 par value stock is now issued in Company B, 50% of the issue being controlled by Company C set up for this purpose. Company C, capitalized at \$500,000.00, issues 5,000 shares of \$100.00 par value stock of which 50% are controlled by Company D set up for this purpose. Company D now issues stock to the amount of its holdings, 50% of which is retained by the organizer of these companies. In this way, the organizer for \$62,500.00 controls a million dollars worth of voting common stock in Company A, which might have assets worth \$6,250,000.00 depending upon its capital structure. This is but a simple illustration. Had non-voting common, or preferred stock along with bond issues being employed in the capitalization of these various holding-companies, fewer intermediate holding-companies would have been required and a much smaller investment would have been necessary to

control the original corporation, Company A.

The holding company method was largely used to gain control of various railroad interests in the United States by the Van Sweringen interests. It is also popular in the public utility field.

In a study of the 200 largest banking corporations in the United States at the beginning of 1930 by Berle and Means, these were classified according to type of control with the following results:-

	<u>BY NUMBER</u>	<u>BY WEALTH⁴</u>
Management Control	44%	58%
Legal Device	21%	22%
Minority Control	23%	14%
Majority ownership	5%	2%
Private ownership	6%	4%
In hands of receiver	1%	negligible
	<u>100%</u>	<u>100%</u>

The above figures graphically illustrate the extent to which ownership and control has been separated. In the above study only 11% of the 200 largest non-banking corporations and only 6% of the total assets were controlled by private and majority ownership. Over half of the combined assets were controlled by 44% of the companies in which no group of stockholders held control. That is, over 58% of the total assets were owned by quasi-public corporations under the control of self-perpetuating management. While the shareholders of these management-controlled companies held claims upon both the

⁴ Ibid p. 94

earnings and the assets of the corporation it is difficult to visualize them as owners of the corporation in that they had little or no say in the operation of the company. This is also true in the case of those corporations controlled by legal device where control had been surrendered to a very small group.

In the above paragraphs a few of the major methods of concentrating control in the hands of a few have been mentioned. However, there are many other devices, usually modifications of the above three, which would take pages to describe. There is the collateral-trust method employing collateral trust bonds, the lease method whereby actual assets of one corporation may be leased to another, overlapping terms of directors, directors elected by classified voting, convertible or callable securities, partial control by veto, etc. Control by status quo is sometimes maintained where two thirds of the majority of the entire number of voting shares are necessary to elect directors. In a case of this sort, a group once in control and owning or controlling slightly over one-third of the shares may maintain control indefinitely.

Control may also be maintained over one company by another by means of patent-license agreements whereby a graduated royalty is exacted on the production of the satellite firm. An expansion of this is the patent-pool where a controlling group holds the rights to the patents necessary for the participating companies' existence.

Stock is issued sometimes having contingent control as in the case of preferred stock which normally has no voting power, but occasionally is given this right-sometimes the exclusive right-if dividends are defaulted over a specified period. Bondholders also have the same privilege. This provision for the protection of preferred stockholders and bondholders is sometimes taken advantage of to seize control.

It has become obvious that the property in the form of shares of stock and bonds differs greatly from the conception of private property as entertained by the classical economist of yesteryear. As stated before, through the employment of the corporate structure responsibility was divorced from property. With the employment of the joint stock plan of organization, control was then separated from property. The divorce of control from ownership, of course, came only after the development of the corporation to the point where ownership became widely dispersed, the proxy machinery was introduced, and control evolved to the point where private control or ownership and majority control were replaced by management control, control by legal instrument and minority control.

The property represented by shares of stock or bonds, stock warrants or other securities in a corporation gives the owner the right to a certain set of expectations in the form of dividends or a share in the assets in the Company, but gives him no control over it. This has been referred to as

passive property by Berle and Means who refer to active property also. This latter type is construed to include the plant, goodwill, organization and other intangibles controlled by the group in control of the Company who generally have a very small interest in the Company. One of the advantages of this type of passive property is its great liquidity in that it trades rapidly on the open market being negotiable almost anywhere. This, however, also has its disadvantages in that the stockholder is exposed to the manipulation of speculators in the market and unscrupulous operators associated with the control of some corporations.

Various legal requirements are laid down by the state to protect prospective shareholders and also the better exchanges such as the New York Stock Exchange do their utmost to assure that honest disclosure is made by the corporation. The investing public is also protected to some degree by legal requirements regarding bankers' disclosure. However, it would seem that there is still a need for adequate regulation both over the sale of securities to the investor and of manipulative practices on the part of management of the parasitic type.

The Companies Act, as amended in 1934, requires a "Prospectus" to be issued by a company to each applicant for shares at least 24 hours before acceptance of his application in the case of direct sale of securities by the company to the public. A penalty of \$1,000.00 can be levied upon the company

and each of its officers for failure to comply with these provisions and the investor can withdraw his application provided this is done within 30 days of its acceptance. The shareholder also has the right to bring suit against the directors and all persons authorizing the prospectus for any loss sustained due to any untrue statement contained therein. The provisions of this act, however, are of little, if any, protection to the investor. A company need never prepare such a prospectus. The practice is to sell its securities outright to an investment banker, who then offers the new issue to the public. As the investment dealer is not bound by the terms of the act - the investor must depend upon what little protection he is afforded by provincial security commissions (where they exist) which only seek to prevent the most flagrant types of fraud.

It would appear that much of the abuse associated with the corporate form of business organizations, stems from the activities of certain promoters who make large profits out of the reorganization, merger, or combination of various corporate enterprises. Such promoters also make large profits from the organization of new companies. When the legal restrictions requiring cash to be paid for a share in the enterprise were removed, the door was thrown wide open to enterprising promoters to organize companies. In return for their services they were now able to set aside for themselves a block

of shares. They were still restrained however from over-valuing these services too greatly as long as par value stock was employed in raising capital for the enterprise. Had they over-valuated their services to the point where the value might have been questioned they may have been held liable in the case of debt on the part of the corporation for the difference between the proper valuation of their services and the par value of the stock. With the advent of non-par value stock this last restriction disappeared. As non-par value stock could be floated at a price set at the discretion of the directors, a goodly profit could be earned through setting aside a large block of non-par value stock at a low price in return for the services of organizing the Company.

This also applied where stock was traded in return for property. Promoters could acquire one or two factories and use these as a basis to form either a new company through merger, or for combination with other corporations, accepting a block of securities in return for their highly over-valued property. Many such organizations had their capitalization highly inflated due to the capitalization of such intangibles as good-will, organization, and highly over-valued property. Where one company takes over another as in the case of a merger, whether it be to eliminate competition, expand into a new field of endeavour, or increase its capacity, if the company concerned is a quasi-public corporation, the share-

'holder stands a very good chance of having his equity in the company weakened. His only protection against mismanagement or dishonesty on the part of the management or directors, is his right to appeal to the court and in an effort to prove breach of trust. It is hardly possible for a single shareholder to incur such expense of court action, and unless the breach of trust is so glaring as to bring the independent shareholders together to form a committee, it is unlikely that the control will be opposed. If the management and Board of Directors can prove that they acted in good faith, they stand a pretty fair chance of avoiding prosecution.

Whilst industrial corporations, have been involved in mergers, combinations and reorganizations as mentioned above, this is usually the work of professional promoters where larger companies are involved. Such combination and merger can be quite legitimate and many of our larger corporations grew in this manner.

There are various types of combination such as the horizontal combination, which brings under one management business at the same stage in the industrial process, usually giving monopoly control. There is vertical combination in bringing together the different stages of production and marketing of the same products. A good example is the automotive industry where some of the largest companies control sources of raw material, and plants producing component parts.

There is a third type of combination known as circular combination bringing together groups of products that can be effectually sold through the same channels under a common marketing policy. General Foods Corporation is a good example of this type of combination.

Combination may take place through the purchase of assets and mergers, through exclusive contracts of purchase and sale, through interlocking directorates or through pools and gentlemen's agreements. It offers the advantage of mass production, increased purchasing power, improved marketing, stronger financing position, and sometimes certain economies in administration, although this latter advantage can disappear if the combination becomes too cumbersome.

While combination and association might be quite legal and in the best interests of the shareholders, it has been greatly abused due to the action of professional promoters who instigate such reorganizations for their personal benefit. The shareholders are liable to find the capitalization of the resulting company highly inflated, and fixed charges greatly increased through the substituting of senior issues for junior issues.

In Canada, the Companies Act has encouraged mergers by allowing large profits to accrue to promoters. Regarding the weakened position of some of these companies after consolidation the following comment is quoted from the Price Spreads Report, pp. 31-32:-

"The persistence of general depression since 1929 must, of course, be taken into account. Moreover the fact of failure does not necessarily mean that productive efficiency was lowered by the merger. An alternative explanation is that the inflation of capital accounts incidental to the merger loaded an unduly heavy burden of fixed charges onto the new company."

One writer⁵ made the statement that most Canadian mergers appeared to be the result of promotional efforts on the part of men with financial rather than industrial experience, and that promoter's profits appeared to be the main incentive to combination rather than economies in production or the hope of achieving price control. The fact that the two periods of greatest merger activity occurred during periods of exceptional prosperity when new stock issues were quickly subscribed was offered in support of this statement.

Mergers promoted on such uneconomic grounds cannot help but be a threat to the interests of the shareholder. As the promoter's profit usually arises from the difference between the capitalization of of the new company and the price paid for the merged properties, the higher the capitalization of the new company -- the greater his profit. Extreme stock-watering weakens the position of old shareholders as well as overloading the new concern with obligations it might not be able to bear during periods of reduced earnings.

⁵ Lloyd G. Reynolds - The Control of Competition in Canada -
p. 173

Three examples of "inflated-capitalization" are given below. These were selected from a group listed in "Control of Competition in Canada," illustrating how mergers of Canadian firms have been promoted by financial groups for the purpose of promotional profit.

"The Dominion Textile Company was formed in 1905 by a syndicate of 16 men, including Sir Herbert Holt and Sir Charles Gordon, to take over four existing cotton companies. Members of the syndicate contributed \$1,000,000 in cash. In return they received \$500,000 of preferred stock and all of the common stock (par value \$5,000,000). The remainder of the transaction was straightforward enough, consisting in a transfer of preferred stock and bonds of Dominion Textiles for stock of the four constituent companies. In 1922 a new company was incorporated. For each share of common in the old company, three no-par shares in the new company were issued, the total issue of new common having a book value of \$15,000,000. A member of the original syndicate who continued to hold his common stock would thus have multiplied his investment by several thousand percent in seventeen years." ⁶

"Dominion Cannery Ltd., (predecessor of the present Canadian Cannery) was incorporated in 1910 to combine some 50 canning plants, nearly all in the Province of Ontario. Several of these were purchased at much more than their actual value.[#] In addition, \$320,000 of common stock was issued to Garnet P. Grant and others for their services in the promotion of the company. When the amalgamation was completed some \$6,000,000 of stock had been issued. An expert appraisal, which one may suppose to have been favorable to the company, found that plant and equipment was worth only \$3,726,000. The remaining \$2,275,000 was then set up on the books as 'goodwill'! Professor W. T. Jackman observed of this merger: 'With the vast amounts of stock which were given for the plants -- which were taken over at values in some cases two, three, and in others almost four times their commercial value as going concerns--and the immense block of stock issues in payment of promotion expenses, there is no reason to doubt that this company's stock is watered to dilution.'

⁶ Ibid - p. 178

When Dominion Cannery became Canadian Cannery in 1923, fixed assets were written up by an additional \$2,950,000." ⁷

(# The Lakeside Canning Company, for example, with issued stock of a par value of \$30,500, was paid \$42,156 in cash and \$26,250 in preferred and common stock. The Directors of the Company, having knowledge of the proposed merger, were able to buy up almost all the stock of the company at par. They then resold to the promoters for more than double the amount they had paid.)

"Canada Bread Company Limited was formed in 1911. The five companies included had a total capitalization at that time of \$575,000. They were all prosperous 'family businesses' and in order to induce them to enter the consolidation it was necessary to pay \$1,510,000 for the properties. The promoters received from the new company in cash and stock \$1,975,250. After paying all expenses of the promotion, there must have been a clear profit of at least a quarter of a million, and the capitalization of the five plants had been increased almost fourfold."⁸

The Price Spreads Report p. 31 showed that \$192,236,700. worth of securities were offered the public between 1921 and 1933 as a result of consolidations. Of this total, only \$9,510,000. was common stock. The bulk consisted of senior issues made up as follows:- bonds, \$93,989,000.00 and preferred and "A" stock, \$87,738,000.00. This involved the substitution of senior for junior issues with a resulting increase in fixed charges against the new concerns. The consequences of increasing fixed charges consequent upon such consolidations instigated by professional promoters drawn from financial circles can best be shown by example.

⁷ Ibid - p. 178

⁸ Ibid - p. 179

"A particularly flagrant case is that of the reorganization of the Burns meat packing company, a prosperous "family business," in 1928. The net value of fixed assets was written up by \$3,160.144. At the same time the capital structure was altered as follows:-

	Bonds	Preferred stock	Common Stock	Total bond interest and preferred dividends
Before reorganization	\$3,078,500	\$3,906,200	\$5,000,000	\$473,536
After reorganization	7,000,000	6,900,000	99,997	799,000

The Dominion Securities Corporation, promoter of the reorganization, received approximately \$1,000,000 for marketing the securities of the new company. The earnings of the business fell off seriously after 1929. Preferred dividends stopped in 1931 and bond interest in 1932. In 1934 a further reorganization was effected in which bond interest was reduced, preferred stockholders were reduced to common stockholders, and common stockholders were paid one new share for 20 old shares. (Price Spreads Report, Annex 1V.)⁹

The Modern Corporation, created a legal entity and nurtured by the funds freely invested in the form of securities purchased or involuntarily supported by means of funds from banks, insurance companies and other saving institutions, embodies the vested interests of countless of thousands of individuals placed in the hands of control to be administered in trust for them. It is obvious to a thoughtful observer that as the corporation grows in size, and the ownership of its securities becomes widely dispersed, the investor becomes more and more dependent upon the integrity of those in control. Slowly but surely the legal checks and restraints

⁹ Ibid - p. 181

have been removed from the power exercised by control, leaving to the shareholder, as his only protection, recourse to the court of the land. As court action is expensive, the shareholder must have a very airtight case and the assistance of other shareholders before he is likely to attempt to prove breach of trust on the part of management or the group in control.

Whereas the evolution from the usually airtight charter as granted by the State to the present day loose multi-claused Certificate of Incorporation as drawn by the promoting group (a nice example of which are those issued under the statutes of the State of Delaware) has been slow and gradual; increased latitude was given from time to time in an effort to make the corporate contract less cumbersome. Innovations and changes sometimes quite innocently introduced however were abused by unscrupulous operators and promoters to fleece the investor. Unfortunately, most of the devices described are as available to the inefficient and parasitic type of management as they are to the capable and honest one. Moreover, if a schemer once obtains temporary control of a company through some misfortune or lack of alertness of the management, he frequently retains control indefinitely. The loosening of red tape is perhaps a good thing insofar as the honest management and operators are concerned, however due to the fact that they are so open for abuse it would appear

that something must be done to protect the stockholder.

Close regulation of corporations over such things is the issue of no-par-stock, enforcement of the pre-emptive rate to subscribe to new stock, close supervision over the issue of blank stock, careful supervision of management as to accounting methods and information given out, and the issue of stock options usually succeed in driving corporations to incorporate in other States offering looser laws. Whilst it is desirable that every protection be given the stockholder against actions of the control in weakening his equity, through flotation of new share issues, the leasing of assets of the company, amending the charter to change his participation in the earnings or assets, or through outright mismanagement of the firm, this is a very difficult thing to do.

A study of the various state incorporation laws of the United States, indicates that those States allowing the greatest latitude in the drawing up of the Certificate of Incorporation attract the largest bulk of business houses to become incorporated within the State boundaries. As this benefits the State through taxation of these large companies and provides employment for the citizens of the State, there is naturally a tendency on the part of the State representatives to cater to big business in an effort to attract it to locate within their State. This is also true in Canada and it is felt that any attempt on the part of the

Dominion without similar action on the part of all Provinces to tighten the requirements of incorporation, and the establishment of legal controls over malpractices, would only end by having one Province or other, who is willing to set up loose laws of incorporation, attracting firms to become incorporated within the bounds of that Province.¹⁰ This fact must be borne in mind when proposing legal safeguards to protect the investor.

Unless high tariff walls are maintained, and these are undesirable, any attempt on the part of Canada and the Provinces to tighten up on regulations covering the corporation, would only succeed in driving big business out of Canada into the United States if they were able to be free there of hampering restrictions.¹¹ In a young country such as ours with an unbalanced economy based upon natural products, we are most anxious to attract new industries to the country rather than to frighten them away. On the other hand, we are also anxious to attract investment capital to the country in an effort to develop it. This poses a pretty problem indeed. We want industry but industry wants a free hand, we also want investment capital but investors want protection.

¹⁰"The stiffening of the Companies Act in 1934-35 led to increased incorporation in the provinces" - Ibid p. 186

¹¹ The reverse of this occurred in the case of Aluminium Limited which was established in Canada by the Aluminium Company of the U.S. to act on its behalf in cartel agreements. The American Company was unable to enter such agreements without risking prosecution under the Sherman

It is obvious that the modern corporation has been instrumental in building the industrial wealth of the United States, one of the richest industrial countries in the world. Study has disclosed that each year new phases of the economy of that nation come under corporate sway. This appears to be a progressive movement with the large corporations attracting far more wealth under their control and at the same time having the stock ownership in these large corporations dispersed over an ever widening field of the population. The ability of the corporate enterprise to conscript wealth, makes mass production possible, the organizing of everything from the ground up, so to speak, from raw material supply through various components to the finished product. This war has ably illustrated the productive capacity of the industrial corporations.

When one considers the benefits offered by this type of organization in making mass production possible, the wide apportionment of risk, and the great achievement possible through the integrating of the various cells of industry contributing toward one tremendous industrial machine, it is difficult to label this type of structure as undesirable. It is also highly improbable that this progressive force slowly spreading over our entire economy could be reversed. One group have offered public ownership as an alternative to management and minority control of these various large corporations. While such a step might be practical in the public

utility fields and a few others dealing with natural products, it is thought if applied to all industries a let-down in incentive would result. The larger corporations now are to some extent publicly owned when one considers the wide dispersion of stock, however, they are not publicly controlled. Some answer must be sought that will retain initiative.

Roughly the problem of the investor of capital boils down to requiring protection from (1) mismanagement of his property over which he has surrendered control and (2) exploitation by unprincipled promoters, and manipulators. One involves guarding the shareholder's vested interest in the enterprise and the second, protection against fraud and market manipulation. With the appearance of "passive property" in the form of securities, was introduced the anomaly of the property-owner requiring protection against having the earning-power and value of his property threatened through mismanagement and also against having the value of his property reduced (without impairment of its earning-power) through the manipulative action of outside forces depressing the value of his stock on the public market.

It was pointed out that federal regulations embodied in the Companies Act governing the sale of securities to the public are circumvented through the sale of the issue to a securities banker who is not governed by the Act. Regulation of these dealers is badly needed. The Dominion, in concert

with the provinces, should draft a securities code covering such items as:- bankers' disclosure, prospectus (extending the requirements of the Companies Act to dealers), margin, stock warrants and options and promoters' profits. A Securities Board should be appointed to work with those provincial Securities Commissions in existence to enforce the code and police securities dealers.

Such a code should require that investment dealers make public the transaction of their house in buying and selling securities. Their holdings of stocks and bonds should be a matter of public record in order that any manipulation be forestalled whereby the investment house might benefit at the expense of its customers. Stock options and warrants should also be published. Certainly, funds held on account should never be allowed to be used by the brokerage for the purchase of securities unless authorized by the depositor. Misleading reports given out by investment dealers should be made basis for legal action. The Securities Commission, if properly staffed and given sufficient authority, would be in a stronger position than would individual investors to bring such action.

The Companies Branch of the State Department, employing only a staff of 30 persons composed mostly of clerks and stenographers certainly are in no position to maintain any preventative control. It would appear that the federal

government has closed its eyes to such practices as stock-watering and absurd promoters' profits. Regulation on a federal plane comprises the drafting of impressive acts full of loopholes and lacking enforcement machinery. The shareholder must rely on recourse to the courts - a procedure too expensive for most.

As many mergers and consolidations are the work of professional promoters drawn from financial circles - and the incentive is promoters' profit rather than because of some economy to be gained by integration - every effort should be exerted by federal and provincial governments to eliminate this incentive. Mergers promoted by industrialists to gain efficiency in operation through coordinating various units as in vertical combination can be of benefit. So can circular combination brought about by marketing experts to reduce the cost of distributing several goods that may be marketed through a single agency. Horizontal combination, whilst giving monopoly control, is not against the shareholder's interest as a rule. However, mergers promoted for the purpose of enriching some professional promoter are and should be regulated out of existence in the interests of both the investor and the country. The incentive can be removed by stamping out stock-watering through careful supervision of all stock-transactions where stock is issued in return for any consideration other than cash; careful scrutiny of all

reorganizations and the writing-up of fixed assets pursuant to consolidations, and the careful screening of all applications for letters - patent before authorizing charter amendments permitting increases in capitalization.

One protection that can be given the shareholder is by the various associations of accountants. Standardization of accounting procedure and strict adherence to an ethical code set by these associations would act as a restriction on certain abuses such as paying out dividends when no profit has been earned, stock-watering etc. In conjunction with this control, a concerted effort on the part of all the Provinces and the Dominion, regarding legal requirements as to accounting methods would be of great assistance.

Canada should be made safe for the investor if it is expected to attract investment capital into the country. One large field of investment in Canada is the mining. This is one field in which Canada need have no fear regarding shoing those engaged in the industry out of the country. As almost all the securities floated by mining companies are of the no-personal liability non-par value type, steps should be taken to eliminate the practice of paying dividends out of paid-in surplus. Dividends should be permitted only when a profit is earned by the company. The tightening of restrictions regarding corporation and bankers' disclosure, particularly with reference to mining stock would assist the investor or speculator in knowing on approximately what he is gambling his money. This field of investment has been badly abused and

amounts to little better than legalized gambling at times.

The investor should be assured that a certain percentage of each dollar invested be spent in the actual development of the enterprise. For example, in the mining field, statutory regulations might insist that 80% for every dollar invested be spent upon property development. This would ensure two things, first that the investor's money was not being paid out as dividends from a created "paid-in-surplus" to attract further investors, or wasted away on excessive promotional cost, lining the pockets of promoters, and that an honest attempt was being made to develop the property on which he was risking his investment in the hopes of discovering mineral wealth.

This is one field of investment dominated by the corporate type structure that might well bear investigating and stand regulation in the interest of shareholder to at least give him the same odds on his investment as he would get from gambling his money in a slot machine. It is an industry in which there is no competition (that is, in gold mining) and which rests upon the discovery and development of our country's natural resources. It is one field of enterprise the writer agrees might be socialized.

As the large corporations are for the most part quasi-public institutions controlled by management or a minority using the proxy machinery or controlled through some legal

device such as the holding-company or voting trust, the shareholder has little if any say in the management of the company. As matters stand, the shareholder has the option of signing his vote over to the proxy group, or not voting. This inequity could be corrected to some extent through the introduction of cumulative voting. Under cumulative voting, each shareholder is entitled to as many votes for each share of stock he holds as there are directors. By cumulating all his votes upon one director a minority group might be able to elect one director to the Board. In this way it would be able to obtain a voice in management and have someone guarding its interests.

Two other methods possible to allow minority groups representation are the (1) classification of stock to give each class the right elect a certain specified number of directors and (2) reduction in the votes per share as holdings increase. The second method would most likely be abused, however, by splitting large holdings amongst various members of the controlling family or group.

By and large, however, the average shareholder must depend upon the integrity of the management or group in control. Some method to assist the investor to measure management efficiency would strengthen his position immeasurably. It not only would aid him placing his capital where it would stand the best chance of being properly administered but it would have a tendency to bring shareholders together as a group if

it was made public knowledge that the management was inefficient.

Stockholders' reports could be required to give more detailed statistics as to the affairs of the company. These should be in terms easily interpreted by the average shareholder.

Directors of the Company should be required to attend a minimum of 50% of all Board meetings. The Board of Directors should be required to meet monthly and a minimum of 80% should be required to attend before such meeting is recognized as official. This would assure the shareholders that the men shown as directors of their company were taking an active interest in the operation, not just appointed to add prestige to the firm through the association of their name with the enterprise, whilst two or three directors favourable to the group in control actually transacted all the business at the board meetings.

Fortunately, investors, as a class, are able to exercise some control over management despite the fact that as individual shareholders they may have relinquished control over their equity in the corporation. Good management tends to attract capital to itself, whereas, poor management does not in the long run. The corporation, it has been shown, is a dynamic thing, building itself into greater aggregates and requiring frequent transfusions of new capital. With the

development of the stock-share and the appearance of stock-exchanges, capital became highly fluid and today hires out where it can attract the greatest return on its investments. This is the investors' trump card, and is the reason why most expanding corporations strive to make dividend payments.

CHAPTER 111

THE CORPORATION IN RELATION TO THE CONSUMER

Previous chapters have shown that there is a tendency for corporations to expand into ever-increasing aggregates of wealth through their ability to conscript capital, and by means of combinations and mergers. While this offers certain advantages in that it makes possible the use of mass production methods, thus gearing together constituent enterprises contributing towards the manufacture of the end product, it also has certain disadvantages if the benefit attained through the coordination of component industries is not passed along to the consumer. This banding together, through merger, combination, association, or some other such means such as interlocking directorships, of component enterprises making up an industry, makes possible up-to-date research and specialization in the field of industry so covered. Again, however, unless the benefits attained through such research and specialization are passed along to the consumer, they are of little economic use in a democratic society.

The building of ever-larger units through amalgamation, merger, and combination, has one very definite effect. It tends to create one or two large industries

which dominate the field in which they are engaged. This tends towards monopoly or, at best, duopoly. Only too often, merger and combination take place in an effort to eliminate competition rather than improve the efficiency of the corporation concerned.

Monopoly or duopoly through the domination of a field of enterprise by one or two large corporations, is more easily possible in Canada than it is in the United States. This being a country of but 11 million people, our domestic market is very small indeed for many manufactured products. It takes only one or two large corporations of the mass production size to supply the needs of Canada in many manufactured lines. Were it not for Empire Preference in tariff rates, stimulating the export of Canadian manufacturing products, it is doubtful whether Canada could support the manufacture of automotive equipment by three large companies dominating this field. We have but one privately owned corporation in the railroad field in Canada, one company in the aluminum business, three large corporations in the electrical trade, one large corporation in the cement business, three large oil companies in the petroleum business, three large packing and meat processing companies, and so on. The truth of the matter is that we have not sufficient population to support more than three or four large corporations in the various industrial fields. A study of production statistics of Canadian industry during the war years will satisfy even

the most casual observer of the fact that Canadian industry working at full capacity could probably supply many of Canada's needs in approximately one or two months of the year.

Canada's geographical lay-out also acts as an inducement to the setting up of monopoly or duopoly control of the market. Most of our industry is centred in what is usually called Central Canada. This area comprising the Provinces of Quebec and Ontario, also houses the bulk of the population. It is the most accessible and most highly developed industrial section of Canada and also provides Canada's best market. One or two corporations in the various industrial fields control this market. The Maritimes constitute another area sufficiently far removed from the main industrial area of Canada to allow certain industries located there to dominate that market. Freight rates from Central Canada to this market are often sufficient to allow local industries sufficient differential to maintain a market as their exclusive property. This is even truer of the Prairie Province market. For example: Algoma Steel located at Sault Ste. Marie is much closer to this market than Steel of Canada at Hamilton or Dominion Steel, Nova Scotia, and consequently is able to dominate the Prairie market. Whilst the Prairies are not industrialized to any extent, industries located there, whilst the cost of production may be higher. due to the lower volume, are able to compete and dominate the market due to the pro-

tection given by freight rates over a long rail haul. The British Columbia market might be said to constitute a fourth market area in Canada. Here again the advantage of low freight rates due to ocean transport, allows certain local industries strategic advantage over industries located in Central Canada. The few such industries are able to corral this market to themselves.

It is obvious then, from the foregoing, that Canada, due to its small population and geographical layout, lends itself well to control of industry by monopoly or duopoly. The question then arises, is such control desirable? Federal legislation over the past twenty years would seem to indicate that such control is not wanted. The Combines Act would seem to evidence this fact. Whilst this act has been on the statute books for a goodly number of years, and has been amended and changed several times, it would appear to lack rigid enforcement. It has had its teeth extracted, has been fitted with false teeth. so often that it has failed to bite its way to the roots of the problem, and stands only as a warning threat to a glaring restraint of trade on the part of any ambitious group seeking to dominate any particular market and openly exploit the consumer. However, it will be seen that the consumer can be and is exploited not only subtly but openly.

It should perhaps be pointed out before proceeding, that

a corporation need not monopolize a field of industry in order to dominate it. A market can be quite effectively dominated if the corporation is sufficiently large to be undisputed leader in its field. For example, a very innocuous form of price fixing results where one large wealthy corporation shares the market with several smaller impotent manufacturers. It is often considered good business, on the part of the large corporation, to allow the smaller companies to exist on the scraps whilst it feeds on the fat of the trade. As long as there are other companies in the field, no one can accuse the large corporation of monopolizing the trade. Whilst the large corporation may not monopolize this trade, it effectively dominates it and gives price leadership, which is quite legal, whereas price fixing through agreement could be upset in the courts under the terms of the Combines Act. In effect, price leadership works just as effectively against the consuming public, as does price agreement.

This was ably demonstrated in evidence given before the Standing Committee on Banking and Commerce of the House of Commons in 1932 in the case of the Imperial Oil Company Limited.¹ Whilst no agreement on price, formal or tacit, was uncovered in the evidence presented to the Standing Committee, it was admitted by Mr. Victor Ross, Vice-President

¹ Minutes of Proceedings and Evidence, p.23

of Imperial, that the Imperial Oil set the price and the other companies followed. This practice is by no means peculiar to the oil trade and can exist where any field of trade is dominated by one large company. From the writer's personal experience this is also true of the beverage and many other industries.

Such price leadership is possible due to the fact that the smaller companies recognize the superior strength of the dominating corporation. They realize the folly of starting any price war with a company that could afford to operate at a loss long after they had bankrupted themselves out of business. Not only does the large corporation's larger reserves make possible this surviving any price war, but their greater productive capacity, (labour costs and all other factors being equal) enables them to produce the product at a lower price and sell for cost at a price that would ruin the smaller producer. Knowing this, the small companies are only too willing to avoid trouble by allowing the dominant concern to set the price and carry on competition (such as it may be) in some plane other than price.

The foregoing is not meant to construe that there is not price fixing in Canada. Despite the Combines Act and its regulations against restraint of trade, price fixing does exist in Canada. Our own Government has sponsored as well as tolerated it. For example, the Government has sponsored price

fixing in certain agricultural fields such as the dairying industry. Various marketing agencies for agricultural products are encouraged, these being set up with the ultimate aim of fixing the minimum price of various commodities such as tobacco, fruit, fish, and other agrarian products. The **baking** industry in Canada is a field in which price agreements have been attempted, have failed and have been tried again. The paper box industry maintains a very close agreement on prices by means of a single selling company, Container Materials Limited. Here we find the corporate structure used to maintain price among various corporations. A common dodge, employing a corporate structure to maintain price, is to incorporate a central selling agency which markets the products of the cooperating companies. Unless the restraint of trade is too glaring and the consumer taken for too rough a ride, such a selling agency might well escape the scrutiny of the authorities.

Very effective restraint of trade can be maintained through trade associations. The retail merchants association were able in this way to bring pressure to bear upon the Government to pass legislation giving them relief from the competition provided by chain stores.² The Imperial Tobacco Company through agreement with thirteen local associations of tobacco

² A new section (498A) was inserted into the Criminal Code in 1935 - see Appendix - X

wholesalers is able to restrict the sale of its products to those wholesalers and retailers who agree to abide by the selling policies laid down by the company which include the non-handling of competitive tobacco lines that sell below the price set by the Imperial Tobacco Company.³ Despite this, they have managed to escape prosecution or charges laid against them under the Combines Act.

It is obvious then that the corporation tends towards the building of large organizations that are capable of dominating the field of enterprise in which they are engaged. Such domination gives them the power to control the market and set the price of the articles manufactured either by price agreements between one or two such large corporations, or through price leadership by one dominate corporation. Where domination has proceeded to the point of monopoly, the single company dominating the field sets the price. Before proceeding further let us examine the effect of monopoly, price fixing, and price leadership upon the consumer.

In the case of a monopoly, the company sets the price and the consumer pays it if he wants the product. As there is no competition, it is crudely a case of take it or leave it. The only threat to this supreme rule of the market is that offered from outside of the market. For instance, the Canadian

³ Dept. of Labour, Report of Investigation into an Alleged Combine in the Distribution of Tobacco Products, 1938, pp. 12-13 & p. 30

monopoly has little fear of being challenged from within Canada because it is in a position to nip such competition before it gets underway. Most likely if any group set out to compete with, say the Canada Cement Company, they would find before long that that company, if in a generous mood, would offer to buy them out. If not so kindly disposed, they could drop the price of cement to a point where Canada Cement Company could make a profit but the prices would be ruinous to the struggling new company. However, should foreign competition appear, say from the United States or Britain represented by some company equally powerful, the dominant position of this company would be threatened.

This is the Achilles' Heel of monopoly -- foreign competition. The monopolistic concern can protect itself in one of two ways, or both, from outside competition. It can bring pressure to bear upon the Government of the day to erect protective tariff walls to exclude such competition. The argument used is that the company gives Canadians employment and should be protected against in-roads on its market by foreign competition. Where this is done, Canadians are given employment at the expense of the consumer. The other defence open to the monopolistic concern is the negotiation of a cartel agreement with prospective foreign competitors whereby the Canadian concern agrees to stay out of certain foreign markets in return for assurance that the Canadian

market will be left free for the concern's exploitation.
 Let us look at these cartel agreements and see how they
 effect the consumer.

A cartel, as described by Sir Alfred Mond, organizer
 of Imperial Chemical Industries, is as follows:-

"I use the word cartel to include fusion, pooling
 arrangements, quota arrangement and price convention,
 because a cartel is protean in its form..... In an
 ultratechnical way, a cartel might be defined as a com-
 bination of producers for the purpose of regulating, as a
 rule, production, and frequently, prices. That does not
 involve giving up the identity of the different firms. It
 is not usually made for a period lasting more than a limited
 time. It does not necessarily carry with it, though in some
 cases it does, joint selling agencies. Sometimes, too, it
 carries with it quotas of production. But all this is,
 perhaps, too narrow a definition. The Germans have a
 term "Interessen - gemeinschaft".....a union or similarity
 of interest. The great German Dye Trust started with what
 they call 'Interessen-gemeinschaft.'

When first formed it was a fairly loose combination to
 regulate production and prices. It has been substituted
 since by an absolute and complete fusion and exchange of
 shares--what we should call a complete amalgamation--which
 is the final and most complete form of any kind of cartel
 which can be imagined." ⁴

The Chairman of Associated Electrical Industries Limited,
 Sir Felix J. C. Pole, defined the cartel as follows:-

"A cartel or association usually means an association by
 agreement of companies or sections of companies having
 common interests. It is designed to prevent extreme or
 unfair competition and allocate markets, and it may also
 extend to interchange of knowledge resulting from scientific
 and technical research, exchange of patent rights, standardi-
 zation of products, etc. Competition is not eliminated, but

⁴"Economic and Political Aspects of International Cartels"
 Senate Committee Print - Monograph No. 1 - 1944 - p. 1

it is regulated. Competition in quality, efficiency, and service, takes the place of the crude method of price cutting." 4

In the last sentence of the above definition by Sir Felix J.C. Podge, the purpose of the cartel arrangement is shown to be that of eliminating competition in the matter of prices. As such, they are against the interests of the consumer. Such agreements can be made only between companies which dominate the domestic market within the country they are located. However, international cartel agreements may be between companies dominating the markets of several countries on a regional basis rather than insingle units.

The principal types of international cartel are the association, representing or similar to the National Trade Association on an international scale, the Patent Licencing Agreement, whereby interchange of technological "know-how" and patented processes are made available to the partners of the agreement for use in the area dominated and the combine, which unites competitors under a common ownership or management, using the corporate structure, thus eliminating competition in the same way as mergers and combinations are used to eliminate competition within any one country.

As the purpose of the cartel agreement is to increase profits through the reduction of competition, it is common

4 "Economic and Political Aspects of International Cartels"
Senate Committee Print - Monograph No. 1 - 1944 - p.1

Practice to fix prices and allocate trade territories, production, sales, shipments, etc. Partners to the agreement are able to control prices within their territory either through price leadership enforced through their size and power, or by means of straight agreement or monopoly. An excellent example is given of price-leadership through threat of a price war in the report for the Sub-committee on War Mobilization of the Committee on Military Affairs, United States Senate, regarding the economic and political aspect of international cartels. This appears in a document of the Standard Oil Company of New Jersey discussing the new product of the Socony Vacuum Oil Company:-

"Mr. Howard told them we did not regard their act of bringing out this material as a friendly one and thought that they should have raised this subject with us. He said that he had been informed that our product could be made more cheaply than theirs and he felt that they had no right whatever to put a basically higher-priced material on the market when the only result obtained would be forcing us to reduce the price of our material, when, in fact, we could finally reduce the price to such a point that they could not stay in business at all. He said that he felt this was only a question of reputable business practice and that he was very much surprised that they would take any other attitude." ⁵

A report upon the effect of cartels upon prices made by an executive of the Dupont Company in 1929 reads as follows:

"Two weeks ago we mentioned the growth of Cartels in a claim that world-wide Trusts will not, in the long run, add to the cost of commodities. In France, however, the general rise in the cost of raw materials and part-manufactured goods

⁵ Ibid - p. 11

is ascribed to the formation of Cartels. Statistics compiled in Paris and Berlin show the difference between the rise in the price of goods subject to Cartels and those supplied in open markets. In 1927 open-market products oscillated in price between 85.7 and 91.3 on the index figure of 100 fixed in 1925, whereas the price of cartel products was stationary at that of 97.6. In 1928 the respective figures remained about the same, but in January, 1929 open-market products were at 86.9 percent and cartel products had jumped to over 101." ⁶

Another example of price fixing due to cartel agreement taken from the U.S. Senate Report is the following letter written by a Dupont executive regarding the price of dye stuffs in Brazil in 1937:

"At times we have occasion for discussion with certain of our competitors as relating to matters of mutual interest in various foreign markets, and during one of these talks it was brought out that our company is supposedly making sales of certain dyestuffs to Brazilian consumers at prices which are considerably below the returns secured by other manufacturers. Certain specific items mentioned were Auromine Conc., Rhodamine B Extra, and Saframine; in all of these cases our selling prices being supposedly upward of 50 percent lower than quotations made by the Europeans.

We do not know how accurate this report really is but it seemed worthwhile for us to bring it specifically to your attention inasmuch as you are thoroughly familiar with our Company's policy to establish selling prices which are in line with those already in effect. If by chance there should exist any such wide discrepancy as was reported, we want to take immediate steps to rectify the situation...." ⁷

The consumer also suffers through cartel agreements due to the fact that they make possible the impairment of quality of the product sometimes marketed by partners to such agreements. Several examples of this came to light in the evidence submitted before the U.S. Senate Committee investigating cartel

⁶ Ibid - p. 12

⁷ Ibid - p. 15

agreements, a good example of which is the following letter written in 1939 by an official of General Electric Company to an official of Tung-Sol Lamp Works:-

"In conformity with our practice of notifying you of impending changes in our lamp product, we are calling to your attention a change which has been approved:-

The design life of the 2330 Lamp has been changed from 300 back to 200 hours, the change to take effect as soon as manufacturing facilities will permit. It is understood that no publicity or other announcement will be made of the change."⁸

Another good example of impairment of quality is given in a letter written in 1932 by a General Electric engineer to executives of his company:-

"Two or three years ago we proposed a reduction in the life of flashlight lamps from the old basis on which one lamp was supposed to outlast three batteries, to a point where the life of the lamp and the life of the battery under service conditions would be approximately equal. Sometime ago, the battery manufacturers went part way with us on this and accepted lamps of two-battery lives instead of three. This has worked out very satisfactorily.

We have been continuing our studies and efforts to bring about the use of one-battery life lamps. I think you will be interested in the attached analysis which Messrs. Prideaux and Egeler have worked up covering the various points involved in going to the one-battery life basis. If this were done, we estimate that it would result in increasing our flashlight business approximately 60 percent. We can see no logical reason either from our standpoint or that of the battery manufacturer why such a change should not be made at this time.

Messrs. Parker and Johnston now have this matter up with the battery manufacturers and I would urge that every assistance be given them to put it over."⁹

⁸ Ibid - p. 16

⁹ Ibid - p. 16

The concern of the light bulb monopoly over the introduction of fluorescent lighting and an admission of the practice of impairing the quality of a product is contained in a letter received by Gerard Swope of the General Electric Company from Anton Philips of the Dutch N.V. Phillips Company in 1938. It was felt that this new invention was not an attractive prospect financially for the two companies. His letter reads in part as follows:-

"We have already a lot of these tubes which are burning 3,000 to 4,000 hours with a drop in economy of about 30 percent. So it might be that we all are going to replace a part of ordinary 1,000-hour lamps in tubes which will burn at this moment three to four thousand hours with a drop of 30 percent in economy, but which might grow to six or eight thousand hours; now, of course, we could try to make the tubes of a quality which is not extremely good, but we all know that when there is coming competition (patents not being very strong) and our competitors bring a lamp on the market with an extremely high life, we have to follow them."¹⁰

In deference to the feelings of public utility companies, who marketed their lamps, General Electric Company refrained from selling freely types of lamps designed to reduce the consumption of electric power. This arrangement prompted them to "soft-pedal" the sale of fluorescent lighting tubes and their view is nicely summarized in two letters submitted as evidence before the U.S. Senate Committee investigating international cartels. The first was addressed by one executive to five

¹⁰ Ibid - p. 17

other executives on October 28, 1938, and reads as follows:-

"I am very, very much disturbed over the utility reactions which I am sure we are going to have as soon as we announce the longer, larger, and higher wattage fluorescent lamps. With these lamps, it's going to be possible to produce the same or increased foot-candles at a very practical installation cost and with a very decided drop in wattage.

Certainly, there should be no publicity of any kind on any further developments on fluorescent until we have had a chance to see where we are going with our present lamps and to formulate a very definite sales promotion, and advertising program, which is definitely pointed at daylight intensities of a high order for stores and factories.

This means greatly increased education work on the benefits of high intensities at reasonable cost without heat. But unless we have this groundwork much better laid than we have at present, we are going to find the bulk of installations resulting in decreased wattages and, in the long run, I fear, decreased lamp business." 11

The second letter, dated April 12, 1939, and addressed by an executive to a member of the Engineering Department, suggested that articles which have to do with fluorescent lighting --

"minimize, for the present, the application of daylight fluorescent lamps for other than special applications which would mean plus installations and plus business for ourselves, as well as the utility companies. I believe that such procedure in this magazine and in the development of uses for fluorescent lamps for a time would be helpful rather than emphasizing by photographs or otherwise what can be done in general lighting." 11

Methyl Methacrylate used for dentures (false teeth) and sold at a high price as a dental plastic (\$45.00 per lb.) is also sold as commercial moulding powder at an incredibly re-

11 Ibid - p. 18

duced price (.85 per lb.). Certain large purchasers of dental supplies found that they could make considerable saving by buying the commercial moulding powder rather than pay highly expanded prices for the same article sold under a trade name as a dental plastic. In an effort to stop such bootlegging, which reduced their profits, the Vernon-Benshoff Company wrote to the American Rohm and Haas Company as follows:-

"Our discussion of the Pure Food and Drugs Law and pulling the acrylic denture under it leads me to wonder if the manufacturers of commercial molding powders might not add an ingredient which would not affect the molding properties but which would disqualify it under the act. Apparently a slight trace would suffice. Naturally, it would be omitted from the strictly denture powder.

Recently I asked Dr. Johnston to suggest an addition which might interfere with distillation of monomer or retard polymerization. He could not think of anything that wouldn't spoil the molding properties or clarity of the powders. But there the quantity needed to accomplish the result was the handicap.

Under the very finicky regulations of the above act, however, it may be the slightest trace of the right agent, too little to constitute harm to molding (or health either as a matter of fact) would suffice to have bootleg products in bad."

A millionth of one percent of arsenic or lead might cause them to confiscate every bootleg unit in the country. There ought to be a trace of something that would make them rear up."

The following reply was received from Rohm and Haas:-

".....We agree with you that if we could put some ingredient in our commercial molding material which would disqualify it under the Pure Food and Drug Act, this would be a very fine method of controlling the bootleg situation. We shall take this matter up with our development department

and advise you whether any such material could be used." 12

The above examples brought to light by U.S. Senate inquiry into the economic and political aspect of international cartels, leaves little doubt that monopolistic concerns partner to such agreements not only fix prices in an effort to increase profits, but have been guilty of impairing the quality of their products in order to increase sales or uphold price.

One of the most common cartel methods is to allocate trade territories among partners in the cartel agreement. The purpose of this is that it protects the monopoly held by the partners over their domestic or allocated market by freezing out competition. Freed from competition, monopolistic concerns may charge prices as high as the traffic will bear with the net result that the consumer pays far more than the article is worth and many are prevented from the use of this article through the high prices that are maintained.

Another practice employed to maintain prices is to restrict supply. Where a monopoly is protected through a cartel agreement, the agreement often stipulates production figures allowable to the signatories to the agreement. The agreement may stipulate, where an export market is shared,

¹² Ibid - p. 18-19

the amounts to be shipped by partners to the agreement to these markets. Oddily enough we have examples of such agreements restricting supply sponsored by International Governmental Convention. The International Tin Committee in 1931 was established by the Governments of British Malaya, Bolivia, the Dutch East Indies, and Nigeria with the sole purpose of restricting output of tin by law. The 1936 report appearing in the Minerals' Year Book of the United States Bureau of Mines reflects the results of such cartel restriction.

"The price of tin during 1934 and 1935, though very high compared with that of other commodities and particularly with other Metals, was much steadier than it had been in years. This stability reflected the manipulation of production and stocks by the International Tin Committee."

Cartel arrangements often agree on the allocation of production and of industrial fields. This is most common in connection with patent rights. The patent holder often licences other manufacturers to produce the patented article in return for royalties. Or in the case of cartel partners, the rights to each other's patents may be permitted within each partner's restricted market. Cartel agreements such as these prevent concerns outside of the cartel agreement from obtaining licenses to manufacture the patented article of some foreign member of the cartel agreement. Occasionally, a license may allow other concerns to manufacture under his license collecting even larger royalties than he is required

to pay to the patent holder. Quite often, the patent holder, in granting a licence, may limit the production of the licensee.

This assures the maintenance of the high price the consumer pays. Sometimes this is done by straight agreement with fixed production figures, a sliding percentage rate, or using a sliding royalties system whereby if the specified production is exceeded a higher royalty is required.

A good example of this is demonstrated in the following statement by a DuPont official in discussing the quota set on the production of moisture-proof cellophane by the Sylvania Industrial Corporation manufacturing under licence from DuPont.

"I presume there is a royalty figure per pound which we might ask of him which would make the restriction if his output less important to us on the general principle that the larger the royalty per pound that he pays to us the less difference it makes to us whether we supply that trade or whether he supplies it. I am citing some figures below by way of explaining this point, though the figures which I use are not accurate but merely used by way of illustration.

Let us assume that the cellophane business is going to gradually increase and to an extent that additional plant will have to be installed from time to time to supply the growing market. Let us assume further that the investment required per pound of output per year is 70¢, and that over a period of years we should expect to make 15% return on our investment, which would be the equivalent of a profit of 10.5¢ per pound. If we assume that money is worth 8% then the cost of money required for this investment would be 8% of 70¢ or 5.6¢ per pound. On this basis the profit to us, over and above the cost of money, would be about 5¢ per pound and if, therefore, the royalty should be fixed at 5¢ per pound we would not suffer materially, if Sylvania's quota was somewhat increased over the original figure of 10%.

It occurs to me that Sylvania may be very much adverse to

our clamping down the lid too tight, on their quota. Might it not be possible for us to meet them part way in this matter by increasing the quota somewhat but providing for a larger royalty in the higher brackets in that quota. For example, you might place a quota up to 10% on the basis of 3¢ royalty, from 10% to 15% on 4½¢ royalty, and from 15% to 20% on a 6¢ royalty. Understand that these figures are purely illustrative and require considerable study before final settlement." 13

Cartels also work against the consumer to resist technological change. This occurs where agreements are made restricting productive capacity and/or the improvement of plant to prevent more efficient production with consequent reduction in prices to the consumer. The purpose of such agreements sometimes involves the withholding of improved articles from the market in order to continue business with the old article either because it may net more profit, or due to the fact a large investment is involved in plant to produce the now-obsolete article. A case in point was mentioned earlier in connection with the General Electric Company's resistance to the introduction of fluorescent tubes.

Large sums are spent by corporations, particularly those party to cartel agreements, on research in an attempt to develop new processes, techniques, and inventions, with the purpose of patenting these in an effort to strengthen their monopoly. As members of a cartel usually interchange patent

¹³ Ibid - p. 26-27

licences, receiving royalties on their patent partner's production, there is considerable rivalry in research in an effort to patent as many inventions and processes as possible. Oftentimes new developments are patented with no thought of commercializing on the new invention but to prevent it from being produced by some other party. Evidence given before the U.S. Senate Committee investigating international cartels, included the following communication to Imperial Chemical Industries, 1937, from a duPont executive:

"The second of our dielectric cases covered the use of chlorisopropyl benzines as dielectrics. In the course of our work it was found that these materials were of sufficient value to be a distinct competitive threat, provided the raw materials should become available at sufficiently low cost. The application was filed as an insurance application to secure what protection might be available but without expectation of future commercial use." 14

Actually some benefit does accrue through cartel agreements in that the interchange of "know-how" and secret processes makes possible the manufacture, and improvement of many new products that ordinarily would be the exclusive right of various companies scattered throughout the world. This makes possible the marketing of many products that might otherwise take years to appear upon our home market. The free interchange of ideas often leads to the development of new ideas by the cartel partner, resulting in further improvement of manufacturing techniques. However, as there appears to be

14 Ibid - p. 32

little doubt that a Cartel is set up primarily to restrict competition and perpetuate monopoly control, such benefits are offset by increased cost to the consumer.

Occasionally the inventive genius controlled by the large research department of these cartel members, is devoted to tasks designed to protect the high price set by the monopoly. In a previously mentioned case, the research department was asked to provide a foreign ingredient which would render molding powders unfit for dental use. Another case uncovered in the evidence before the U.S. Senate Committee, concerns a pigment developed by the duPont Corporation that could be used either as a paint or as a textile dye. Wanting to use this pigment for their paints, but fearing that it might prove a threat to their high textile dye price structure, the executives requested the laboratory to develop a contaminant to make the pigment satisfactory for paints but unsatisfactory for textile dye stuff. In a discussion two days later with representatives of the General Aniline Works, the following points were brought out:-

"The importance of solving these problems was recognized and it was agreed that both parties would work on promising ideas which resulted from the discussion....After detailed discussion of various modes of attack, the following appeared to be outstanding:

1. (a) Mixtures of CPC with lakes - Most promising mode of attack appears to lie in the formulation of a mixture of CPC with a lake, especially a lake of CPC. Such a mixture should have fairly good fastness to light and yet be poor in wash fastness on textiles or incompatible with the usual textile printing lacquers.

- (d) Deteriorate cotton - compounds might be incorporated into CPC which when applied to textiles and followed by bleaching or heating treatment might increase the deterioration of the cloth. Compounds such as chlorates or aliphatic halides which would produce hydrochloric acid were specific examples.....
- (g) Irritating substances - it is known that certain resins and solvents are irritating to the skin, often causing dermatitis. It might be possible to formulate a CPC composition which will make textile materials irritating to the skin.

Incorporation of grit - it seemed too dangerous to attempt to add gritty materials to CPC since, although it would interfere with the use of the material for textiles, it would also offer serious disadvantages in grinding on application of surface coatings.

It was agreed that the mere dulling of the material would not be a satisfactory solution since dull shades are often used in the textile trade....."15

Naturally, Cartels make every effort to weaken independent enterprises. As a cartel is set up to maintain monopoly, it is a natural enemy of independent enterprise. It is in a position to cut off raw materials, refuse to grant patent licenses, threaten with price war, and harass by litigation. General Electric Company have an agreement with Corning Glass Company permitting only manufacturers designated by General Electric to sell bulbs frosted on the inside.

At the same time General Electric has an agreement with the Air Reduction Company whereby argon gas cannot be sold to independents with the result that they were forced to use less

satisfactory nitrogen gas. The type of pressure that can be brought to bear against an independent by a large monopolistic concern is remarkably demonstrated in General Electric Company's efforts to obtain control of Hygrade Sylvania Corporation's processes for fluorescent lighting through pressure brought to bear using its position in control of the incandescent lamp market in United States. An official of Hygrade Sylvania Corporation in 1939, described this pressure as follows:-

"Mr. Sloan's next point was that he did not see how, with the human element involved, it would be possible for their organization to work with us on incandescent lamps the way we would wish them to do and work against us on fluorescent lamps. His point was that such a procedure would be against the laws of human nature. He stated that if the set-up continued as it is, they would have to go so far as to sue our Company and under these conditions it would certainly be particularly difficult to cooperate with us on incandescent lamps. This is undoubtedly a very important point since G.E. by delaying equipment, by delaying information about new types of wire, new leads and new designs, etc., and by using in a sales way tactics which are now generally prohibited, could undoubtedly embarrass us tremendously in the incandescent lamp field." 16

As previously stated, cartels do offer the advantage of interchange of ideas and processes. Through the coordinated research of the partners it might well be argued that technological development is spurred. However, this is of little advantage to the consumer if much of this development

16 *Ibid* - p. 39

is but for the purpose of preventing outside independents from marketing new ideas and thus offering competition to the monopoly. The practice of such repression of new ideas, makes possible a continued use of high cost uneconomic enterprises which under normal competition would disappear. Oftentimes it permits firms with excess productive capacity, to stay in business. This is true both in the case of a monopoly protected by cartel agreement, and in the case of price fixing through agreement between corporations in the domestic field.

Central selling agencies, or jointly owned companies set up to exploit a particular market, such as Canadian Industries Limited, jointly owned by Dupont and Imperial Chemicals Limited, allow savings through the avoidance of duplication of selling facilities. Joint advertising policies, and the avoidance of costs consequent upon competitive selling allows cartel partners a considerable saving. They may make a saving at the expense of raw material producers through their monopolistic buying position. However, regardless of what saving may be made through cartel agreement to the signatory corporations, it is most likely off-set through maintenance of high prices, and/or the restriction of production which results in a lower volume of total business through reducing its prospective consumer market. As the cartel agreement is set up to maintain

price, the consumer may rest assured that any savings made through increased efficiency resulting from cartel agreement will not be passed on to him.

We have seen how monopoly protects itself through cartel agreement and tariff regulations to freeze out foreign competition. As a rule, such cartel partners also make every effort to weaken independent competitors. Otherwise they could not maintain their monopoly. Logically a monopoly should be able to operate more efficiently than companies competing and faced with selling and advertising costs. However, in practice monopoly tends towards maintenance of as high a price as the traffic will bear, the retention of obsolete equipment and excess capacity oftentimes, and what is worse, is able to maintain price in good times or bad. Hence during time of depression, a monopoly is able to hold up price despite the fact that the purchasing power of the consumer has been reduced. This has a tendency to deepen depressions. If the public is making less but are required to pay the same price, the net result is that they get less for their money.

Price agreements through trade associations, or some other means of price-fixing such as a central selling agency etc., has the same tendency to maintain price during the early stages, at least, of a depression.

TABLE VI

WHOLESALE PRICE INDEX NUMBERS OF SELECTED COMMODITIES,
CLASSIFIED ACCORDING TO TYPES OF MARKET^x

(1926 - 100)

Year	(1) Monopoly	(2) Price Agree- ment	(3) Competi- tion	(4) Farm pro- ducts
1927.....	96.4	98.3	98.5	102.1
1928.....	96.0	97.2	99.6	100.7
1929.....	96.2	94.3	98.1	100.8
1930.....	93.5	90.2	91.5	82.3
1931.....	87.7	84.3	74.4	56.3
1932.....	87.0	82.4	65.9	48.4
1933.....	87.0	81.3	62.6	51.0
1934.....	87.4	81.7	68.2	59.0
1935.....	86.6	80.1	68.6	63.5
1936.....	87.2	80.5	70.4	69.4
1937.....	90.6	85.2	79.7	84.9
1938.....	88.8	83.2	77.5	....

x The composition of the sub-groups is as follows:

Monopoly: rayon, pig iron and steel billets, cement, asbestos, inorganic chemicals, explosives, nickel, aluminum (sheet), lead and copper.

Price agreement: sugar, cotton yarn and thread, rolling mill products, fertilizers, agricultural implements, leather, tobacco, salt, and wool cloth.

Competition: canned fruit, flour and milled products, bakery products, meats and poultry, newsprint and wrapping paper, paper pulp, boots and shoes, wool yarns, furniture, fishery products, silk hose, silk fabrics and coal.

It is obvious from the Table VI ¹⁷ that this proclivity on the part of monopolies, and price fixing combinations, to prevent prices from freely following changes in the business index, has a tendency to deepen depressions and retard recovery. Depressions would not be near as bitter for the consumer if

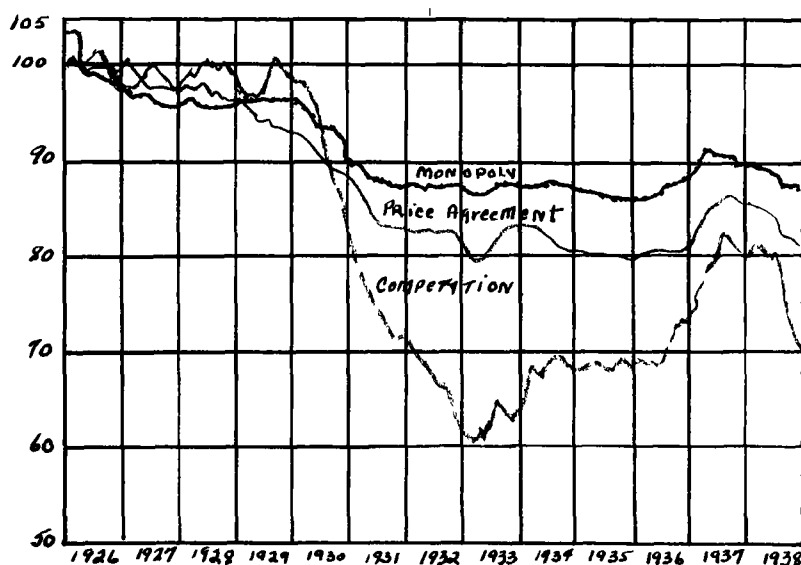
¹⁷ Lloyd G. Reynolds-"The Control of Competition in Canada, 1940 - p. 73

prices fell as rapidly as did wages. It should be noted from Chart 1¹⁸ that those products manufactured by firms or corporations that were freely competitive fell rapidly with depression and responded more freely with recovery. In other words, companies doing business under free competition, are subject to the same vagaries of the business cycle as are individuals. Their products drop in price in harmony with the reduction in purchasing power; and rise in price during the recovery with the increased purchasing power of the people. On the other hand, corporations partner to price agreements tend to resist the pressure of depression at least during the early stages, their prices falling sharply only as agreements break down. Monopolies are able to hold up prices and accordingly show little decline whatsoever.

CHART 1

WHOLESALE PRICES BY TYPE OF MARKET

37 Commodities 1926-100



¹⁸ Ibid p. 74

It is obvious from the above, that some of the abuses attendant upon monopoly also apply to corporations avoiding competition by means of price-agreement and price-leadership. However, these two introduce other factors detrimental to the consumer, ^fselling cost, advertising cost and unused capacity. In Canada, where a single plant of moderate size is sufficient to supply the market for the product, monopoly is probably desirable providing some attempt is made to reduce unit production costs with increased volume etc., and pass these savings on to the consumer. Competitive selling and advertising costs are avoided by the monopoly, whereas these two items weigh heavily in the cost of goods produced by corporations operating under price-agreement and price leadership.

Before proceeding with a discussion of the effects of price-agreement and price leadership upon the consumer, it might be worthwhile to show to what extent this is common in Canada. Table VII below, shows the classification of Canadian Manufacturing industries arranged according to monopoly, price agreement and competitive. Those firms maintaining price by means of price-leadership are included under the "informal price agreement" group.

TABLE VII¹⁹

CLASSIFICATION OF CANADIAN MANUFACTURING INDUSTRIES

Monopoly	Price Agreement	
	Informal	Formal
Aluminum	Agricultural Imple- ments	Fertilizers
Cement	Brewing	Leather
Electrical Equipment, heavy	Copper	Rubber foot- wear
Explosives	Cotton cloth, yarn and thread	Tobacco pro- ducts
Lead	Gasoline	
Nickel	Sugar	Most paper pro- ducts (except newsprint)
Rayon yarn	Some iron and steel products	Most plumbing and heating equipant
Steel rails	Some textile products	Many hardware pro- ducts
Some Chemicals	Some canned foods	
Some iron and steel products		
Some non-ferrous metal products		
Few producers	Competition	Many producers
Flour		Bread
Meat packing		Boots and shoes
Newsprint		Clothing
Silk cloth		Furniture
Silk hosiery		Jam
Tires		
Woolen and worsted yarn and cloth		

Price agreement and price leadership presuppose two or more companies engaged in a particular enterprise. Price agreement is used where a particular field is catered to by two or more corporations of sufficient size and strength that no one has complete domination of the field. Whereas a great hue and

¹⁹ Ibid - p. 8

cry is raised whenever the Government attempts to regulate industry, (usually the wail making some mention in support of private enterprise), private enterprise, in its true sense of competition in price, is looked upon usually by these well-established corporations as needless price-cutting. If they are sufficiently well-established to enjoy a nice volume of business, there is a tendency on the part of some to get the boys together in the form of a trade-association, (or better still, through some sort of tacit gentlemen's agreement as this can be done without danger of legal interference), in an effort to put a stop to what they term "disastrous cut-throat competition."

As there sometimes is a modicum of justification for such thinking on the part of these corporations in an effort to carry uneconomic over-expansion in their industry, such price fixing is definitely against the interests of the consumer. It also contradicts the theory of "free-enterprise" proposed by the classical economists and clung to by these same corporations as an argument every time they are threatened with Government intervention. Amongst big business today, cut-throat competition is looked upon as unethical. Adam Smith visualized such competition as the regulator whereby inefficient systems would disappear in favour of more efficient ones as they arose.

Price leadership is exercised by firms who have monopoly

control through dominance but consider it good business to leave the field open for weaker competitors due to public opinion against monopolies. Quite often they allow the smaller less-efficient firms to bring pressure on the Government for tariff protection "in order to preserve their industry." If the Government can be persuaded by these smaller companies that the price as set by the larger corporation is necessary for them to exist, the large corporation can make a fairly large profit usually without criticism, as this can be attributed to efficient operation. The large company sets the price and the others follow. There need be no agreement and usually isn't. Such uniformity in prices results, as a rule, from recognition of the dominant position of the large corporation.

I would appear then that in many fields of enterprise, private enterprise is a myth, insofar as the classical interpretation of private initiative is concerned. The old economists held that each individual would put his private interests first, leading him to constantly strive to produce a better product or one that could sell at a lower price than that produced by his neighbour. In short, the idea was that the one who could produce the greatest value for the least money would get the business. This is not the case under price-agreement and price-leadership.

One would reasonably expect that as a corporation grew

in size, integrating unto itself more and more constituent enterprises it would tend to improve in efficiency and that prices, in proportion to costs, would drop due to increased production. For example, one would expect that if a small plant commenced business, for instance in the bottling industry, and could sell its product at five cents per bottle and make a profit, that as the company expanded its production, say from ten cases a day to a thousand cases a day, its cost of production would drop and the price could be reduced. However, this is not what happens. When the price of a product is fixed either through agreement or leadership, competition is eliminated in this field. The various companies engaged in the business must then compete in other ways. From this tendency towards price fixing has resulted two uneconomic fields of endeavour. They are uneconomic in that they are for the most part, non-productive. They are the selling field and advertising field.

Perhaps this statement should be qualified to the extent that where "selling costs" and "advertising costs" are criticized as an added item of cost passed on to the consumer, it is "high" selling and advertising costs that are referred to. The best of products, most reasonably priced, require distribution and a little advertising. The world cannot beat a path to your door if you build a better mousetrap if they never hear about it. However, selling cost in excess of what

would be normally required to market an article high enough in quality to attract demand and low enough in price to compete on a price-basis, can be criticized as unnecessary from the consumer's point of view. Advertising in excess of the minimum necessary to acquaint the public with the virtues and availability of the product can be similarly criticized.

High selling costs and advertising costs are the natural consequence of price-agreement and unused capacity. Unused capacity, born of price-agreement, exists where a plant operates at a rate lower than that necessary to give lowest unit costs, that is, below capacity. Capacity here is taken to mean the economic rate of operation, all factors such as wage cost, cost of materials and plant valuation, being considered. Plants may produce in excess of this amount (within limits) without increasing unit costs, but when production falls below this rate, costs mount and unused capacity is said to exist.

Price-agreement and price leadership operate to maintain high prices and thereby high profits. This works two ways to produce unused capacity. Consumer demand is discouraged by the high price and new producers are attracted by the prospect of high profits. Even though entrance to the industry is closed to new producers, unused capacity may still develop through the expansion of existing producers. This may be prompted by the fact that production quotas may be based upon plant

capacity, or that compensation may be paid for unused capacity.

For example, the eight firms in the rubber industry in Canada entered into a written agreement in January, 1932, whereby a percentage of the total footwear sales was allotted on the basis of previous production. A fine of 25% of the value of excess sales was levied against any firm exceeding its quota in any one month, this being paid as a bonus to those firms not meeting their quotas. However, a firm exceeding its quota for a full year was to have its quota for the following year increased by 25% of the excess.²⁰ Thus a firm might expand in an effort to increase its quota.

Container Materials Limited formed in December, 1930, as a central selling agency to give effect to price agreement between manufacturers of cardboard boxes, was able to hold prices at a highly profitable level with the result that five new producers entered the industry during the period between 1931 and 1938. These newcomers were either persuaded to observe the fixed prices or enjoined not to produce for a "consideration." The tribute paid in the case of the O and S Corrugated Products Company formed in 1935 with a plant investment of only \$28,120.00, amounted to \$69,690. during the next two years. Equipment was bought at a cost in excess of \$80,000 from two other concerns and later auctioned for

²⁰Price Spreads Report, pp.73-75, See also Evidence before Price Spreads Commission pp.2200-2212.

\$5,655.00 by Container Materials Limited²¹ in order to maintain price by eliminating competition.

Unused capacity would tend to disappear under competition as least efficient producers became eliminated through bankruptcy. Under price-agreement, however, it is perpetuated. Producers saddled with considerable unused capacity, find their profits sharply reduced due to increased unit cost. In order to increase their production back to the point where maximum profits may be realized, sales of the product must be increased. Since prices are fixed by agreement, these firms attempt to obtain a larger proportion of the available total business by means of ingenious and costly sales campaigns and extensive and intensive advertising programmes.

The baking industry affords an excellent example as to this chain of events. The "big five" flour-milling companies control the leading bakeries in most Canadian cities, with price competition held in check by agreements between the larger bakers.²³ Table VIII below indicates the unused capacity existing in the industry.

²¹Department of Labour, Report of Investigation into an Alleged Combine in the Manufacture of Paperboard Shipping Containers, 1939, pp. 53-61.

²²Lloyd G. Reynolds "The Canadian Baking Industry" in quarterly Journal of Economics, August, 1938.

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TABLE VIII

PRODUCTION OF BREAD IN SELECTED CITIES, 1931

	Production of Bread		Milled-controlled Plants			
	Mill Plants	Other Plants	Mill Plants % of Total	Capa- city	Pro- duc- tion	Pro- duction as % of capacity
Montreal...	67,023	56,587	54	111,742	67,023	60
Toronto....	71,366	58,058	55	158,255	71,366	45
Hamilton...	10,409	22,139	32	28,377	10,409	36
Ottawa.....	15,894	8,603	65	22,928	15,894	70
Winnipeg...	29,162	12,344	70	60,614	29,162	48
Vancouver..	21,822	16,153	57	36,704	21,822	59

The fixed-price made the industry attractive to new producers further aggravating the problem of unused capacity. The number engaged in the industry increased from 1,658 in 1921 to 3,173 in 1934.²⁴ Prices fixed amongst the leading producers, competition was carried on by means of selling campaigns and advertising in a mad scramble to wrest sufficient business from each other. Bread was packaged in fancy wrappings, sliced bread was offered the public, new loaves were introduced claiming several virtues from vitamins A to X, to being laxative. These were given attractive or high-sounding names to differentiate the product. Frequent delivery service duplicated that given by competing companies.

²³ Evidence before the Price Spreads Commission, Vol VI, P.3668

²⁴ Dominion Bureau of Statistics, Census of Manufactures: Annual Reports on the bread and other bakery products industry, 1919-1934.

Delivery men became salesmen working on an incentive-compensation basis. Liberal credit terms were made available to the housewife to secure her patronage - even free premiums and stirring radio dramas were offered "junior" as an inducement to demand "Mother's Home-baked Vitamin B-1 Bread."

Bread is a staple product and as such the total consumption is not likely to be influenced greatly by such selling and advertising campaigns. Whilst one firm might gain some initial advantage for a short period, another firm will have it later. The selling campaigns of the various companies tend to neutralize each other in the long run, and the companies involved find themselves with two new items of cost - selling cost and advertising cost.

As these mount, profits are reduced. Eventually, the price is raised under the price-agreement, to cover these costs. The cycle then starts off again. Higher price, new producers attracted, increased unused capacity, higher unit costs, increased competition, increased selling costs, reduced profits, increased price, and repeat. Some indication as to what this has meant to the consumer may be gleaned from Table IX.

TABLE IX 25

"SPREAD" BETWEEN FLOUR AND BREAD PRICES, 1913-30^x
(cents)

Year	Cost of flour used in making 1 lb. bread	Retail price of bread per pound	Amount of "Spread"
1913.....	1.80	4.2	2.40
1914.....	1.99	4.3	2.31
1915.....	2.45	4.7	2.25
1916.....	2.67	5.0	2.33
1917.....	4.07	7.0	2.93
1918.....	4.13	7.8	3.67
1919.....	4.04	7.9	3.86
1920.....	4.94	9.3	4.36
1921.....	3.41	8.1	4.69
1922.....	2.65	6.9	4.25
1923.....	2.36	6.7	4.34
1924.....	2.56	6.9	4.34
1925.....	3.30	7.8	4.50
1926.....	3.08	7.6	4.52
1927.....	2.87	7.7	4.83
1928.....	2.66	7.7	5.04
1929.....	2.71	7.8	5.09
1930.....	2.37	7.5	5.13

x Price series used: Flour-Manitoba 2nd Patent, car lots, delivered Montreal (Dominion Bureau of Statistics); Bread -- white bread, retail prices monthly in 69 localities (Department of Labour). Flour cost computed on the basis of 270 lbs. of bread from a 196 lb. barrel of flour.

The extent to which selling costs enter into the price of bread is best indicated by the figures in Table X below:-

TABLE X²⁶

SUMMARY OF COSTS OF MAKING AND SELLING BREAD, CANADA, 1929
(cents per lb. of bread)

	Mill- controlled bakeries	Large Inde- pendents	Smaller indep- endents
Number of bakeries reporting	76	12	31
Flour.....	2.38	2.39	2.58
Other ingredients.....	0.78	0.87	0.69
Baking costs			
Wages.....	0.59	0.52	1.02
Wrappers and wrapping.....	0.14	0.13	0.24
Other baking costs.....	0.33	0.39	0.21
Total baking costs.....	1.06	1.04	1.47
Delivery and sale:			
Wages and commissions.....	1.11	1.16	0.73
Other delivery costs.....	0.59	0.59	0.23
Advertising.....	0.12	0.14	0.02
Other selling costs.....	0.04	0.02	0.06
Total delivery and sale costs	1.86	1.91	1.04
Overhead.....	0.84	0.71	0.61
Total costs.....	6.92	6.92	6.39

The lower selling cost of small independents makes possible their entry into the industry in increasing numbers as the spread between the fixed cost of component materials, plant, etc., and the price of the product increases, that is, as the selling and advertising costs of the larger companies increase. This acts as a limiting factor on price advances but results in the consumer paying a price equal to that required by the small inefficient producer rather than benefitting from the lower price that should result from mass production. In other words, the benefit of large scale operation under conditions of price-agreement does not

²⁶ Ibid p. 87

accrue to the consumer but goes to support an armament race between competing companies in wasteful duplication of services and campaigns that in no way add to the inherent quality of the product itself.

The limitation placed upon further price increases by the increasing entry of small independents with rising price can be avoided to some extent through the successful merchandising of nationally advertised goods. The consumer is gullible and by means of high pressure advertising can be persuaded to pay more for trade-marked goods. It is not uncommon to find people paying substantially more for an advertised brand than for unadvertised goods sold on a price basis. The quality appeal is used and no one wishes to be guilty of purchasing inferior goods. If they rely on advertising to decide for them which is quality and what is inferior, (and how many don't?), they most likely will pay the additional levy required to support the selling and advertising costs introduced by price-agreement.

The baking industry case is repeated in one industry after another, where price-agreement or price leadership exists. A good example of the same thing in the case of price-leadership is the oil industry. The price of gasoline is set by Imperial Oil Company and followed by the large producers. As price is set, competition is carried on the basis of retail outlets. An effort is made by these companies to locate

"company" service stations at strategic locations and "sign up" independent dealers by contract to purchase gasoline exclusively from the one company.

The building of service stations involves keen competition for favourable locations and results in very uneconomic duplication. The following evidence given by an independent refiner and marketer before the British Columbia Royal Commission on Coal and Petroleum Products, 1936, gives some indication as to extent of this competition. He testified as follows:-

"When we come to buy a site for a service station we invariably find, if there is a service station on one corner that same company owns the other corner, in order to prevent at least I surmise that is the reason, I do not see any other-another competitive station being erected on the other side of the street."²⁷

This costly duplication of services and investment in land and buildings, of course, appears as an item of cost in calculating the price of the product to the consumer. In addition, there is a duplication in delivery service to numerous consumer accounts. These are comprised of pumps placed in "fleet owners" garages and large users, and farmers oftentimes.

This added cost reduces the producer's margin of profit where competition is keen and eventually results in an increased price to the consumer.

²⁷ Province of British Columbia, Royal Commission on Coal and Petroleum Products, Report, Vol. 1, p. 73.

These uneconomic items of cost are introduced wherever price fixing agreements occur. Let us look at a case where our Government itself has been responsible for introducing such price fixing. In Canada today, the price of milk is generally fixed by milk boards operating in the larger cities throughout Canada. Each large dairy sells its products at the same price as the others. This is with the Government's blessing. This was done in order to protect the milk producers. Competition being killed in the price field, it is common practice for the dairies to compete with each other by means of advertising their products, and through delivery services. As milk is a fairly standardized product, and must conform to certain health standards, it is impossible for one company to claim special virtues in their product against another; therefore, the most common practice is to compete in delivery service. Even the most casual observer, can recall the uneconomic duplication of services by his own door. It is not unusual to have as many as five or six different milk companies employ salesmen (not deliverymen) on a commission and salary basis to cover the same area of the city.

This practice is also true of the bread delivery men, the newspaper boy, the dry cleaner and the laundry men, etc. Gasoline trucks of one company often cover the same route as gasoline trucks of a second company which is, like as not, selling a product originally bought from the

first company. This practice can be found in many fields of economic activity, today. During the war, due to a shortage of gasoline, the Government took steps to reduce this uneconomic duplication of delivery services. Delivery services, such as those of departmental stores, were pooled. Daily deliveries by soft drink companies' trucks were reduced to once or twice a week. As pointed out before, it is the consumer who pays for these added costs created through a scramble for business between competitors who wish to maintain price.

As a part of the selling expense, we find an unwholesome practice, as far as the consumer is concerned, developing as a selling aid for more expensive consumer goods. This is the wholesale development of credit selling. To gain advantage over competitors, firms have introduced the instalment plan of buying, and credit terms to customers. This practice has developed on an ever-widening scale but is another that the Government has found necessary to restrict during wartime. Instalment buying plans, coupled with high pressure advertising and selling, are more than a match for the easily beguiled consumer. The salesman and advertiser create a demand for the product and the credit plan allows the consumer to spend next year's earnings to obtain it. Credit purchases on next year's earnings pre-supposes that the buyer will be employed during the next year. If anything happens that may cause him to lose

his earning power, he is out of luck as his creditor generally retains a lien upon the property.

The consumer's best protection against such practices is free enterprise as visualized by the classical economist. Competition in price, and quality in relation to price, usually guarantees the consumer that he will obtain the article at a price allowing only a modest mark-up for retail selling and manufacturing profit. However, as there appears to be a tendency amongst the corporations to fix price and consider any competition in price as cut-throat competition, and also amongst the Governments to fix prices amongst agricultural products in order to protect the producer, it is questioned as to whether anything can be done, in this country anyway, to return certain sections of industry to the practice of private competition. As pointed out in the more complex lines of industry, there is not sufficient markets in Canada to support additional corporations of comparable size to those that now dominate this field.

The consumer, however, has one very good means of protecting himself from exploitation on many of the smaller everyday lines that he buys. This is the consumer's cooperative movement. The history of this movement, in European countries in particular, has ably demonstrated its power to protect the consumer against high prices for products most commonly used. They have made slow but steady progress in this country, particularly in the finance field in the province of Quebec, where

credit unions have established a very fine record. Consumers' retail stores cooperatively owned, have been slow in gaining a foothold in Canada, and are to be found usually in communities largely peopled by Scandinavians. For example, in the Lakehead area, the Finnish people operate two retail chains, that successfully compete with privately owned enterprises. This, however, is only a very small beginning, for to be of much benefit to the consumer, consumers' cooperatives must develop beyond the retail store stage through the wholesale stage to the manufacturing field. Should this be accomplished and the retail cooperatives organized to the point where they can enter the field of manufacturing, then it will be necessary for corporate industries to meet the price of these cooperatives. As a cooperative store is operated by consumers as a service to the consumers and not for profit, the goods are sold to the consumer at cost plus handling charges, when the dividend is considered. Development of such institutions would act as a very good yardstick or control against exploitation of consumers.

Another protection afforded the consumer, temporary as it may be, is the advent of the chain store. The hue and cry against chain stores cutting prices through the use of "loss-leaders" etc., was loud and long and resulted in Government legislation limiting these practices.²⁸ The Retail

²⁸ A new section (498A) was inserted into the Criminal Code in 1935 - See Appendix X.

Merchants' Association do not like chain stores because they cut price. The consumer, however, benefits in a reduction in price due to the more efficient distribution system of the chain store. The chain store also had an advantage in buying power over the individual store. This was also corrected through legislation²⁸ brought about by pressure on the part of the retail merchant's association. However, one must look ahead and visualize what conditions would be if the chain store eventually managed to corner all the retail business. It is not unlikely, if such a thing occurred, and it is quite possible that it could, that price fixing might also result between the two or three large remaining chain stores.

It would appear then that there is the means of protection that the consumer may take himself through the Consumers' Co-operative in the retail field, however to be effective it should go beyond the retail field to the wholesale field to the productive field. This is a slow and long development which will require the very best of organizers who will have to be very public spirited or well-paid (probably both) to tackle such a thankless task. Certain groups have formed what are known as Buying Cooperatives. These are on a small scale usually restricted to individual localities, for the purpose of purchasing such farm goods as fertilizers, batteries, and

²⁸ A new section (498A) was inserted into the Criminal Code in 1935 - See Appendix X.

general farm hardware. Cooperative ownership is also found in the public utility field. To date, such organizations are still in their infancy. While some attempt has been made to enter the larger fields such as gasoline and oil, little benefit has accrued the farmer other than some reduction in price obtained through elimination of middle men. Until cooperatives are able to enter the production field they are able to offer protection only against price fixing by retail and wholesale groups. Such cooperatives as exist today in this country offer little or no protection against the large corporations controlling the production of consumer goods. As a matter of fact, many manufacturers recognizing their potential threat refuse to sell cooperatives. Imperial Tobacco Company and the agricultural implement manufacturers are cases in point.

In highly specialized lines such as the production of electrical equipment, petroleum, refining, cement manufacture, synthetic fertilizer production, and automotive and farm machinery lines, there appears to be little likelihood of consumers cooperatives protecting the consumer. Not only are the fields of production controlled but usually the field of marketing. There is an increasing tendency today on the part of large corporations to expand their activities to the field of distribution. For example we find the oil companies supporting large chains of filling stations paid for by the con-

sumer through the increased cost of gasoline. The duplication of services offered by these stations is only too obvious. There may be as many as four stations on one intersection of any large city. Most likely one of these stations could cater to the needs of the motorist in that area, and yet due to the selling and merchandising activities of these so-called competing oil companies representation is found by the four companies on the one corner.

Fortunately, in Canada, such lines as clothing, furniture manufacture, flour milling, meat packing and some food processing industries are fairly competitive. Thus the consumer is afforded a measure of protection in some of the items he requires in daily life. How long this will continue is doubtful considering the trend toward monopoly, price-fixing and price leadership.

In the specialized fields however, the manufacturers generally charge the consumer what they feel the traffic will bear. Where the field is not under the control of monopoly, it is usually dominated by manufacturers maintaining price by means of price-agreement or price leadership. Unused capacity is common and competition, instead of being on the basis of price, is in services, consumer credit, advertising and selling. These increase unit costs with a resulting increase in price to consumer. In many respects price-agreement and price-leadership, being less efficient than monopoly, are less desirable.

Organized consumer groups have been discussed as a possible protection to monopoly, price-agreement and price-leadership. Cooperatives appear to be a useful counter to abuses by public utilities and the retail trade but have not developed sufficiently to protect the consumer against exploitation by the manufacturer. It would appear that government regulation offers the only hope of protection to the consumer against corporations dominating the majority of our manufacturing industry.

This regulation was recommended in the report of the Price Spreads Committee.²⁹ A Federal Trade and Industry Commission was proposed having the following main functions:³⁰

- (i) Rigorous administration of an amended Combines Investigation Act³¹ for the purpose of retaining and restoring competition wherever possible.
- (ii) Regulation of monopoly in those industries where competition cannot be restored or enforced.
- (iii) Approval and supervision of agreements regulating prices and production, in industries where competition has proved wasteful and demoralizing.
- (iv) Prohibition of unfair competitive practices, using methods similar to those of the United States Federal Trade Commission
- (v) Administration of existing and proposed laws for the protection of the consumer.

²⁹ Price Spreads Report of April, 1935.

³⁰ Lloyd G. Reynolds: The Control of Competition in Canada, pp. 147-148

³¹ See Appendix XI.

- (vi) Regulation of new security issues
- (vii) Conduct of general investigation, and such special inquiries as may be necessary for the fulfillment of the above functions. Full publicity was to be given to all findings of the Commission.

Item (i) was weakened through the amendment of the Combines Act in 1935; However, the Act was restored to approximately its former strength, as conceived in 1923, by its further amendment in 1937 returning its administration to the Department of Labour. Competition could be retained and restored through the rigorous administration of this Act, as well as Sections 496, 497 and 498 of the Criminal Code of Canada. However, sufficient administrative staff will have to be supplied, as well as machinery for detecting offenders and bringing them to court.

Section (ii), subsection 1, of the Act provides that "Any six persons, British subjects, resident in Canada of the full age of twenty one years" may request an investigation into an alleged combine and "shall place before the Commissioner the evidence on which such an opinion is based." Inquiries may also be undertaken at the request of the Minister of Labour. However, the Commissioner may not, as he could under the Act of 1923, institute investigations on his own initiative. If this right were restored and sufficient staff and encouragement given, much could be accomplished under this piece of legislation.

Item (ii) recognizes Canada's plight regarding small

population and geographic sectionalism. Under these conditions monopolies cannot help but exist. Any effort at "trust-busting" would probably serve only to create several small inefficient producers in place of a moderately sized plant able to produce in economic quantities. Regulation of these monopolies can take place however to ensure the consumer the lowest possible price on the products of these corporations. Steps should be taken to guard against restriction of output to maintain price, price discrimination in certain areas and the maintenance of price in good years and bad. The Patent and Tariff Acts could be used to advantage to supplement the work of the Combines Act to regulate monopolies. As matters now stand, if the Commissioner reports that a combine exists, customs duties are reduced on the product removing any tariff protection it may have enjoyed.

The Patent Act gives an inventor (or more usually a company which holds the rights) the exclusive right to exploit his process for a period of seventeen years. This is a monopoly privilege and can be withdrawn if abused. More careful regulation could be provided if this could be policed by an adequate staff who were permitted to institute investigations on their own initiative. The following provision is already in effect, but rarely invoked:-

"Any person interested may at any time after the expiration of three years from the date of the grant of a patent apply to the Commissioner alleging..... that there has been an abuse of the exclusive rights thereunder and asking for relief."

Abuse as mentioned above, can be said to exist "if the patented invention is not being worked within Canada on a commercial scale, and no satisfactory reason can be given for such non-working" or "if any trade or industry in Canada.... is unfairly prejudiced by conditions attached by the patentee... to the purchase, hire, license, or use of the patented article."³²

The Commissioner of Patents working in conjunction with the Commissioner of the Combines Investigation Act, both given adequate staff, a consulting group of experts and authority to rigorously regulate monopoly, could do much to put into effect the second conclusion of the Price Spreads Report listed above. Unfortunately, the bill introduced into Parliament in 1935, based upon the Price Spreads Report, omitted items (ii) and (iv) covering the regulation of monopoly and of unfair competition practices. However, the authority to regulate monopolies is available under the Combines Act and Patent Act providing encouragement and staff is forthcoming to provide "rigorous administration."

The Section of the Act, legalizing price and production agreements, was rejected by the Supreme Court of Canada when submitted for a test of validity by the Liberal Government later. This, of course, was in the interests of the consumer and leaves recommendations (i), (v), (vi) and (vii) in effect, with (ii) and (iv) unacted upon and (iii) invalidated.

³²

The Patent Act - Sections 65-66

Every effort should be made to have the two recommendations (ii) and (iv) given legislative effect.

Whilst recommendation (vi) was included in the Act, little has been done to regulate new security issues. Administration of the Companies Act consists of slightly more than scrutinizing applications for "letters-patent" to see that they are in order. Here again, as in the case of the Administration of the Combines and the Patent Acts, lack of adequate staff makes impossible regulative action. It would not appear that any government to date has been disposed to institute rigorous action under any of these Acts.

Regulation of new securities could be a very effective protection to the consumer if given liberal application. If "stock-watering" could be prevented, profits would be shown against actual capitalization rather than in relation to an inflated capitalization. Profits, thus shown, would be considerably higher and likely to be subject to excess-profits tax, thus eliminating the incentive to charge high prices. Two other safeguards would be required to assure a fair assessment of profits. First, in an effort to limit uneconomic selling and advertising costs, these should be limited to a percentage of net income. Such expenditures could be taxable on a sliding-scale in an effort to keep them to a minimum. Secondly, promoters' profits should be heavily taxed to discourage mergers and combinations engineered merely with the

object of enriching some professional promoter drawn from the field of finance. Securities issued in return for anything other than cash should receive the closest scrutiny to ascertain that value was received for value given. Anything that can be done to eliminate "stock-watering" is in the interest of the consumer.

The previous paragraph referred to selling and advertising cost. These should be kept to an economic minimum in the interest of the consumer. Taxation could provide the answer to this problem. This added to the elimination of price-agreement through a more aggressive application of the Combines Act could do much to curtail this added item of cost to the consumer.

Protection against cartel agreements entered into by monopolies can be given by making it compulsory that such agreements be publicized. Publication of these agreements will make possible recourse under the Combines Act, Tariff Act and Patent Act to correct noticeable abuses. Publicity given to investigations made under these Acts will also serve to act as a deterrent to malpractices of the part of corporations.

The initiative should not be left to the consumer, however, but should be taken by present government agencies or additional one's set up for the purpose of properly policing industry in interest of the consumer.

The consumer, unlike the producer, labour and the manufacturer, is unorganized. He must rely upon the government for

protection. This the government can give through:-

1. Provision of more adequate information to consumer. Publication of cartel agreements and investigation into restraint of trade, in order to acquaint the consumer with the practices of those who attempt to exploit him. Government grading of products according to quality, standard and sub-standard so that the consumer can judge the value of the article. This is provided for under the Act to Establish a Dominion Trade and Industry Commission. (See Appendix X11)
2. Proper regulation of industry under the Combines Act, the Companies Act, the Tariff Act, the Patent Act, Section 496-498 of the Criminal Code, and by means of taxation to reduce selling costs and promoters profits to the minimum. This regulation should endeavour to retain and restore competition wherever possible. Where competition cannot be restored or enforced, monopoly should be closely scrutinized to assure the consumer that the prices charged are in keeping with production costs, that the quality is not impaired to increase its sale or support the price of another product produced by the corporation, or that technological change is not resisted.
3. Encouragement of consumer cooperative ownership by means of favourable legislation and education.
4. If the government cannot protect the consumer by regulation of industry and the maintenance of competition, the consumer should be protected by government ownership. This, it is felt,

should be only as a last resort, after all attempts to maintain competition and regulate monopoly have failed. If monopoly fails to respond to government regulation it should either be replaced by government monopoly, or better still, by government competition. Competition offers the consumer the best protection, as it eliminates the inefficient operator.

CHAPTER 1V
THE CORPORATION AND LABOUR

It was estimated in 1929, that 92% of wage earners were in the employ of manufacturing corporations. This was in the United States. As the railroad field is almost completely under the control of quasi-public corporations, employees in this field may be considered as corporation employees. Banking and Insurance Companies have used a corporate form of organization since early days. Public utilities are almost wholly corporate in structure, as is the mining industry. The American mercantile field is slowly coming under corporate sway, along with the textile industry although the progress in these fields has been somewhat delayed. Quoting from the 1931 Canadian census, approximately 42.5% of the population made up the working classes and 25.7 was made up of middle class including small and medium business people, professional, technical, managerial, white collar workers and independent industrial workers. As about half of this middle class group can safely be estimated as being not independent, they can be assumed to be working for corporations. Hence over 50% of the total population of Canada might well be employed by corporations in some field of industry or other.

With the development of large semi-public corporations

engaging in mass productive methods, such as Ford, General Motors, and Chrysler in the automotive business, a great number of employees have been drawn into areas where these corporations locate. Concentration of workers into communities dependent upon these huge industries has taken place. Taking the automotive industry as an example, those engaged by these three large companies are immediately concerned, but many others engaged by firms producing component parts, such as chassis assemblies, bodies, tires, etc., are indirectly dependent upon the three large corporations engaged in this trade. Steel companies, transportation workers, plate glass manufacturers, and others, are also affected.

Mass production methods require that once a new model goes into production, that the plant work at capacity until the full years production is completed in order to realize full efficiency out of operation. In peace time this meant a peak production by Ford, Chrysler and General Motors during a portion of the year followed by partial lay-off for several months. With a reduced market, as in the time of depression, this situation is aggravated to the point where inadequate employment is available to support communities such as centre around these industries.

The large corporations engaged in such mass-production methods, have attracted large followings of skilled workers who are settled in the community adjacent to the plant.

Anything that affects the affairs of these corporations immediately results in large scale suffering in the adjacent community. In other words, the health and welfare of large communities built around these industries depends upon the state of health in the business field of the corporation on which they have come to depend for a livelihood. Whereas in the time of Smith, a small handful of workers scattered throughout the land may have been affected through adverse conditions affecting the trade in which they were engaged, industry was widespread and labour was not so highly specialized that it could not turn to some other means of livelihood usually quite close at hand. Today skilled workmen and unskilled labour have been concentrated into particular areas in large numbers. This works against the possible mobility of labour in transferring to some other employment and the large numbers tend to concentrate the effect of the slackness in their trade into one or two particular areas.

True, corporations are now able to and do usually pay good wages for skilled labour. However, the labourer has given up considerable security when he traded high wages as a price for independent effort. There was a time when such a concentration of labour placed the corporation, that chose to take advantage of it, in a very favourable bargaining position. However, with the advent of labour unions and organizations, such exploitation has been stopped to a large

extent, and occasionally, during "boom" periods, labour has been known to exploit the corporation instead.

With the growth of large corporations, a corresponding growth has resulted in trade unionism, and latterly a more aggressive type of plant unionism organizing all workers regardless of trade has appeared in the form of the C.I.O. Certain corporations exploited labour, labour organized and as stated before have, in rare instances, taken their turn at being the exploiter. A good example of this is some of the activities of John L. Lewis' United Mine Workers. It is unfortunate indeed that both sides have been guilty of abuses. Unless they can learn to work together nothing but chaos can be expected. This business of having the corporation have its inning during a depression and then labour having its inning during a period of full employment will only aggravate the situation causing booms to be higher and depressions to be lower and resulting in the constant friction between the two classes. Enlightened corporation management knows this, as do sound labour leaders. Unfortunately, unscrupulous operators in control of some managements still persist in antagonizing labour, and unscrupulous racketeers might almost be suspected of stirring up trouble in some unions for their own personal gain.

More and more, corporations are coming to realize the advantage of employee relations. The more aggressive corporations, realizing the importance of this, have set up

departments to deal with this problem. Efforts are made for the education of the employee, group insurance and hospitalization plans are made available to employees, as are pension or annuity benefits, and in some cases stock purchase plans. Efficient and well developed training programs are instituted in an effort to aid the employee to better himself and at the same time to develop better employees. Recreational facilities and sometimes even housing projects are provided. Labour on the other hand is being taken more and more into the confidence of management and is sometimes included on labour-management committees. Such harmonious communion is needed to appreciate the problems of each other.

The government, both provincial and federal, have recognized the need for protecting the worker against exploitation by massive industrial concerns. This is evidenced by such legislation as "The Workingman's Compensation Acts, Minimum Wage Laws and legislation facilitating the organization of workers. Factories are inspected as to proper working conditions and facilities. Every effort is exerted to eliminate unnecessary hazards to the workingman's safety and install protective safeguards against such hazards.

The federal government has also recognized the retardation of Labour's mobility brought about by the high specialization of skills required under mass production methods with its extreme division of labour. Such specialization leaves

an employee ill-equipped in time of unemployment, to turn his hand to some other task. He is a master of his craft but usually his training is not sufficiently varied that he can turn to some other trade with ease. The government recently established Unemployment Insurance to assist such workers during "off-seasons" in their trade. This is contributed to partially by the worker, but for the greater part by the employer and the government.

On the whole, the corporation is beginning to recognize the value of satisfied healthy employees. Labour itself, has done much to ensure this recognition through strong labour organizations. Not all corporations welcome labour unions, particularly of the international variety, resenting dictation from outside sources. Many of these, however, have no objection to and quite often sponsor "plant unions" or "company unions" composed of their own employees. Whatever the bargaining agent recognized, be it organized on a trade basis, plant-basis, Catholic Syndicate or a company union, labour unions have been making steady headway and supplemented by government legislation have placed labour in a fairly strong bargaining position in its dealings with the corporation.

Oddly enough it is not the corporation of monopolistic size that has the poorest working conditions for labour. As a rule, these large corporations, in view of their ability

to maintain price in the face of good times and bad, and their avoidance of high selling costs due to the lack of competition, are able to treat their employees well. As a matter of fact, they find it "good business" to do so. Their ability to pay good wages is occasionally held up as an argument in favour of monopoly in an effort to counteract the public antipathy toward such control of industry. Many of these firms support "Employee Relations Departments" which make every effort to foster "company" spirit and loyalty among the employees. The activities of these departments often go to great lengths, sponsoring training and recreational programmes, hospitalization, annuity, stock-purchase and insurance plans and many activities in the employees' interests.

It is just as well that these larger companies are coming to a recognition of the growing dependency of the employees upon such institutions. It is these larger corporations that have brought mass-production methods to their present high stage of development with the consequent building of large communities of workers around them. It is they who have required the worker to develop one-sidedly to skill himself for a particular task. And it is they, who have eliminated alternative employers in the same industry either through absorbing them, crushing them or by preventing them from arising. These firms must assume the obligation of

responsibility for the army of workers they have built around them, at least in part with the government, by means of superannuation, unemployment coverage, hospitalization, sickness and accident benefits, and proper compensation.

Much of this is now in effect in the more enlightened corporations. The unemployment and superannuation coverage having perhaps, made least headway. Labour is not too badly treated by most of the larger corporations, particularly where it is organized, and some firms, such as the Imperial Oil Company offer their employees many benefits. Oftentimes labour is in a much stronger position than the "white-collar" workers who lack organization. These comprise the office staffs, clerical help and a host of foremen, technicians, and checkers. Usually, though, the white-collar worker is not as subject to lay-off as is labour with fluctuations in production. True, he does not get paid for overtime but he is usually retained during off-peak season. Furthermore, the work of office staff, at least, is not so highly specialized that the worker cannot find similar employment elsewhere. There are employers, however, who do take advantage of this group of employees due to their unorganized position.

Labour, itself, where highly organized is not without criticism. It has been known to resist attempts to improve efficiency through general resistance to the introduction of time and labour-saving devices. Slow-down activities are not

unknown to labour either. Coal-mining is one case where the introduction of new machines has met successful resistance. Labour's criticism of these changes in the interests of greater efficiency are roughly as follows:- Where the productive capacity of an employee has been stepped-up through such studies or by means of a new machine, the employee does not receive increased compensation. Usually the labour force is reduced instead, therefore labour does not benefit.

This criticism is unsound if the increased efficiency results in a reduction in the price of the product. Such reduction in price would probably result in an increased demand for the product which eventually would require the hiring of additional labour. However, if the price of the product is fixed then it evolves into a squabble between management, the shareholder and labour as to how the saving should be distributed, with labour having a pretty good case for a share of the melon.

Labour unions should bear in mind that they, as well as new machinery, have been responsible for labour lay-offs. Prior to the advent of unions, large companies were required to keep a labour reserve on hand. This reserve is now maintained by the union for several such companies. For example, wharf warehouses at large ports were required to retain a nucleus of stevedores in reserve at all times awaiting the

arrival of a ship. At a port such as New York there would be 20 or 30 such warehouses or dock-loading sheds each maintaining a reserve of 20 or so stevedores. This meant that for the port perhaps 400 to 600 were always on call. The union-office now supplies the stevedores, maintaining a reserve of perhaps 100 men . This economy of labour was introduced with the advent of unionism. Organization made possible the more efficient distribution of manpower. Surely then, labour cannot resist changes introduced by management on the grounds that jobs will be eliminated.

It is this trend of thought that leads the glass-blowers union to request the bottlers union to break as many bottles as possible, or, coal miners to insist on mining coal by pick instead of machinery. Enlightened union heads are as anxious to eliminate this type of uneconomic thinking as is management. On the other hand, corporations should recognize the increased productive capacity of the worker resulting from improved techniques. With the introduction of new ideas enabling the employee to produce two articles where one was produced before, or where a part can be machined in a single operation where it previously required two, recognition of increased efficiency in the form of additional compensation or a reduced working week would assist immensely in securing Labour's cooperation. The better corporations recognize this and make an honest attempt to work hand-in-hand with their

employees with the result that many economies that are possible are quickly adopted.

Labour is much more likely to be abused by corporations party to price-agreements than by those in a monopoly position. As was shown in the previous chapter, price-agreement has a tendency to introduce "unused capacity". Unused capacity linked to a fixed price, creates great pressure to engage in costly selling and advertising campaigns in order to attract a measure of business from competing firms. Each retaliates with programmes of their own with the result that their campaigns tend to neutralize each other. This introduces two new items of expense, selling cost and advertising cost, to the unit cost of the article, reducing the profit and eventually necessitating an increase in the fixed price. However, as the price is increased, the industry becomes increasingly attractive to independent newcomers, with a resulting increase in unused capacity and in competition. Under the pressure of this competition, the corporation makes every effort to reduce unit costs by whatever means possible. This could be accomplished by reducing labour cost and this is attempted by some. However, minimum wage laws afford protection against this sort of thing and the larger corporations observe these laws much better than do smaller concerns.

It is in the highly competitive field spurred by excess capacity, that labour suffers most. Where excess capacity appears due to a change in the public demand, because of over-

optimistic expansion in an industry or even as a result of the expansion for war production, cutthroat competition results. Prices fall and normally the excess capacity is eliminated due to the failure of the least-efficient. Where workers are unorganized and have a limited choice of jobs, as in small Quebec towns, an employer may continue to survive by means of large wage cuts.

Small industries requiring little capital, such as baking, garment-making, printing, retailing and repair shops attract many small newcomers attempting to set up in business for themselves. This is particularly true during periods of widespread unemployment. This introduces excess capacity with resulting cutthroat competition. Labour engaged on a "piece-work" basis have been known to be badly exploited in the clothing and furniture trade. Owners of small bakeries and retail stores often work themselves and their families long hours in order to eke out a bare living under these highly competitive conditions. Actually, the inefficiency of their operation is offset by their reduced wages and long hours thus enabling them to stay in business.

This can occur where labour lacks mobility, particularly during periods of unemployment, where labour is in a weak bargaining position either through lack of organization or education (or both), or where government enforcement of minimum wage and industrial standards laws is weak through lack of staff and/or initiative. Adequately enforced wage

legislation, qualified government employment agencies and Unemployment Insurance properly administered could go a long way towards eliminating this problem. The first ensures a fair minimum wage whilst the second and third tends to increase the mobility of labour.

Large corporations controlling plants spread across the country, or even in several countries, have been known to favour an area offering "cheap labour" in preference to a section where labour rates are higher. This has led to the migration of the industry from one section of the country to the other, or from one country to another. This occurred in the United States with the movement of certain industries from the northern states to the "unorganized" south. It has also occurred in Canada to some extent with the centering of certain manufacturing industries such as leather-goods and clothing in the Province of Quebec. Where lower labour rates are available, corporations are tempted to transfer their activities into these areas, if the pressure of organized labour for increased wages becomes too insistent elsewhere in the country. Labour's best protection against this is more uniform minimum wage and industrial standards laws between provinces.

Insofar as the modern corporation affects labour, then, it would appear that the workers by means of union organization have placed themselves in a fairly strong bargaining

position. Provincial and federal regulation has been fairly extensive in an attempt to protect the employee against exploitation. This legislation has guaranteed the worker a fair minimum wage, compensation against industrial accidents and ailments, the right to organize, safe and proper working conditions, and lately, insurance against unemployment. However, more uniformity in minimum wage laws and labour standards between provinces is necessary, as is more adequate enforcement.

The federal government, through its old Employment Service, now superseded by the Unemployment Insurance Commission hopes to offer an employment service to assist idle labour to locate work. To this might be added social legislation similar to Unemployment Insurance to provide for the Superannuation of workers on a contributory basis. Hospitalization, sickness and accident insurance and life insurance might also be added. The more enlightened corporations have not waited for government action in these fields but have introduced such benefits through their Employee Relations Departments.

The corporation does effect labour adversely however, through its tendency to reduce the labour's mobility. The concentration of large masses of workers into particular areas plus the extreme division of labour makes these workers highly dependent upon the company. Their lives are tied to that of a legal entity, usually semi-publicly owned, though

not publicly controlled. This large business creation probably is controlled by management or by means of some legal-device such as the holding company or voting trust. In any case, its future and present operation are most likely to depend upon the decision of four or five men. These few men probably have but a small business share in the enterprise, and the workers as well as the shareholders must depend upon their integrity.

Corporations of the magnitude of the Canadian Pacific Railway employ thousands and thousands of employees. The railway is to all purposes semi-publicly owned when one considers the wide dispersion of its stock. The workers depend upon wise and able management to maintain sufficient business to provide them with continuing employment, as do the shareholders to provide a fair wage on their invested capital.

Labour's problem here is capital's problem also. Anything that can be done to assist in the more accurate determination of who are the best managers and in methods to make this information available to labour and investors will assist in the protection of both groups.

CHAPTER VTHE CORPORATION AND THE PRIMARY PRODUCER
AND SMALL MANUFACTURERS

The Modern Corporation due to its size, has tremendous bargaining power not only in the field of labour but in the primary products market where it purchases the components for its products, the goods it is to merchandise, or the products it is to distribute. This fact is evident in the business dealings around us in our every day life. For example, the chain store is in a much better buying position than is the independent corner merchant for the produce of the farmer or the local cannery. He is able to buy in quantity due to his greater number of outlets and due to his greater turn-over each year. Most producers are tempted to give a reduction in price in order to dispose of their entire production through perhaps one sale. This is again true of the increased purchasing power of large department stores such as Eaton's, and Simpson's, over the independent small clothing merchant, or hardware store. Large corporations also are able to take advantage of cash discounts, whereas small shops are often required to depend upon bank loans, or credit arrangements in order to purchase their stock.

On a larger scale, meat-packing companies and large canning companies, are able to refrain from buying until the market is right. In the case of the meat-packing companies

this might involve gearing their purchasing, and their killing and packing programs to such periods of the year when farmers and producers worry about disposing of excess stock and begin to flood the market with their products. Where the packing industry is divided between one or two large firms very often they cooperate in their efforts to beat the producer down. Where the entire processing industry is in the hands of a few, the price can often be beaten down to the point where the producer fails to get a fair return for his products.

The same is true in the canning industry. If the canneries stay out of the market until it is glutted, producers often become panicky and are quite willing to sell their entire crop at a low figure in order to dispose of it. In the canning industry it is quite common to have producers in the area gear their production to figures set at the beginning of the season by the canning companies for disposal to these companies at a set figure. This practice is also common in the sugar beet industry.

Tobacco growers in Ontario and Quebec had considerable difficulty in dealing with the Imperial Tobacco and Tucketts Tobacco Companies (one and the same) prior to the setting up of cooperative organizations. These companies not only graded the tobacco but set the price the farmer was to receive at the end of each growing season for his products. Usually they bought the entire output of the farmer and unless he was

satisfied with the price proffered, he was passed up by the buyer entirely in ensuing years.

Before Government intervention in setting a stabilized price, milk producers experienced great difficulty in their dealings with the large dairies. Considerable cause for complaint still remains however, even though this industry operates under direct Government supervision. Dairies still reserve the right to pay a reduced fee for surplus milk received. As they have a right (or take the right) to declare what is surplus and what is not, and the producer has no means of checking this, he must accept a reduced price for a certain portion of his milk shipped to the dairy. Egg-grading, quite often carried on by the purchaser for cold storage or distributing companies, is also open to abuse. As both the grading and the price are at the discretion of the grading station operated by the purchaser, considerable latitude is allowed such a distributing agency. The practice is to purchase eggs during period of high production when the supply is heavy upon the market, and the price is low. These are then stored for distribution on the market during periods of high price.

Flour milling in this country is under the control of 5 or 6 large milling corporations. As the price of flour is pretty well fixed by agreements between these companies, every effort is made by them to keep the prices paid for

wheat at the lowest figure possible in order to ensure high profit returns to themselves. Despite the fact that they are practically the only domestic market for wheat, they are able to exert little influence upon the price paid. This is because wheat is sold on a competitive market - the Winnipeg Grain Exchange. Most of Canada's wheat crop is exported, with the result that prices on the Winnipeg exchange follow those at Liverpool fairly closely.

Fishermen in certain parts of Canada, particularly in Nova Scotia, and in the Gaspé areas, are completely under the thumb of large fishing companies. Some of these came from the Isle of Jersey, originally, but in most cases regardless of whether they be Canadian or Old Country firms, they are, through keeping the fishermen in debt, able to command the entire output at a figure suitable to themselves. The practice is to operate company stores, usually the only one available to the fishermen to whom they extend credit, grubstaking him for the fishing season and getting him so indebted to the company that he must market his catch in an attempt to offset this debt. During the off-season, these stores carry the fisher-folk and their families, and as a result, through charging high prices for produce obtained from the store, and paying a low rate for the catch, these fishermen are kept constantly in debt and become the economic slaves of the company.

This same economic slavery was forced upon the trappers and Indians of the North by some of the earlier fur-trading companies. To what extent this is still in practice is not known but it is thought that it is still fairly prevalent. Trading companies, operate stores supplying the trappers, who apply their catch against the debt thus accumulated, but through the manipulation of prices for the goods sold and the prices paid for the fur, the trading company is able to keep the trapper in debt, just a slave of the company.

The following evidence before the Price Spreads Commission gives some indication as to the control the six buyers of salt fish in Nova Scotia have over the deep sea fishing industry there:-

"Q. Is there any bargaining at all between the fishermen.... and the storekeeper?

A. Bargain, but here is the situation; they say, if you do not want us to take them, you will just have to leave them remain there.....

Q. You get the same price for all?

A. Yes. For instance, if the merchants (in Halifax) want to make the price of fish four dollars per quintal, there would be the same thing in Lunenburg."¹

Four of these six companies are in Lunenburg and the other two in Halifax. The largest buyer operates three company-owned steam trawlers, using the fish caught as a bargaining weapon against the fishermen. The fishermen are outfitted for their voyages and their families supplied whilst they are away by the company store on credit. The fishermen of

¹Evidence before the Price Spreads Commission, IV, p. 4

Lunenburg saw one very good solution to their predicament, form a producer's cooperative. This was impossible however, as the four companies had bought up all the desirable sites on the small harbour to keep newcomers from entering the business. This was disclosed in the following evidence:-

"A.in Lunenburg, we haven't anymore sites, the waterfront is all used up....we had another firm there 10 years ago, and the minute that firm died out the other firms bought the site up to keep somebody else from stepping in... it is a small harbour.

Q. Then these sites become very valuable?

A. They become so valuable that they cannot be bought at any figure at all. I will give you an instance: about three years ago we (i.e. the fishermen) started to organize, we were going to build a cold storage, and we went to one firm and asked them for a site which they were not using and they said they would not consider selling it at all, that they would keep it." ²

The canning industry perhaps deserves special mention also, particularly in view of the fact that some insight was given in Chapter 11 into the promotional activities of financial interests in the formation of Canadian Cannery. In the investigation of the Price Spreads Commission, Mr. F. McIntosh of Associated Quality Cannery testified as follows:-

"Q. Perhaps you could tell us who it is that fixes the price for the crop paid to the farmer?

A. Am I compelled to answer that?

Q. I think so.

A.There is a dominating factor in it

Q. What is the dominating factor?

A. The large company.

² Ibid p. 42

Q. The large company, that is, Canadian Cannery?

A. Yes sir.....

Q. By and large the situation is that the price paid by Canadian Cannery is the ruling price for tomatoes?

A. Yes.

Q. And the price varies somewhat in districts?

A. Yes." 3

The large canning companies provide a market for a large proportion of the fruit and vegetable crops in Ontario under contract arrangements with the farmer. As indicated in the above evidence, Canadian Cannery set the contract price. The farmer usually purchases his young plants from the company, contracts his crop at the set price, depends upon this contract as security for a bank loan and then at harvest-time depends upon the canning company for the grading and dockage of his crop. With the grading and dockage left to the company's discretion, the farmer usually finds grading severe and dockage heavy during years of large crops, although in years of poor crops, the companies compete for the produce by means of more lenient grading and dockage policies.

The above condition does not exist where fruits and vegetables are sold in the open market or through producers cooperatives, especially if this latter method is strengthened by means of government sponsored marketing boards as in British Columbia. Most of the fruit and vegetables in Ontario are disposed of at public markets. The bulk of the apple crop

³

Ibid - pp. 3422 - 3423

of the Maritime provinces is also sold in a competitive market after export to Great Britain, one third of the crop being handled by cooperatives. An investigation into an alleged combine in the marketing of New Brunswick potatoes, disclosed that an agreement on buying price existed between two groups of shippers who controlled the export trade. The farmers were forced to sell before freeze-up at a reduced price because they lacked adequate storage facilities.⁴

The meat-packing industry is dominated by the two leading companies, Canada Packers and Swift's Canadian, who handle approximately 85% of all the meat packed in Canada. Evidence before the Price Spreads Committee indicated considerable agreement between these companies both as to buying price and the division of the available supply.⁵ It was estimated that had consultation on buying prices not been practiced by these two firms, producers would have received from fifty cents to one dollar more per hundred pounds for their cattle.

The packer has encouraged truckers to dispose of the cattle hauled for the producer at the packing plant instead of the stockyards. Facilities to make such direct purchases are provided handy to the trucker. For example, in Edmonton, plant buying depots are athwart the main highway at the outskirts of the city. The trucker is more concerned, as a rule, in making a quick disposal of his load than in obtaining

⁴ Department of Labour, Investigation into an alleged combine in the marketing of New Brunswick potatoes, 1925.

⁵ Evidence before the Price Spreads Commission, pp.1079-1083

the highest price for the farmer. With the growth of trucking of livestock the producer's position is slowly being weakened by this by-passing of the competitive public-market in favour of direct sales to the packing plant. One factor alone, small as it at first may seem, confirms this. Before the cattle are disposed of at the stockyards, they are fed and watered, whereas on sales directly off the truck they are not. It is estimated that this may mean the difference of 75 lbs. in the weight of a 1,000 lb. cow. The results obtained by investigators for the Price Spreads Commission in a check made during March, 1934 indicated that packers also bought livestock from truckers at less than stockyards price. The loss to the producer can be seen from the following report.

" Average cost of cattle, calves, sheep and lambs per 100 lbs. dressed weight, Swift's Toronto Plant, two weeks ended March 31st, 1934.

	<u>Purchased on Stockyards</u>	<u>Purchased Direct</u>	<u>Difference</u>
Cattle.....	\$ 8.16	\$ 6.30	\$ 1.86
Calves.....	10.21	9.13	1.08
Sheep.....	7.66	5.71	1.95
Lambs.....	15.88	12.53	3.35

Average cost of hogs per 100 lbs. dressed weight, Canada Packers' Plants, month ended March 31, 1934.

	<u>Purchased on Stockyards</u>	<u>Purchased Direct</u>	<u>Difference</u>
Toronto.....	\$ 12.25	\$ 11.85	\$ 0.40
Montreal.....	12.73	12.10	0.63
Winnipeg.....	12.00	11.51	0.49

6.

Chain stores, instead of baking their own bread, shop around the various bakeries to obtain a low price on a six to twelve month contract basis. If competition is keen, and unused capacity common (which is likely to be the case and the cause of the competition), they will probably be quite successful in obtaining a price little more than the direct cost of the product. If a small plant obtains the contract, the owner will probably find that with succeeding contracts the order will increase as the chain store through selling at a reduced price increases its turnover of bread. More than likely the bakery will gradually devote its full capacity to producing for the chain and will become utterly dependent upon this chain-store business. Should the chain store demand a reduction in price on the succeeding contract, the bakery would be faced with the option of accepting it or going out of business, or eventually both.

The baker who tries to maintain his delivery service and supply the chain store at a reduced price winds up in approximately the same position. The chain store selling the same product on a small margin competes with the delivery service which must keep its price down to one or two cents in excess of the chain price per loaf. As this differential rarely, if ever, supports the cost of this selling expense, the baker either finds his profit substantially reduced or finds his chain store business growing at the expense of his

delivery service, or both.

Section 498 A of the Criminal Code of Canada⁷ passed as a result of pressure exerted on the government by the retail merchants' and wholesalers' associations, made anyone guilty of an indictable offence "who is party or privy to, or assists in, any transaction of sale which discriminates, to his knowledge, against competitors of the purchaser in that any discount, rebate or allowance is granted to the purchaser over and above any discount, rebate or allowance available at the time of such transaction to the aforesaid competitors in respect of sale of goods of like quality and quantity."

This addition to the Criminal Code in 1935 resulted from the Price Spreads inquiry which, among other things, disclosed considerable difference in the price paid for bread by chain and independent stores. Their findings are shown below in Table XI.

TABLE XI⁸
BREAD PRICES, JUNE, 1933^x
(cents per pound)

	Grade 1			Grade 2		
	Chains	Inde- pen- dents	Con- sum- ers	Chains	Inde- pen- dents	Con- sum- ers
Montreal...	4.17	6.00	6.00	3.17-3.33	4.00	4.67
Toronto....	3.66-5.17	6.00	6.67	2.83-4.00	4.67	5.33
Hamilton...	...	....	...	3.33	4.00	4.67
Ottawa.....	....	....	....	3.17-3.50	4.67	5.33
Winnipeg...	4.00-4.75	5.00	6.00	3.00	4.00	..
Vancouver..	4.50	5.00	7.00	....	....	....

^x Evidence before the Price Spreads Commission p.3707.

⁷ See Appendix X

⁸ Evidence before the Price Spreads Commission pp.2153-3154

Evidence before the Commission such as that above, would indicate that corporations engaged in mass distribution, such as the chain store and department store, are frequently able to purchase goods at approximately the unit cost of the producer, and perhaps below this cost at times. In 1930, department stores alone sold 42 percent of the women's clothing, 46 percent of the furniture, 32 percent of the shoes and 27 percent of the men's clothing.⁹ Department stores have been guilty of the same buying pressure tactics in dealing with clothing, shoe, furniture and other manufacturers as the chain stores employed on bakeries, market produce dealers and farmers. Tires sold to regular dealers at a standard discount of 20 percent off list price, whilst private brand tires of similar quality were sold to the mass distributors at from 38 to 44 percent below list price.¹⁰ Clothing and furniture purchasing was often more ruthless.¹¹ Small manufacturers accepted contracts of increasing size until they became utterly dependent upon the department store. They were then forced to accept a lower contract price in order to continue in operation. It was found, out of thirty-eight purchases of furniture by Eaton and Simpson companies analyzed by Commission Accountants, that the average total cost per piece to the manufacturers was \$76.19, while the average selling price was only

⁹ Ibid - p. 206

¹⁰ Ibid - pp. 2153-3154

¹¹ Ibid - pp. 125-126, 174-176

\$65.77.

The small manufacturer and/or primary producer who disposes of his goods to the mass distributor at a reduced price on a contract basis in order to utilize unused capacity, save selling and delivery costs through making a single sale instead of thousands of individual sales, suffers two ways - first, from the buying pressure of the large distributor, and secondly, from pressure exerted on him by the independent outlets for a reduction in price to enable them to compete with the mass distributor who has undercut them in price. The net result is that he finds that he is competing with himself, as in the case of the baker who helped the chain-store compete with his own delivery service making it unprofitable.

Many of Canada's primary metal products are not marketed. The corporation mines, smelts, refines, rolls and may even fabricate the product, as in the case of nickel under International Nickel Company. The metal is mined at Sudbury, smelted at Coniston or Copper Cliff, Ontario, refined at either Port Colborne, Ontario, or Clydach, Wales, and the pure nickel rolled at either Huntington, West Virginia, or Birmingham, England. Noranda Mines, recently purchased Canada Wire and Cable Co., making it possible to mine, smelt, refine and fabricate the copper it produces (along with gold). Hudson's Bay Mining and Smelting Co., mines, electrolytically

extracts and refines the zinc produced at Flin Flon, Manitoba. The Aluminium Company of Canada Limited brings components required for its product from the British West Indies and Iceland and extracts aluminum at Arvida, Quebec, where cheap hydroelectric power is available. This company handles the primary product right through to its fabrication and distribution.

Consolidated Mining and Smelting at Trail, B.C. presents an excellent example of primary production controlled by the corporation through to fabrication and final marketing. This firm handles products from zinc and lead, right through to heavy chemicals such as sulphuric acid. Fertilizers (Elephant Brand) are also produced and recently Consolidated was given charge of operation of a federal crown company for the production of nitrogen at Calgary, Alberta.

Control of primary production by large corporations is also prevalent in forestry operations, at least in eastern Canada where most lumbering companies cut their own logs. In the pulpwood field, most cutting is done by the company on its own timber limits, driven to the mill by company employees where the logs are transformed to pulp and processed to paper. In British Columbia, the situation differs somewhat in that there is a separate logging industry with the logs sold in a competitive market to lumbermen.

Oil and natural gas production in Canada is carried on primarily by large corporations who have integrated everything

from development work in search of producing wells to the refining and distribution of the product. Price leadership is given by Imperial Oil to three other principal producers of petroleum products. The natural gas development is handled by public utility companies such as Northwestern Utilities, Edmonton, Alberta, who look after the drilling for and piping of this gas within the area comprising their market. In the petroleum industry, however, there is evidence to indicate that retailers and small independents are dominated by the larger refiners.

Coal production in Canada is reasonably competitive. In Central Canada competition is offered by bituminous coals from the United States and anthracite from Scotland, Wales, Germany, United States, Russia, Belgium and Indo-China. Nearly all of the bituminous coal sold in the maritime provinces is marketed by the Dominion Steel and Coal Company which has a monopoly over Nova Scotian coal production. Competition, however, is maintained by importers of foreign coal. In British Columbia, two large firms produce most of the coal, but must compete with fuel oil, Alberta coal, and sawdust waste from the lumber mills. Alberta and Saskatchewan coal mining is over-expanded and highly competitive so much so that the producers requested government intervention to maintain prices.

From the above review of the effect of the corporation on

the producer of primary products and essential primary manufactured goods such as wearing apparel, shoes and furniture, it is apparent that a considerable portion of Canada's agricultural produce is sold on a competitive basis. This is also true in the clothing, shoe, baking and furniture industries. The production of metal, petroleum, natural gas, electric power and forestry products tends to be controlled by corporations, as does coal in Nova Scotia, and British Columbia. Where this occurs, primary producers, in the sense of independent operators engaged in extractive enterprise for the purpose of supplying products to fabricating industries, do not exist. Control of the industry from the source of raw material to the production and distribution of the final product is vested in the hands of the large corporation. This is typified by such examples as:- the paper companies with their timber limits, the oil refiners, with their oil wells and service stations, Johns-Manville, with its asbestos mines and insulation business complete with blowers to inject the insulant into the wall cavities of homes, and the International Nickel Company with its mines, smelters, refineries and rolling mills.

The size of the large corporation, with its consequent large demand for raw materials, for further fabrication or mass distribution, places it in an extremely favourable buying position. These large buyers are able to exert heavy pressure upon the primary producer and small manufacturer of

component parts or marketable merchandise in an effort to depress their selling price. There is evidence to show that the primary producer is quite often forced into dependency upon these corporations and often relegated to the position of economic slavery.

It would appear then that the corporation has a tendency to embrace primary production as part of an all-inclusive coordination of the industry from the raw material stage to its ultimate distribution, or dominate those sections of industry that have managed to remain competitive. This points to the very disturbing observation that competition appears to be self-annihilating rather than self-perpetuating.

The buying pressure of large corporations upon primary producers has led to their organizing, in much the same manner as labour organized, to resist exploitation. This common front organized to improve their bargaining power appeared in the form of the producers' cooperative movement. In effect, the producers' cooperative is a centralized marketing agency formed by the producers to dispose of their products. It has been very effective, in many instances, in assuring the producer a fair return for his product. However, it has also been known to go to the other extreme and regulate production in order to hold up producers' prices through curtailment of competition. For example, the Alberta Wheat Pool, organized in 1923, together with the Saskatchewan and Manitoba

Pools organized the following year, set up a central selling agency, Canadian Cooperative Wheat Producers, Limited, which handled approximately half of Canada's wheat crop from 1924 to 1929. In 1929, the pool held out for \$2.00 per bushel and it is thought did much to influence foreign countries to encourage "home production" of wheat with a resultant loss of foreign markets to Canadian farmers.

However, producers' cooperatives have done much to improve the position of the primary producer particularly in the agricultural field. British Columbia fruit-producers have been particularly active in this type of organization but found that government intervention was necessary for its enforcement. Accordingly, the provincial government passed a marketing act in March, 1937, under which was established the "Interior Tree-Fruit and Vegetable Committee of Direction" with power to license all shippers, to set prices and to regulate shipments. This marketing act was declared to be beyond the powers of the province by the Supreme Court of Canada, February, 1931. However, in 1934 the province was able to influence the federal government sufficiently to have it pass the Dominion Marketing Act, which was in turn declared invalid by the Supreme Court in 1936. The province passed a further act which was upheld in 1938 by the Privy Council. As a result, in this province, nearly all important primary products are controlled.

Cooperative dairies, creameries and cheese factories are gaining in number each year. These strengthen the position of the farmer immeasurably in dealing with the incorporated mass distributor. Three cooperative sales agencies organized in 1933, and strengthened by a marketing board set up under the Natural Products Marketing Act of 1934, enabled the tobacco growers of Ontario to secure fair treatment in their dealings with Imperial Tobacco Company. The machinery, comprising a joint board of three growers and three buyers, set up to dispose of the crop still functions on a voluntary basis since invalidation of the act.

Producers' Cooperatives, whilst they protect the producer against exploitation by the corporation, can work to the disadvantage of the consumer, if they tend to maintain price, restrict production and practice the methods common to monopoly corporations. This often occurs where they are strengthened by government legislation such as the Natural Products Marketing Act. They can operate to restrain trade as effectively as corporations in a monopoly position. Such restraint of trade is as contrary to the terms of the Combines Act as restraint by giant corporations in that it works to the detriment of consumers.

Producers' Cooperatives, however, as a protective yardstick, acting in competition with "private enterprise" benefits the primary producer without appreciable affect upon the

consumer. As such, they serve to assure the producer a fair price for his produce, but do not give him monopoly control. The objection to governmental attempts made to date at marketing legislation, is that it tends to cartelize primary production. Cartelization, whether it be in the interests of the primary producer or big business is equally objectionable to the consumer.

The producers' cooperative is the natural consequence of the corporation. It is the result of the banding together of producers to resist the pressure of buying power exercised by the large corporation. As such, it has proved a boon to the producer and is to be recommended as an effective protection against corporate exploitation of the producer. However, producers' cooperatives sufficiently large to maintain monopoly control of production are not desirable and the government should do nothing to assist the establishment of such monopolistic control. In fact, by means of the Combines Act, the government should discourage any such monopoly as being against the interests of the consumer.

Government intervention in the interests of the primary producer should take the form of maintaining free competition. It was shown in the case of the meat industry that the two leading meat packing companies were able to benefit at the expense of the producer through the purchase of livestock at the plant rather than at the stockyards. Government

regulation and provision to assure the use of public markets for the disposition of agricultural products, would do much to assist the producer. One such measure already taken by the Dominion government was the establishment of central grading stations for eggs. As more of these are established, they may develop into produce exchange as more buyers and sellers become attracted to these central points.

Dissemination of up to the minute marketing news by means of the C.B.C. assists the producer in proper utilization of the public market. This information makes it possible to ship his produce to the market knowing approximately the price it should command. This service is now provided, however the producer is not always in a position to hold his produce off the market until the price is attractive. With more extensive electrification of rural areas, the farmer will be able to take advantage of refrigeration through the installation of cold rooms. Thus enabled to properly store produce, the producer will be in a better position to take advantage of market reports over the radio, and dispose of his produce during periods of favourable prices.

CHAPTER VITHE CORPORATION AND THE STATE

The corporate form of organization is the dominant type found in industry today. It has been employed in the formation particularly of those companies engaged in mass productive methods. The corporations ability to mobilize wealth for productive purposes through the issuance of securities, and through the amalgamation and merger of companies in a related field of endeavour, has made possible the building of aggregates of increasing size. With the ever widening dispersion of ownership and the consequent evolution of control into the hands of a few, as these companies developed in size, they ultimately became quasi-public corporations with control centralized in the hands of management, a minority, or to some group maintaining control through means of a legal device such as a holding company or voting trust. As these corporations developed in size, they tended to gain control through the elimination of competition by means of consolidation or merger, or through price leadership through the cowing of competition because of their great size, and eventually tended toward the point where they monopolized the market in the field of industry engaged in, or shared it with one or two other large corporations who preferred to remain independent but were sufficiently strong to compete. "here

two or three such large corporations share the market, and small competition was eliminated, there is a tendency for these large firms to get together through trade association or some other means, to form a price agreement, thus avoiding what the ethical business man today seems to dub unethical price-cutting, or cut-throat competition. Competition is then carried on in a higher plane through competitive selling, and advertising. Where an outright monopoly is gained through the elimination of competition, there is a tendency to protect this monopoly through persuading the State to erect tariff barriers to keep out foreign competition, or through entering into cartel agreements with foreign competitors whereby they agree to allow the monopolistic concern a free hand within a designated market.

The great influence exercised by mammoth corporations, which dominate, alone or in partnership with other large corporations, various industries in the country employing large numbers of the citizens, consuming vast quantities of raw materials grown within the country, and producing a large percentage of the goods consumed within the country, is a force to be reckoned with by men in public office. An association of Canadian industrialists, in the form of the Canadian Manufacturers Association, is able at all times to exert pressure upon the Government of the day. While manufacturing and finance for all practical purposes may be con-

sidered as fully organized on a corporate basis, public utilities, railroads, transportation systems, mining, chain stores, wholesales, and many other fields have come under corporate sway. The Federal Government have found the corporate device an expedient means of organizing such Crown Companies during wartime as the follows:- Allied War Supplies Corporation, Research Enterprises Limited, Victory Aircraft Limited, Cutting Tools and Gauges Limited, National Railways Munitions Limited, Small Arms Limited, Wartime Shipbuilding Limited, Federal Aircraft Limited, Park Shipbuilding Limited, Defence Communications Limited, Polymer Corporation Limited, Wartime Housing Limited, War Assets Corporation Limited, Aero Timber Products Limited, Citadel Merchandizing Company Limited, Fairmont Company Limited, Northwest Purchasing Limited, Veneer Log Supply Limited, Wartime Metals Corporation, Atlas Plant Extension Limited, Eldorado Mining and Refining, Melbourne Merchandising Limited, Park Steamship Company Limited, War Supplies Limited and Wartime Oils Limited.

It would appear then, with the corporate structure being used more and more as a means of organizing enterprise, and latterly, Government agencies conducting business on behalf of the Government, that this type of business enterprise is becoming daily, that with which the Government must deal when concerning itself with the industry and business of the

country.

As these corporations grow to the point where they become quasi-public institutions, they become vast organizations owned by hosts of shareholders, but controlled by the small group exercising management over the enterprise. As these groups are generally self-perpetuating, the corporation becomes a large economic aggregate with legal entity, which can change hands by transference of control, with or without oftentimes the consent of the owners. As such a large economic aggregate, becomes an integral link in the economy of the country, (for instance the C.P.R. Railway) the destiny of such a corporation and the control becomes definitely the concern of the State.

Large corporations attempt and do develop company-spirit and loyalty among their employees in order to foster a team spirit in competition against other companies. This morale building among employees is in the best interests of the corporation because, in building up a strong company-loyalty it is assured the conscientious effort of each employee. Where the company spirit is good, each employee is, outside of business hours, a salesman for the company unconsciously selling the company's products through word-of-mouth advertising. Such loyalty, however, particularly among senior executives, sometimes transcends loyalty to the state on small everyday issues, and occasionally, in the case of major

governmental policy. This is particularly true in the case of cartel agreements, and in the defiance of the Combines Act when price-agreements are entered into and restrictions are imposed upon trade and competition. Let us first look into the case where cartel agreements oftentimes work against the best interests of the state.

The most serious threat or flagrant disregard of the state, is the deliberate evasion of national laws. A glaring case of this as effects Canada, was brought to light in evidence given before the U.S. Senate Sub-Committee investigation into the economic and political aspects of international cartels. It concerned the dealings of the Canadian Bayer Company in its relations with Sterling Products of the United States, and I.G. Farben-industrie of Germany who under agreement divided equally the profits of the Canadian Bayer Company. To avoid taxation, remittances to I.G. were misrepresented as a royalty, and were accompanied by the following statement:-

"You will note that the compensation paid to you has been deducted as an expense of the business. In the event that the Canadian Government should ever determine that such payment to you is not properly deductible as an expense, and in consequence should require us to pay an additional tax, such tax will, of course, be charged against the total profits of the year in which such additional tax is required to be paid."¹

¹U.S. Senate Committee Print - Monograph No. 1 - p.51

It is felt too that employees' loyalties, have led them to attempt to beat the laws of the land, through the purchase of goods in short supply, sometimes through misrepresenting the facts, or to evade Government attempts in the various fields of taxation by whatever means are available. Most everyone is familiar with some employee or other who has grumbled about the interference of the Government through taxation or regulation effecting the particular industry in which he is employed. For instance, employees of confectionery manufacturers, grained loud and long when the Government found it necessary to reduce the amount of sugar available to their industry. This was repeated in the automotive field, and almost every field of endeavour effected through war regulations. This is just a small indication of the ability of a corporation (that treats its employees well), to mould the loyalty of the employee to the point where it may and sometimes does conflict with his loyalty to the state.

Cartel agreements quite often render ineffective the tariff policy of the country designed to promote domestic industry, or trade agreements with other countries. As pointed out in the report of the U.S. Senate Committee investigation into cartels, in the trade agreement with Canada in 1939, American import duties upon aluminum were reduced, but Aluminum Limited, the great Canadian aluminum manufacture, continued to avoid sale in the United States market.²

² Ibid p. 44

This was due to the fact that the Canadian Company was under the same control as the Aluminum Company of America. Agreement between duPont Company of the United States, and the Imperial Chemicals Limited of Britain keeps British chemicals out of the United States. These two Companies control Canadian Industries Limited, with the result that this large Canadian Company, is precluded from export trade to either the United States or Britain. Much of the effort of our trade-commissioners stationed in various countries to promote the export of Canadian manufactured products is hampered through cartel agreements whereby the territories which they are attempting to open up to Canadian exports have been allocated by cartel agreement to foreign companies. Canadian signatories to such agreements have agreed to stay out of these fields, so that unless the trade-commissioner is able to persuade some independent (if he does not happen to be manufacturing under a license of some partner to a cartel agreement) to enter this market, there is little hope of opening it to Canadian manufactured goods.

Cartel members are often instrumental in influencing the Government to raise tariff walls as a protection. This is indicated in a letter written in 1927 by Sir Alfred Mond, Imperial Chemical Industries Organizer:-

"In negotiation, the man behind the tariff wall always has something with which to bargain, which the man in the Free Trade country has not. Anyone who has any practical experience

of bargaining with continental producers knows that the first thing they say is: 'You cannot export to our country, because we have a tariff. How much of your market are you going to give us?'"³

Cartels between German and American Partners were used to evade measures taken against Axis trade by the Ministry of Economic Warfare. Published in "INDUSTRIAL CANADA" during the war has been a list of firms trading with, or owned by German Corporations. Trade has been specifically banned with these firms. Evidence before the U.S. Senate Committee investigating international cartels disclosed many transactions whereby American companies, before the United States' entry into the war, circumvented Allied efforts through acting on behalf of their German Cartel Partners. Some difficult cases brought to light are as follows:-

Pen-Chlor, as indicated by an inter-office memorandum on September, 1939, acted for I.G. Farbenindustrie. This inter-office memorandum worded as follows:-

"I suggest we be authorized to sell Perchloron anywhere in the world during the present emergency conditions in Europe for the following reasons:-

1. With German and English Perchloron out of the market, only Mathieson will be left to take care of world business.
2. Mathieson taking care of world business will mean a loss of markets to I.G. whereas our taking care of the markets will ensure return to I.G. at the conclusion of the war.

3. Mathieson taking care of world markets will mean no profit to the I.G. Our taking care of them will mean the I.G. will be getting half of the profit because of stock ownership.
4. Probably we will not be prepared to give as low a price as the I.G. now gives, and, therefore, the whole price structure will be advanced but when I.G. goes again into the market, they will be able to show the customer that they are going to save him some money.
5. The I.G. might want to help us take care of certain markets for them, particularly the ones that are most desirable, so that they will not lose them to Mathieson and in this connection should give us names and prices information and do all they can to help us get the business.
6. The I.G. should recognize that if Mathieson is obliged to increase their production to take care of these world markets, they Mathieson, will be very reluctant to give up these markets at the end of the war, and of course, because of a very large production may be in a better position to compete with the I.G. in the future.
7. The above plan should be put into operation at once before these world markets are harmed and certainly before they are obliged to buy from Mathieson because they are the only seller."⁴

The following letter was written December, 1939 to the American Rohm and Haas by I.G. as follows:-

"The arrangement which we have with your firm about synthetic tannings limits the markets where you are free to sell your synthetic tannings to the United States of America and Canada, whereas we supply the rest of the world. In previous years we have in some exceptional cases allowed you to make certain shipments to the South American markets. Most of these markets can at present not be supplied by us regularly and in order to allow our friends in these markets to maintain their position we should very much appreciate it if you could supply them which certainly would also be in the general interest of the business in synthetic tannings.

We have therefore, informed our friends in the South and Middle American States to approach you through the Advance Solvents Chemical Corp., New York, in case they are in need

⁴ Ibid -p. 65

of synthetic tannings and Tamol and hope you will be in a position to supply them; only in the case of Mexico where our business friends report you already for Koreon, you will receive inquiries directly."

The American Rohm and Haas Company replied as follows:-

"Of course, we shall be glad to follow your wishes in every detail.

I attach herewith a list of the shipments which we have already made to Bogota, Lima, and Rio. These orders have come to us entirely unsolicited and thought that it was to your best interest to fill them.

We wish to assure you that no matter who is doing the shipping we shall revert to the status quo antum as soon as normal conditions have been restored. The fact uppermost in my mind is to serve you in the most faithful and most efficient way possible in this emergency."⁵

The following telephone conversation of November, 1940 between I.G. Farbenindustrie and Sterling Products Limited discloses the American firms assistance in obtaining insulin for the German firm:-

"Weiss (president of Sterling) - I also want to talk to you about Insulin. You know your people wanted us to get some insulin. They will not sell it to anyone unless that person or firm has a license.

Mann: Isn't there some way via South America?

Weiss: If someone down there can buy then we might be able to buy it. For instance, Kaelble (I.G. manager for Latin America) might send an order there.

Mann: Will you speak with your people and see whether there is any possibility of getting it from South America? We need it very much.

Weiss: I will do that. Yes. I know and I will see what we can do through South America."⁶

As the result of this conversation the Mexican firm Casa Bayer was to order insulin from a brokerage firm in New York

⁵ Ibid p. 65

⁶ Ibid p. 67

City. The insulin was then reforwarded to Brazil and from thence presumably to Germany.

In the same telephone conversation arrangements were made to secure I.G. loans from the Swiss American Bank, as an advance from the profits of the Sterling-operated German interests.

There are other instances where Cartel partners were used as a means of obtaining and transferring money for German firms despite the Allied blockade against such transfer of funds. The Robert Bosch Company of Germany continued to make royalty payments to June, 1941 to the Bendix Aviation Corporation by having American Bosch Company pay Bendix from the royalties it owed to Robert Bosch Company.

The following letter was sent to Stahlunion, Ltda., a Brazilian subsidiary of German steel manufacturers, by the Steel Union-sheet Piling Inc., of New York:-

"We noted that you mailed a copy of your letter to the Stahl export in Dusseldorf. Your letter contains certain references about our mutual relationship, which under the present political conditions should not be discussed with anyone abroad for certain obvious reasons. Neither you nor we know whether someone may not be opening the mail while it is in transit to Europe who is not entitled to do so. We are making this statement to you without the slightest idea of withholding information from Dusseldorf but merely as a precautionary measure to safeguard our business. You are aware of the fact that you are on the black list and if anyone unqualified should get hold of your letter, which evidences a direct relationship between you and us, the next thing that would happen would be that we would also be on a black-list. This being the case, we trust that you will understand when we caution you to use utmost care in regards to your correspondence with Germany." ⁷

⁷ Ibid pp. 67-68

The Bendix Aviation Corporation of the United States decided to cooperate with the conquerors of France and other European countries, probably influenced by cartel connections with the German Robert Bosch Company. As a result the French rights to the manufacturer of starters and de-icers acquired by the German Robert Bosch Company were honoured by Bendix with the effect that the German Robert Bosch Company's market area was extended, beyond its former boundaries to include German occupied territories.

Adjustments were worked out between cartel partners in order to forestall seizure of enemy property. The following letter appeared in evidence before the U.S. Senate investigating cartels, addressed to I.G. Farbenindustrie, January, 1940 by the director of the development department of duPont, it witnesses one such attempt:

"In your letter of November 29th, 1939, on the above identified subject you proposed, because of the difficulties of communication during the present European war, that for the duration of the war, duPont assign to you German patent applications falling under our superpolyamide agreement of May 23, 1939, and that you assign to duPont your United States patents and patent applications falling under the same agreement. We appreciate the difficulties which prompted your suggestion and while we would prefer to continue on the license basis provided in our agreement of May 23, 1939, under the circumstances we are willing to agree to your proposal, subject to the following conditions:

1. That duPont and the I.G. immediately assign to each other their patents and patent applications filed in Germany, and the United States, respectively, following under the superpolyamide agreement.
2. That patent applications which will be filed in Germany

based upon duPont inventions and in the United States based upon I.G. inventions, and falling under our superpolyamide agreement will be assigned to the other party....

7. The assignment of any patent or patent application hereunder shall in no manner effect the rights of obligations of either party as expressed in the agreement of May 23, 1939, which agreement shall continue in force and effect as though no assignment had been made, and

8. While it is the intention of both parties that the assignment of such patents and patent applications shall continue for the duration of the present emergency; nevertheless, both parties agree promptly to reassign all assigned patents and patent applications at anytime upon the request of the original owner.....

While we have discussed arrangements for the assignment of German and United States patents and patent applications, we believe that the same difficulties of communication which have made assignments of German and United States patents and patent applications necessary may also make it desirable to assign patents and patent applications in other countries of our respective exclusive territories. Should this be deemed advisable, we are willing to proceed with the assignment of our patents and patent applications in your exclusive territory and we presume that you would be willing to do so in the countries of our exclusive territories. We do not see, however, how assignment could be effected between countries at war." 8

Strategically important industrial information was transferred to the Axis through cartel partners in allied countries to their German partners. As a result of a request by the American Bosch Company to the German Robert Bosch Company for a reduction in the royalty rates paid on fuel injection equipment, a representative of the American company was sent to Germany to supply information regarding costs, selling prices, and other data about his company in order to back up their claim for reduction in royalties. The report of this

representative reads as follows:

".....Mr. Fellmeth, who has an excellent head indeed, cross examined me for about two hours about the whole diesel business in the U.S.A., and as I was able to answer all his questions very thoroughly and apparently to his entire satisfaction, he turned me over to Mr. Durst whom I know very well for further investigation, particularly in regard to our production times for pumps, nozzles, and nozzle holders. As you know from my last report to you in your office, I was perfectly prepared to go into details." ⁹

International cartels affect the state in yet a more serious way, through deterring industrial development in the country. Some indication of the steps taken to freeze out competition or prevent local companies entering the field, can be gleaned from the following excerpt taken from the 1941 report to the California Alkali Export Association explaining a reduction of the price of soda ash in Latin America.

"The main factor was the apparent need for some temporary price action in face of unusual pressure for the erection of local industries, particularly in Mexico, Brazil, and the Argentine, and with special reference to caustic soda and soda ash and where government assistance was being sought.

In Brazil the problem has been met by the formation of an exploratory company to investigate the possibilities of a desirable location in the north, to circumvent action by others, satisfy government, and seeking government concessions to carry on this work estimated to take almost two years before any production could be contemplated - if found desirable and economical.

In the Argentine ash prices were also reduced as a temporary measure, first, because of interest of government in the entire alkali picture, and second, owing to considerable

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¹bid p. 56

interest by local groups in such a venture. Ample capital seemed available. Under the circumstances, it was considered good strategy to reduce prices for a temporary period.

We will be reviewing the entire problem the latter part of this month with the return of people from Brazil and the Argentine, in the meantime, considering a gradual restoration of prices....."¹⁰

Through cartel agreement strategic industries from a National security standpoint, had their development retarded in countries outside of Germany whilst Germany, at the same time, was employing cartel agreements to further its own rearmament. The cartel agreement, between I.G. Farbenindustrie and Standard Oil Company of New Jersey in regards to the development of synthetic rubber, held up the developments on buna rubber until 1940 despite the fact that the Standard Oil Company had supplied I.G. with patents on butyl rubber as early as 1938. Furthermore, I.G. Farbenindustrie failed to supply the technical information in connection with the process and because of this and due to negotiations between Standard and the Rubber Companies in an effort (on Standard's part) to dominate the field of synthetic, it was 1942 before actual development began with any promise of production of synthetic rubber of the buna type. Due to a cartel agreement between I.G. Farbenindustrie, the Aluminum Company of America, and the Dow Chemical Company, magnesium production in the United States was held down to 2400 tons as against

¹⁰ Ibid pp. 47-48

1200 tons in Germany in the year 1938, and exports were limited to a specified quantity to a single customer in Britain and to certain amounts to be purchased by I.G. Farbenindustrie itself. Due to cartel arrangements between the Beryllium Corporation of America and Siemens-Halske, a German firm, no beryllium could be exported to Great Britain by the American firm. A threat to invoke its Compulsory Licensing Act against the patents of both companies, obtained for Great Britain the supply so badly needed. The German members of the Aluminium cartels pacified other members of the cartel when they increased production beyond their production quotas, by importing larger amounts from the other partners. This had the net result of not only increasing aluminum production and plant facilities in Germany but enabled the building of a stock pile through the importation of aluminium produced in other countries.

The production of Diesel engines in the United States and Canada was greatly retarded due to licensing arrangements between the American Bosch Co. and Robert Bosch Co. of Germany. The American Bosch Company produced, among other things, fuel injection equipment necessary for the operation of Diesel engines. Due to the high royalties they were required to pay the German Company, and restricted production due to the restricted marketing field prescribed in the agreement, fuel injection equipment sold at an extremely high price, thus raising the cost of small high-speed Diesel engines far beyond

the cost of similar gasoline engines. This naturally retarded the development and consequent use of Diesel equipment on this continent.

Bausch and Lomb, Optical Company in United States, cartel partner of Carl Zeiss of Germany, refused to supply the British and French Governments when in 1935 they sought to order one million and a half dollars worth of range finders, gun sights, periscopes, and fire control instruments. This was four years before the war with Germany. It delayed the rearmament programme of those two countries whilst Germany meantime was rearming at full speed.

From the above examples taken from the evidence given before the United States Senate Committee investigation into the economic and political aspects of international cartels, some light has been thrown upon the aims and activities of those monopolistic corporations entering into international agreement to protect their monopoly through the elimination of foreign competition, and domestic competition through the prevention of competitors obtaining licences to manufacture under foreign patents. Where the government has taken action against such agreements as in the case of charges laid under the Sherman Anti-Trust Act in the United States, some of the participating corporations have found it advisable to withdraw from such formal agreements as those restricting trading territories, limiting production, and agreeing on

price structures, and depending instead upon licencing agreements under patents to specify the territories for which such licences may be active, and also limiting production and maintaining price through clauses in the licencing agreement. It would appear then that such cartel agreements, using licencing contracts under patents as the control, may be practised in the post-war years and accomplish substantially the same result as a formal agreement previously did, without involving the corporation in any way in possible litigation due to the infraction of any statutory regulation. Control by licencing agreement will probably replace the association type, and combine type of organization.

Cartels will still be able to control markets, through control over prices, impairment of quality, allocation of trade territories, restriction of supply, and the allocation of production and of industrial fields by means of the patent licencing type of cartel agreement. This type of agreement may be used to restrict production and technological change through the restriction of capacity to produce, restrictions upon invention and technological change, and through efforts to weaken independent enterprises.

From a national point of view, that is, insofar as the state is affected, cartel agreements made by means of the patent licence agreement will continue to affect tariff policy in most cases neutralizing it, can still act as deterrent towards

industrial development, will still make possible the formation of international business association that sometimes places its own interests first to the point even where national laws are evaded in the interests of the company. Such cartel agreements, or rather association by means of patent licence agreements, will again make possible their employment by one country against the countries in which the other participants are located. If such licencing agreements restrict production by means of a sliding-scale royalty plan, those companies in countries liable to be attacked are likely, being unaware of the situation, to observe their production schedules, whereas the company located and under the control of that aggressor or prospective aggressor country will increase production regardless of the royalties required as they will most likely be subsidized by the state. Such agreements can again be used as a means of spreading propaganda, and for the transmission of information. That country which contemplates war, through utilizing such agreements, will wherever possible retard strategic industries outside its country either through withholding the rights to the licenced manufacturer under patents of companies within its national boundaries or through making such licencing agreements highly restrictive to production. No doubt such a country would also employ such agreements to offset the effects of economic warfare or as a means to wage economic warfare.

From the evidence submitted before the U.S. Senate Committee, it would appear that those firms in the United States at least engaging in cartel agreements before the war plan on renewing such agreements after the war. There are also indications of many ambitious proposals to form new cartel agreements after the war, both for the restriction of competition in particular industries, and also a program for the cartelization of certain industries with the approval of the governments of the principal trading nations. One of the refugee executives of the N.V. Phillips Company, one of the world's largest cartel concerns, now in the United States, has formulated a plan for general cartelization after the war. He believes that -

".....production in all countries must be balanced and industry and agriculture, supported by government, must agree on a sound basis of international distribution. Certain countries may also find it best to control distribution within their own borders.

So far as world trade goes, the instrument is the international private trade agreement.

In democratic countries, where freedom is the guarding principle, the primary parties to the agreements should be the producers. The role of government should be limited to formulating the rules of the game and supervising their enforcement, to stimulating private initiative where necessary, to arbitrating where private management cannot agree, and especially to watching and safe-guarding the interest of the consumer. An impartial international body should be set up to adjust differences across national borders.

There should be a group in international agreements by the principal producers, one for each important industry or section of agriculture...each made public and each approved by the governments concerned. This suggested organization is not a cartel system as cartels existed before the war.

Those cartels were arrangements by private groups only and were, at least some of them, activated mainly by the selfish interests of the industry concerned."¹¹

Sir Edgar Jones, a former director of Courtaulds Limited, and an executive on international tinplate cartel, is sponsoring the World Trade Alliance, a summary of which plan is as follows:-

- "1. That it has been proved that it is feasible and practical to establish administrative machinery to regulate the distribution of an agreed quantity of export of each main product of every country at a stable agreed world economic price.....
9. What is wanted now is to proclaim the fact that if Great Britain and the United States will take the lead and get the producers of each main product to prepare schemes for world export regulation then general employment can be insured." ¹¹

The above proposal hinges upon the following two basic conditions:-

- "1. For every class of products the organization must be universal.
2. Raw materials must be organized as well as manufactures."

Public meetings have been held, pamphlets distributed, and the above programme of proposals broadcast over the B.B.C. and beamed to the United States in an effort to solicit support for this very ambitious programme.

It would appear then that the cartel type of agreement for the regulation of international trade, originally conceived as a means of eliminating competition and protecting the market

¹¹ Ibid - p. 76

of monopoly, has active support and is likely to be a force to be reckoned with in the post war era. Many foreign governments prefer this type of business organization, due to the fact that it fits their type of economic organization. Some countries support such domestic monopolies to carry their banner in the field of foreign trade. It may well be that if this type of business organization is recognized by European countries after the war that it may be necessary for our Government to recognize such an agreement in order that our companies may compete in the international markets. As patent licensing agreements are likely to be the most common means of setting up such cartel agreements, the patents would appear to be the key whereby careful scrutiny by the government can be maintained over such international agreements.

Cartel agreements might be recognized by the Government, with the requirement that such agreements be made public and approved by the Government before being ratified by the concern wishing to make such agreement. Through patent laws, every effort should be made by the Government to ensure the marketing of new technological developments as early as is economically possible. The life of a patent is usually seventeen years, but present regulations permit appeal to the Government if such patents do not appear to be receiving sufficient attention towards ultimate exploitation within a

period of three years after filing patent claims. Close scrutiny on the part of the Government should be maintained in order to assure the early marketing of new ideas and developments. Research for the purpose of preventing competitors from bringing out competitive lines or for the purpose of making a product unusable by a certain group of consumers in order to maintain price, should not be tolerated by the Government. Certainly such laws as the Pure Food Act should not be allowed to be used to aid and abet such practices.

An even more rigid control could be maintained by the Government over patents if the right to such patents were made exclusively the property of the Crown. Such an arrangement naturally would involve licencing, with or without royalty, the firm registering the patent as the exclusive producer of the goods for a limited period providing that certain regulations were adhered to. The Government, in turn, could make all arrangements for foreign licencing, acting as an agent for the developing company. In this way rigid control could be maintained over production and of foreign-patent licencing, also over disclosure to foreign companies of technological developments within the country. Any restrictive practices on the part of the licensee leading to restraint of trade or the maintenance of unfair prices could be stopped through the Government's threat either to

license other manufacturers or to cancel the licence agreement.

The problem arises as to what relationship the corporation will ultimately bear to the state, whether it will dominate the state, be regulated by the State or whether the two will co-exist with relatively little connection. This is a question in the political life of the country today. Will we have a political organization of society or an economic organization of society? Which will emerge as the dominant form?

The modern corporation has much to recommend it. It makes possible the wide apportionment of risk enabling the building of large economic empires integrating the cells of contributory industries and raw material supply, and shaping these to form the ultimate product. Raw materials, fabrication and distribution are harnessed, carrying production through from the source to the consumer. Mass production methods are possible, waste is turned to by-products and marketed, economies in labour, production and materials are possible. Monopoly enables savings to be made through the avoidance of high selling and advertising costs. Unused capacity can be avoided through the gearing of productive facilities to demand. There is not the same tendency toward over-expansion and good wages can be maintained.

There is also much to condemn the modern corporation.

Seldom are the economies, possible in the large corporation, turned to the benefit of the consumer. Price is fixed both in the case of monopoly and in that of "price-agreement" and price leadership companies. Other practices, such as the impairment of quality, resistance to technological progress, restriction of output and the allocation of trade territories, are resorted to in an effort to maintain price.

In the case of corporations party to price-agreement, and those dominating an industry through price-leadership, the consumer is often in an even worse plight. He must shoulder the burden of high selling and advertising costs supporting such uneconomic things, as duplicate delivery services, fancy packaging, "soap operas", a gasoline station on every corner, high-pressure advertising and last, but not least, credit selling.

"Consumption credit" induces the gullible consumer to incur obligations involving future earnings which are subject to the vicissitudes of the business-cycle. In connection with the business cycle, it was shown in Chart 1 that those same firms that introduced the curse of "consumption credit" were able to maintain price against the price-deflating pressure of depression. This has the tendency to deepen depressions and retard recovery through sapping the consumers' deflated purchasing power.

The same selfish interest which activated international

cartels, produced the "price-agreement" in the national market. Many of the abuses of international cartels are also common to these firms, -the patent-pool, price maintenance and restriction of production, -all to exploit the consumer. Competition in price is shelved as "cutthroat", and "ethical" competition on a selling and advertising plane substituted. Unused capacity multiples, prices increase, newcomers enter the field and the process repeats itself, the consumer pays.

The problem of power cannot be overlooked by the state. Study has disclosed that each year new phases of the national economy come under corporate sway. This appears to be a progressive movement with the large corporations, attracting more wealth under their control and at the same time having stock ownership in these large corporations dispersed over an ever-widening field of the population. With the dispersion of stock-ownership, control becomes concentrated in the hands of a few individuals either through minority-control, joint-control, management-control or by means of a legal device such as the holding company or voting trust. This control is further concentrated through interlocking directorships and absentee directors, so that in the 200 largest corporations considered in Chapter 1, perhaps only 1,000 or less individuals made the decisions that affected over half of the corporate wealth of the United States.

These companies controlled the economic destinies of

millions upon millions of citizens of the state - shareholders, consumers, labour, raw material producers, small independent manufacturers, technicians and white-collar workers. Whole communities were dependent upon these companies. The lifetime earnings of small investors were entrusted to their care. Insurance companies and banks held large blocks of these companies' securities in their portfolios. The decisions affecting these corporations, and the countless millions of people dependent upon them, rest in the hands of a very few individuals.

This could quite easily develop into economic feudalism if the present tendency of allowing "private enterprise" to annihilate competition is permitted to continue. Bastioned against outside competition by means of tariff-walls and international cartel agreements, monopoly could develop to control one phase of industry after another until each were corporately organized. Such large organizations as now already exist are able to bring great pressure to bear upon the Government. If allowed to expand until each industry became monopolized by one corporation, their influence upon the government would be tremendous. They would reign supreme over the shareholder, the producer of raw materials, the small independent industrialist and the consumer. Organized labour might fare a little better than other groups.

There are two alternatives to such an economic feudalism,

first, a regulated free enterprise and secondly, public operation of industry. The first, requires that the state act the part of referee to ensure the maintenance of competition and the encouragement of new industry. The second, involves state-ownership, or at least state-control. Let us consider each of these alternatives separately.

State-operation of industry could take place in one of two ways - through outright ownership or through public operation of privately-owned institutions. There are examples of both types already in operation. The Crown Company is an example of government-ownership operation. It has been used to advantage by the federal government during wartime and is the method employed by the C.C.F. government in Saskatchewan to transfer certain industries from private ownership to public ownership and control. The C.N.R. might be said to be an example of the publicly-operated private institution, when one considers that its earnings are drained to pay interest on privately held bonds. It is being publicly operated in the interest of the bondholders shall we say.

Our concern is not with the private owner and majority-controlled corporation. It is assumed that by and large these are governed to some extent by the laws of competition, unless, of course, they happen to be of monopolistic size which is unusual. We are mainly concerned with the quasi-public type corporation in which ownership has been widely dispersed, with a consequent divorce of control from owner-

ship. In an effort to correct the injustice which does not allow the majority of shareholders to control the enterprise, the proxy machine which separated their control from ownership might conceivably be turned by Government to protect these shareholders. If the shareholder were given the option of signing his proxy to that group chosen by management or to some qualified representative appointed by the Government to represent the shareholder, he would be in a stronger position than he is today. Instead of having the option of not voting or transferring his vote by means of the proxy to the group in control, the absentee shareholder would have the alternative of having an independent government-appointed spokesman represent him and the other shareholders who were dissatisfied or suspicious of the controlling group.

The referee chosen by Government to represent the shareholders could be a board, similar to that now controlling transport. Perhaps several boards would be necessary each embracing several related industries. The Bank of Canada might be represented on each of these boards, as it is fully conversant with financial matters, both within and outside of Canada, and it is more or less free from political influence. Other members of the board might be appointed as follows:- one from the ranks of labour to represent labour's viewpoint, one from agriculture to represent the raw-material

producer and a member of the judiciary to represent the consumer. The same individual should not be permitted to act on more than one board. It is essential that such boards be beyond the influence of politics and pressure-groups representing any single class of society, whether it be labour, consumer, raw-material producer, financial interests or big business. The board could exercise the vote entrusted to them by shareholders through their chairman (as one vote) or as individual members (as several votes) depending upon the results they desired to achieve at the board meeting.

In brief, the proposition is that the shareholder be given the option of vesting his voting rights to the care of some fully-qualified impartial publicly-appointed group or with the management of the corporation. The membership of this board should not depend upon the vote of the land for its existence. However, it should be responsible to the will of the people, but not subject to change with change in government. This board chosen to represent the absentee shareholder at stockholders' meetings, might well be so constituted as to include representatives of labour, the consumer and the raw-material producer, all three of which will be affected by the decisions made.

The above approach to the problem would give Government some measure of control over privately-owned corporations, particularly if substantial voting-rights were vested in the

hands of the Government appointed boards by shareholders unable to attend stockholders meeting. There is however one great danger inherent in any such scheme. National organization of industry under any plan which permits of private ownership under public control of operation runs the risk of resulting in a planned economy of the Fascist type, that is, a corporate society controlled by the state. True, in the above proposal it was stipulated that no appointee could be member on more than one board, and that such boards should be so constituted as to be free of political pressure.

Whilst this would spread the decisions concerning industry as a whole over a greater number of government-appointees decentralizing the control, there is a strong likelihood that such a plan would ultimately result in the various industries coming under the control of these government appointed boards. The only safeguard against such an occurrence is the shareholders' option to sign his proxy in favour of the group appointed by management instead of vesting it with the government-appointed board. Unless these boards were free from political pressure, it would be a possible means of some government that was so disposed to take over control of industry. If the boards were vested with sufficient voting power by the shareholders, there would be nothing to prevent them from changing the management of the corporation thus neutralizing the option they were established to provide.

State-ownership and operation is the second method transferring control of industry to the State. This is the more outright method of the two and more revolutionary. This entails expropriation of private industry by the state. The theory is that these industries are then to be operated by public servants in the interests of society rather than for private gain. Some industries lend themselves to this type of organization more so than others due to the fact that with reference to the product of these industries, the common interests of the people are easily recognized. For instance, in the field of public utilities everyone is affected and everyone is interested in cheap and adequate light, heat, gas, water, communications and transportation. In certain basic consumer goods lines such as milk, bread, butter, cheese, eggs, fruit, vegetables, flour, drugs, etc., opinions vary little as to what the individual requirements are as these are a matter of dietetics and dictated by the necessities of health. However, who is to determine the needs of the individual as to style and tastes in clothing, automobiles, houses, the every day common luxuries in confectionery lines, cosmetics, shoes, entertainment, and a thousand and one other articles? Who is to dictate the news we are to read, the reading matter of books, the subject-matter and handling of motion pictures? The question is again who is going to make the decisions?

Again a planned economy is the result with the decisions being made by a few individuals. What progress has been made in the transfer of the power of control over the economic destinies of millions by a few private individuals (usually well-trained through years of business experience for the task) to control over the same people by an equally small number of publicly-appointed individuals (usually under-paid and untrained for such responsibility)? Anyone having any experience with the despotism of the small bureaucrat, would hesitate to say that such control was preferable to the dictation of the economic princes of industry.

The dividing line between the quasi-public corporation type of control over industry and industry controlled under a communist system is very thin indeed. In the one, we have the economic interests of the shareholder, of labour, primary and component producers and, to some extent, of consumers subjected to those of the controlling group who manage and operate the enterprise. In the other, control is also centred with a group, in this case with a committee of commissars rather than a board-of-directors. Where management and/or the board-of-directors exercise control in the interests of the corporation to which the interests of the individual stockholder are subordinated, it reminds one of the communist committee of commissars subjecting or subordinating the interests of the individual to those of the state as a whole.

Two wars supposedly have been fought to preserve Democracy. Democracy, to me, means the right to make my own decisions providing they do not run counter to the laws of the land and society. It also means economic freedom. The right to work at what I please, for whom I please and where it suits my purpose best. It means the making of such decisions by millions more like me. It has no place for the rigidly-planned society that would result from (1) the economic feudalism imposed by an overall corporate organization of society with decisions resting with a small controlling group of private individuals; (2) the fascist-type economy springing from a government controlled privately-owned corporate organization of society; (3) the socialist-type economy of state-ownership with decisions resting with a small controlling group of bureaucrats, or, (4) the communist-type economy of ownership with decision resting with the communist committee of commissars. Democracy involves decisions made by many people. Control is diffused not concentrated.

State regulation, then, is the necessary solution to the problem, regulation to ensure that democracy is maintained, democracy in economic life as well as political life. The man who thinks up a new idea must be given the opportunity to produce and market it. The consumer should benefit from technological improvements through a reduction in the price of the product. Labour should benefit from these same im-

provements by having working conditions improved, the raw material producer should be assured proper market facilities to ensure a price in keeping with the laws of supply and demand, and shareholder should be protected to ensure a reasonable wage on capital and a protection of his equity. The state must restore and preserve "free-enterprise".

Government regulation to accomplish these ends is not an easy thing, nor can it be accomplished with small cost and staff. The trend toward large corporations controlling ever-larger aggregates of wealth is not likely to be reversed but it is thought it can be policed to prevent many of the abuses that have appeared. The tendency to eliminate competition must be checked and can be checked!. Competition must be not only preserved but must be succoured by the state.

The best means of doing this is to encourage new private enterprise. Young fresh industries springing up will provide competition and retard if not reverse the tendency of large corporations toward monopoly, price-fixing and price-leadership. The first step toward the encouragement of new enterprise is to eliminate the assistance given monopoly concerns in the form of tariff-protection, cartel-agreements, control of raw-material supply and control of distributive facilities. The Combines Act can be enforced to ensure that source of supply and distributive facilities are not closed to new enterprises, (however, better use will have to be made of it than that made

(in the case of the investigation into the activities of the Imperial Tobacco Company).

The Patent Act in conjunction with the Combines Act, can be utilized to enforce proper marketing of new inventions. Patent-pools might also bear investigation. To offset the advantage of large corporations in controlling the bulk of research facilities, the federal government should expand the activities of the Research Council to act as a service to assist in the establishment of new industry. Small struggling new enterprises cannot afford the luxury of a research staff. This service could be made available by an expanded Research Council working in conjunction with the various Universities across Canada. This would also have the desired effect of stopping the steady flow of our young chemists, physicists and engineers out of the country to large wealthy corporation laboratories in the United States.

It was shown that the cost of issuing new securities on the public market was almost prohibitive to small new enterprises. Easy access to credit must be provided then by some other means. The federal government has already taken a very wise step in this direction through the establishment of the Industrial Development Bank. If this is given proper treatment, the decided advantage formerly enjoyed by the large corporation over the small enterprise in the obtaining of capital, could conceivably be reversed, giving the small new

enterprise the advantage over the large established corporation. Credit should be granted at the lowest possible rate of interest to new enterprises in order to encourage their establishment.

This could be carried still further by allowing new enterprises certain tax concessions. For instance, they might not be required to pay excess profits tax for a given period. Business losses might be spread over a period of four or five years. New plant and machinery always provides the new enterprise with a major expense headache and is a limiting factor on expansion. Tax concessions similar to those extended Canadian manufacturers for plant extension for war production would assist in the establishment of struggling young industries.

Tax concessions to large established corporations might also be made under special circumstances to encourage the marketing of new technological developments. For instance, General Electric and the N.V. Philips organization might have been more partial to the introduction of fluorescent lighting had they been able to write-off against taxes the tremendous cost of plant alterations necessary for the change-over from incandescent bulb production to fluorescent tube manufacture. In fairness to these large enterprises some worthwhile consideration must be offered to encourage the costly procedure of marketing new products which are likely to displace those for which they already enjoy a profitable market.

As stated above, the maintenance of competition cannot be accomplished without adequate appropriation of funds and provision of staff. The administration of the Combines Act and Patent Act both require strengthening. The Commissioners of both acts should be empowered to initiate investigations and be provided with adequate staff including economists, accountants and lawyers, sufficient to carry out a continuous programme of investigation. No restraint of trade should be permitted and investigations should receive full and extensive publicity in order to acquaint the consumers of trade-practice designed against their interests. Adverse-publicity is perhaps more feared by these corporations than are fines and legal expense they risk when they ignore the terms of the Combines Act.

There are several industries in which it is unlikely that competition can be restored. As pointed out previously, due to geographical considerations, smallness of population and intrusion of large United States corporations, there are certain fields of industry in Canada in which monopoly is either unavoidable or could be avoided only at exorbitant cost. These would include cement, nickel, aluminum, heavy electrical equipment, explosives, many iron and steel products and many chemicals. The mere existence of a monopoly is not contrary to the public interest, it is the monopolizing of an industry excluding competitors that is unlawful. Little has been done

under the Combines Act, Tariff Act and Patent Act to investigate monopolies to determine whether they are beneficial monopolies existing due to the fact that there is room for but one company of moderate size to operate economically within the particular industry or whether they are "monopolizing" the industry excluding competitors by means of cartel agreements, tariff protection, patent-pools, control of raw material supply, control of distributive facilities or through patent-licensing agreements.

An alternative to unavoidable private monopoly is public monopoly. As pointed out above, some industries such as public-utilities and the production of basic consumer requirements for which the demand is fairly fixed by health and subsistence requirements lend themselves to this type of organization. The weakness in public-ownership seems to be the difficulty in obtaining a conscientious and capable administration due to a seeming unwillingness on the part of government to pay adequate compensation for the calibre of employees required. Further, this type of operation is subject to political interference. Public servants are subjected to the pressure of organized groups such as labour, "big business" and raw material producers, who through lobbying activities can influence the government of the day. Despite this, there are several successful examples of public-ownership, such as the Canadian Broadcasting Corporation, Canadian National

Railways, Trans-Canada Airlines, Ontario Hydro-Electric, and Toronto Transit Commission.

None of these can be said to be government monopolies, however, as each of the above examples are competing with private enterprise. The T.T.C. is competing with other methods of transportation such as taxis, private cars, etc. The C.B.C. competes with private stations even though it is the only national chain. The C.N.R. competes with the C.P.R. the T.C.A. with independent airlines although it is the only national system, and the Ontario Hydro Electric competes with privately operated public utility companies in some sections of the province. Publicly provided competition is an even better alternative to private monopoly than is government monopoly. Government-owned companies act as a limiting control over the prices charged by private enterprises as well as setting the standard of working conditions. Private enterprise on the other hand sets the standards of efficiency in operation, preventing some of the excesses known to public operation. No publicly operated company should be tolerated that cannot operate without frequent injections of the taxpayers' money.

It would appear then that the ultimate relationship of the state to the corporation will be one of regulation. The state must act through a rigorous administration of a strengthened Combines Act, Tariff Act and Patent Act to retain and restore

competition where possible. Where competition cannot be restored or enforced, monopoly must be regulated, competed with, or as a method last resort replaced by public monopoly. Existing laws (Sections 496-497-498-and 498A of the Criminal Code of Canada) and proposed laws must be adequately administered for the protection of the consumer.

The state must regulate the corporation to protect the shareholder. The Companies Branch requires adequate staff and appropriation to carry on regulatory work under the Companies Act. This Act should be amended to provide for rigid requirements concerning bankers' disclosure to close the loop-hole whereby corporations evade 'prospectus' requirements through marketing new security issues through investment bankers. New security issues should be closely regulated, "stock-watering" eliminated. The transfer of securities for anything other than cash should receive closest scrutiny to determine that proper evaluation has been placed upon property, service or intangibles. Close regulation of the use of no-par stock is necessary and statutory regulations should be provided requiring that a fixed percentage of the selling price of no-par stock (80%) be set up on the books of the corporation as paid-in capital. Another desirable regulation would be one prohibiting the payment of dividends out of anything other than earned profits. The tightening of security regulations and incorporation requirements should be carried out in con-

junction with all of the provinces in order that no one province will be able to attract "big business" due to having loose incorporation laws.

Uniform accounting practise should be encouraged by the state. There is much to recommend the payment of all auditors by the government. Accountants are engaged by the corporation to audit the books of the company. As they are retained by the company it is only natural that they occasionally submit to the pressure of control to set up their statement in a manner favourable to management. Public employment of these accountants would ensure an independent audit. Further, a standard method of reporting might be evolved setting up annual stockholders' reports in a manner easily assessed by the average shareholder. This would serve a dual purpose, (1) The government would be assured an independent audit for taxation purposes and (2) the investor would be assisted in measuring the efficiency of the management entrusted with his capital.

The state now has fairly extensive labour legislation in effect. This legislation has guaranteed the worker a fair minimum wage, compensation against industrial accidents and ailments, the right to organize, safe and proper working conditions and lately insurance against unemployment. More uniformity in these regulations is necessary between provinces and more adequate enforcement machinery is necessary. State

action to implement hospitalization, medical care and superannuation is still necessary for complete protection of the worker. Unemployment insurance might also be extended to cover employees in the salary brackets.

It is evident, from the above, that the corporation has introduced new problems and placed greater responsibilities upon the state. No longer can business be permitted to function on a "laissez-faire" basis. Regulation by the state has become increasingly necessary to protect capital, labour, primary producer, consumer and even the state itself. It is ironical indeed that one of the main objects of this regulation is the retention and restoration of competition on a price-basis. Government intervention is required to preserve "free-enterprise."

A P P E N D I X

APPENDIX - I¹The 200 Largest Non-banking Corporations in the United States^{*}

Name	Gross Assets on or about Jan. 1, 1930. In Millions of Dollars
AMUSEMENTS	
Eastman Kodak Co.	163.4
General Theatres Equipment, Inc. (Fox Theatres)...	360.0
Loew's, Inc.	124.2
Paramount Publix Corp.....	236.7
Radio Corp. of America	280.0(est.)
Warner Bros. Pictures, Inc.....	167.1
CHEMICALS	
Petroleum	
Atlantic Refining Co.....	167.2
Continental Oil Co.....	198.0
Gulf Oil Corp.....	430.9
Ohio Oil Co.	110.6
Phillips Petroleum Co.	145.3
Prairie Oil & Gas Co.	209.8
Prairie Pipe Line Co.	140.5
Pure Oil Co.....	215.4
Richfield Oil Co. of California	131.9
Shell Union Oil Corp.....	486.4
Sinclair Consolidated Oil Corp.....	400.6
Sinclair Crude Oil Purchasing Co.....	111.9
Standard Oil Co. of California	604.7
Standard Oil Co. of Indiana	850.0(est.)
Standard Oil Co. of New Jersey	1767.3
Standard Oil Co. of New York	708.4
Texas Corp.....	609.8
Tide Water Associated Oil Co.....	251.4
Union Oil Associates	240.0(est.)
Vacuum Oil Co.....	205.7
Other Chemicals, Soap, etc.	
Allied Chemical & Dye Corp.	277.2
Corn Products Refining Co.....	126.7
DuPont de Nemours & Co.....	497.3
International Match Corp.....	217.6
Koppers Co.....	250.0
Procter & Gamble Co	109.4
Union Carbide & Carbon Corp.....	306.6
COAL	
Consolidation Coal Co.....	94.0
Glen Alden Coal Co.....	300.0(est.)
Philadelphia & Reading Coal & Iron Corp.....	129.0
Pittsburgh Coal Co.....	171.5

Name	Gross Assets on or about Jan. 1, 1930 In Millions of Dollars
FOOD PRODUCTS, DRUGS, TOBACCO, etc.	
Dairy Products	
Borden Co.	174.0
National Dairy Products Corp.	224.5
Fruit	
United Fruit Co.....	226.0
Meat	
Armour & Co.....	452.3
Swift & Co.....	351.2
Wilson & Co.....	98.0
Sugar .	
American Sugar Refining Co.....	157.1
Cuban Cane Prod. Co.....	101.3
Tobacco	
American Tobacco Co.....	265.4
Liggett & Myers Tobacco Co.....	150.3
Lorillard (P) Co.....	110.0
Reynolds Tobacco Co.....	163.1
Others	
National Biscuit Co.....	133.2
GLASS	
Pittsburgh Plate Glass Co.....	101.6
LEATHER	
International Shoe Co.....	111.3
LUMBER	
Long-Bell Lumber Corp.	116.1
MERCANTILE	
Drug Inc. (United Drug Co.).....	158.0
Great Atlantic & Pacific Tea Co.....	147.3
Kresge Co.....	109.5
Macy, R.H. & Co.....	97.0(est)
Marshall Field & Co.....	137.2
Montgomery Ward & Co.....	187.5
Sears, Roebuck & Co.....	251.8
United Stores Corp. (United Cigar Stores).....	161.5
Woolworth & Co.....	165.4
METAL PRODUCTS	
Automobiles	
Chrysler Corp.....	209.7
Ford Motor Co.....	761.0
General Motors Corp.....	1400.0(est.)
Studebaker Corp.....	134.2

Name	Gross Assets on or about Jan. 1, 1930. In Millions of Dollars
METAL PRODUCTS -Continued	
Electrical Equipment	
General Electric Co.	515.7
Westinghouse Electric & Manufacturing Co.....	253.9
Machinery	
Deere & Co.....	94.6
International Harvester Co.....	384.0
Singer Manufacturing Co.....	210.0(est.)
United Shoe Machinery Corp.....	94.1
Others	
American Can Co.....	191.3
American Car & Foundry Co.....	119.5
American Locomotive Co.....	106.2
American Radiator & Standard Sanitary Corp.....	199.4
Baldwin Locomotive Works	98.8
Crane Co.....	115.9
METALS	
Aluminum	
Aluminum Co. of America	300.0
Copper & Lead	
American Smelting & Refining Co.....	241.0
Anaconda Copper Mining Co.....	680.6
Kennecott Copper Corp.....	337.8
National Lead Co.....	108.4
Phelps Dodge Corp.....	124.7
Iron & Steel	
American Rolling Mill Co.....	104.3
Bethlehem Steel Corp.....	801.6
Cliffs Corp.....	98.0
Crucible Steel Co. of America	124.3
Inland Steel Co.....	103.2
Jones & Laughlin Steel Corp.....	222.0
National Steel Corp.....	120.8
Republic Iron & Steel Co.....	331.7
United States Steel Corp.....	2286.1
Wheeling Steel Corp.....	128.3
Youngstown Sheet & Tube Co.....	235.7
PAPER	
Crown Zellerbach Corp.	117.7
International Paper & Power Co.....	686.5
Minnesota & Ontario Paper Co.....	90.3
PUBLIC UTILITIES (Grouped according to associated companies)	
Communications	
American Telephone & Telegraph Co.....	4228.4
Associated Telephone Utilities Co.....	95.9

Name	Gross Assets on or about Jan. 1, 1930. In Millions of Dollars
PUBLIC UTILITIES - Continued	
Communications - Continued	
International Telephone & Telegraph Corp.....	521.2
Western Union Telegraph Co.....	332.2
Electricity and Gas	
American Commonwealths Power Corp.....	184.4
American Water Works & Elec. Co.....	378.5
Associated Gas & Electric Co.....	900.4
New England Gas and Electric Association.....	108.7
Railway and Bus Associates	112.2
Central Public Service Co.....	199.5
Cities Service Co.....	989.6
Consolidated Gas Co. of New York	1171.5
Consolidated Gas, Elec. Lt. & Power Co. of Baltimore	135.9
Detroit Edison Co.....	296.1
Duke Power Co.....	212.1
Edison Electric Ill. Co. of Boston.....	156.3
Electric Bond & Share Co.....	756.0
American Gas & Electric Co.....	431.0
American Power & Light Co.....	754.1
Electric Power & Light Corp.....	560.0(est.)
National Power & Light Co.....	500.0(est.)
(Insull Group)	
Commonwealth Edison Co.....	440.0(est.)
Middle West Utilities Co.	1120.0(est.)
Midland United Co.....	298.1
North Amer. Light & Power Co.....	308.4
Peoples Gas, Light & Coke Co.....	192.1
Public Service Co. of Northern Illinois	190.0
(Koppers Co. Group)	
Brooklyn Union Gas Co.....	123.7
Eastern Gas & Fuel Associates	158.7
Lone Star Gas Corp.....	109.0
North American Co....	810.3
Pacific Gas & Elec. Co.....	428.2
Pacific Lighting Corp.....	203.4
So. California Edison Co., Ltd.....	340.6
Stone & Webster, Inc.....	400.0(est.)
Tri-Utilities Corp.....	346.0
(United Corporation Group)	
Columbia Gas & Electric Corp.....	529.2
Commonwealth and Southern Corp.....	1133.7
Niagara Hudson Power Corp.....	756.9
Public Service Corp. of New Jersey.....	634.6
United Gas Improvement Co.....	802.0

Name	Gross Assets on or about Jan. 1, 1930. In Millions of Dollars
PUBLIC UTILITIES Continued	
Electricity and Gas Continued	
United Light & Power Co.	520.1
United States Electric Power Corp.	1125.8
Utilities Power & Light Corp.	373.1
RAILROADS (Grouped according to associated companies)	
Alleghany Corp.	1600.0(est.)
Erie Rd. Co.....	560.9
Kansas City Southern Ry. Co.....	146.1
New York, Chicago & St. Louis R. Co.....	350.0(est.)
Wheeling & Lake Erie Ry. Co.....	104.1
Atchison, Topeka & Santa Fe Ry. Co.....	1135.4
Atlantic Coast Line R. Co.....	840.0(est.)
Baltimore & Ohio Rd. Co.....	1040.8
Chicago & Alton Rd. Co.....	161.8
Reading Co.....	565.0(est.)
Western Maryland Ry. Co.....	168.2
Chicago & Eastern Illinois Ry. Co.....	97.4
Chicago Great Western Rd. Co.....	149.2
Chicago, Milwaukee, St. Paul & Pacific Rd. Co.....	776.1
Chicago & North Western Ry. Co.....	641.0
Chicago, Rock Island & Pacific Ry. Co.....	477.4
Chicago Union Station Co.....	96.8
Delaware & Hudson Co.....	269.4
Delaware, Lackawanna & Western R. Co.....	189.3
Denver & Rio Grande Western Rd. Co.....	223.4
Florida East Coast Ry. Co.....	123.6
(Great Northern Ry. Co.....	812.4
(Northern Pacific Ry. Co.....	813.9
Chicago, Burlington & Quincy Rd. Co.....	645.4
Spokane, Portland & Seattle Ry. Co.....	140.2
Missouri-Kansas-Texas Rd. Co.....	314.0
New York Central Rd. Co.....	2250.0
New York, New Haven & Hartford R. Co.....	560.8
Boston & Maine Rd. Co.....	256.4
Pennsylvania R. Co.....	2600.0(est.)
Lehigh Valley Rd. Co.....	226.0
Norfolk & Western Ry. Co.....	497.0
Wabash Ry. Co.....	334.6
St. Louis-San Francisco Ry. Co.....	439.9
St. Louis Southwestern Ry. Co.....	139.4
Seaboard Air Line Ry. Co.....	283.1
Southern Pacific Co.....	2156.7
Southern Ry. Co.....	655.5

Name	Gross Assets on or about Jan. 1, 1930. In Millions of Dollars
RAILROADS- Continued	
Union Pacific Rd. Co.	1121.1
Illinois Central Rd. Co.	680.9
Virginian Ry. Co.	152.7
Western Pacific Rd. Corp.	156.0(est.)
REAL ESTATE	
U.S. Realty & Improvement Co.....	124.6
RUBBER	
B.F. Goodrich Co.....	163.6
Firestone Tire & Rubber Co.....	161.6
Goodyear Tire & Rubber Co.....	243.2
United States Rubber Co.....	307.8
TEXTILES	
American Woolen Co.....	113.9
TRACTION	
Boston Elevated Ry. Co.....	109.7
Brooklyn & Manhattan Transit Co.....	288.5
Chicago Rys. Co.....	108.2
Hudson Manhattan R. Co.....	131.7
Interborough Rapid Transit Co.	458.6
Philadelphia Rapid Transit Co.	95.6
Third Avenue Ry. Co.	110.0(est.)
United Rys. & Elec. Co. of Baltimore	96.7
TRANSPORTATION	
International Mercantile Marine Co.....	100.0(est.)
Pullman, Inc.....	315.5

* Largest according to gross assets less depreciation, as reported in Moody's Railroad, Public Utility, and Industrial Manuals. In the cases where a consolidated balance sheet was not given in Moody's, an estimate was made based on the assets of subsidiaries and the assets of the parent corporation minus its investments in affiliated companies. These estimates, while they cannot be perfectly accurate are sufficiently so for the present purpose. In two cases, no balance sheet of the parent was given but a very rough estimate of the assets controlled was made, based on the bonds and stocks of the parent company and the assets of certain of its subsidiaries. No company is included in the list, a majority of whose voting stock was known to be owned by another corporation.

APPENDIX - II²Assets Held by 200 Largest American Corporations
Grouped According to Size

Size measured by gross assets	Number of companies	Gross assets held by group	Per cent of total assets represented
Under \$50,000,000 ...	372	\$ 7,325,000,000	10.9
\$50-\$100,000,000.....	71	4,950,000,000	7.4
Over \$100,000,000....	130	54,714,000,000	81.7
Total	573	\$66,989,000,000	100.0

APPENDIX - III³Gross Assets of 150 Identical Corporations
Common to Both 1919 and 1928 List of
200 Largest American CorporationsGross Assets as of December 31 in Million Dollars^a

Year	44 Rail- roads	71 Indus- trials	35 Public Utilities	150 Corpo- rations
1919	18,480	14,288	6,017	38,785
1920	20,535	16,186	6,393	43,114
1921	20,186	15,590	6,745	42,521
1922	20,643	15,962	7,757	44,362
1923	20,409	17,174	8,749	46,332
1924	20,839	17,703	9,814	48,356
1925	21,272	19,111	11,508	51,891
1926	21,881	20,569	13,562	56,012
1927	22,462	21,154	15,580	59,192
1928	23,026	22,675	17,703	63,404
Increase 1919-1928	24%	58%	194%	63%
Annual Rate of Growth 1919-1928 ^b	2.4%	5.2%	12.3%	5.6%
Increase 1924-1928	9%	28%	80%	31%
Annual Rate of Growth 1924-1928 ^b	2.3%	6.0%	15.9%	7.0%

a Derived from Moody's Railroad, Public Utility and Industrial Manuals.

b Compounded annually.

APPENDIX - IV ⁴

Comparison of Growth of Large Corporations
With Growth of All Corporations

Year	200 largest non-financial corporations		All non-financial corporations	
	Gross assets as of December 31 (million dollars)	Annual rate of growth ^a (per cent)	Estimated wealth as of December 31 (million dollars)	Annual rate of growth ^a (per cent)
1909	\$26,063)		\$ 63,303 ^{b)}	
1919	43,718)			
1920	48,436)	5.1		3.0
1921	47,762)		90,507 ^{c)}	
1922	49,729	4.1		
1923	51,886	4.2		4.3
1924	54,337	4.7	102,658 ^{d)}	
1925	58,317	7.2		
1926	63,404	8.7	112,435 ^{e)}	4.8
1927	67,165	5.9	117,693 ^{f)}	4.5
1928	73,139	8.6	124,334 ^{g)}	5.7
1929	81,074	10.6	131,500 ^{g)}	5.8
1909-1928	.....	5.4	.....	3.6
1921-1928	.....	6.1	.....	4.4
1924-1928	.....	7.7	.....	4.9

a Where an interval of more than a year intervenes between successive figures, the annual rate of growth is figured on a basis which gives a rate compounded annually.

b Estimate obtained by determining the per cent growth in the capital stocks and indebtedness of all non-financial corporations between December 31, 1909 (Annual Report of Commissioner of Internal Revenue, 1910, pp. 69 and 74) and December 31, 1924, (Statistics of Income, 1925, pp. 31, 43 and 46). In the latter year the fair value of all capital stocks was used, as it was somewhat larger than total par value even for those corporations reporting par value. This percentage was then applied to the estimated wealth of non-financial corporations on December 31, 1924.

c Estimate of non-financial corporate wealth made by the Federal Trade Commission and based upon the capital stock tax returns for approximately December 31, 1921, as compiled by the Treasury Department. (National Wealth and Income, Federal Trade Commission, p. 134.) This figure includes real estate, buildings, and equipment as reported and estimates for cash and inventory. Figures cover all corporations.

d Figures for real estate, building, equipment, cash and inventory of all non-financial corporations as tabulated by the Treasury Department (Statistics of Income, 1925, p. 40) plus an adjustment for wealth of corporations whose balance sheets were not tabulated. Adjustment was made by assuming the wealth of corporations whose assets were not tabulated was in the same proportion to the fair value of their stock as the wealth of corporations tabulated to the fair value of their stock (ibid., p. 31.)

e Real estate, buildings, etc. of non-financial corporations (Statistics of Income, 1926, pp. 360 and 390) adjusted for corporations whose balance sheets were not tabulated. This adjustment was made on the basis of the proportion of balance sheets tabulated in each income class. As over 99 per cent of all but the very smallest corporations appear to have been tabulated, the error in estimation cannot be large (ibid., pp. 356, 358, 360, and 398).

f Same basis as (e) (Statistics of Income, 1927, pp. 371, 372, 380 and 382).

g Same basis as (e), except that 97 per cent of balance sheets were assumed to be tabulated. (Statistics of Income, 1928, pp. 32, 380, and 386 and Statistics of Income, 1929, pp. 25 and 332.

APPENDIX - V ⁵

Growth of Large Corporations as Indicated By
Relation of Their Statutory Net Income To
That of All Corporations.^a

	Net income of all non-financial corporations (million dollars)	Estimated net income of 200 largest non- financial cor- porations (million dollars)	Per cent by largest 200 cor- porations (million dollars)	Estimated net income of 800 next largest non- financial corporations (million dollars)	Per cent by next largest 800 cor- porations
1920	\$6,899	\$2,307	33.4	\$1,305	19.0
1921	3,597	1,354	37.6	708	19.6
1922	6,076	1,958	32.2	1,151	19.0
1923	7,453	2,445	32.8	1,386	18.6
1924	6,591	2,378	36.0	1,247	19.0
1925	8,060	2,993	37.1	1,522	18.9
1926	8,337	3,335	40.0	1,564	18.7
1927	7,459	2,865	38.4	1,360	18.2
1928	8,646	3,493	40.4	1,618	18.7
1929	9,456	4,081	43.2	1,808	19.1
<hr/>					
Average					
1920-1923	\$6,006	\$2,015	33.5	\$1,137	18.9
<hr/>					
Average					
1926-1929	\$8,474	\$3,444	40.7	\$1,587	18.7

a Derived from Statistics of Income for the respective years. Net income of all non-financial corporations equals statutory net income of all corporations reporting net income less that of financial corporations reporting net income. Income for the largest 200 was estimated by taking the net income of all non-financial corporations reporting income over \$5,000,000 including nearly 200 companies and adding to this an estimate of the income of additional companies to make the total of 200. In each case the few additional companies were assumed to have a net income of \$5,000,000. (If the average income of the added companies had been \$4,500,000 it would have lowered the estimate in 1927 only from 38.4 to 38.2 per cent. In other years the change would have been very much less. As in each year there were approximately

800 companies having incomes between \$1,000,000 and \$5,000,000, it is unlikely that the average income of the few companies necessary to make up the 200 largest would have been below \$4,500,000 and was probably closer to \$5,000,000. The assumption of the latter figures would not, therefore, lead to appreciable error.)

Income for the next largest 800 was estimated by taking the income of all non-financial corporations reporting statutory net income of over \$1,000,000 (approximately 900 corporations each year) and adding an estimate of the income of additional companies to make a total of 1,000, the extra companies being assumed to have an income of \$1,000,000. From the resulting figure the estimated income of the largest 200 was subtracted. (Error due to the probability that the additional companies had an average income of somewhat less than \$1,000,000 would be negligible. If the average in 1927 had been \$900,000 it would have reduced the percentage only from 18.2 to 18.1. As there were nearly 1,000 corporations having incomes between \$500,000 and \$1,000,000, the average income of the added companies must have been more nearly \$1,000,000 than \$900,000. In other years the error would have been even less.)

APPENDIX VI

ES CLASSIFIED BY ASSET SIZE* : 1936-42

(Data: Millions of Dollars)

GROUPS 1 - 4 : TOTAL OF 627 COMPANIES*

FISCAL YEAR NEAREST TO CALENDAR YEAR	1936	1937	1938	1939	1940	1941	1942
Net Operating Profit (Before Depreciation)	402.9	490.9	430.6	511.2	640.1	803.9	908.2
Depreciation, Deferred Development & Patent Write-Offs	106.8	114.3	113.2	120.8	145.6	187.9	242.3
Investment and Other Non-Operating Income (Net)	48.2	51.8	49.8	46.9	42.0	45.4	40.0
Bond Interest (incl. Exchange & Amortization of Discount)	51.8	51.1	49.5	49.7	50.5	50.0	50.3
Net Profit before Income and Excess Profits Tax Provision	292.5	377.3	317.7	387.6	486.0	611.4	655.6
Income and Excess Profits Tax Provision (ex. Refundable Portion)	50.3	64.9	56.6	78.4	184.1	286.4	328.5
Net Income to Stockholders	242.2	312.4	261.1	309.2	301.9	325.0	327.1
Forced Saving (Refundable Portion of Excess Profits Tax)	-	-	-	-	-	-	19.4
Net Income Available for Dividends	242.2	312.4	261.1	309.2	301.9	325.0	307.7
Net Income Paid Out in Cash Dividends	196.0	233.3	247.5	238.4	233.7	234.3	227.4
Undistributed Income (ex Forced Saving)	46.2	79.1	13.6	70.8	68.2	90.7	80.3

INDEXES BY ASSET SIZE : 1939=100

FISCAL YEAR NEAREST TO CALENDAR YEAR		1936	1937	1938	1939	1940	1941	1942	
Net Operating Profit (before Depreciation)	Group 1	83	102	88	100	127	156	182	
	2	77	89	79	100	122	158	170	
	3	68	85	82	100	124	156	171	
	4	69	90	77	100	137	196	227	
	Total	79	96	84	100	125	157	178	
Net Profit before Inc. & Excess Profits Tax	Group 1	82	107	88	100	125	151	161	
	2	71	86	74	100	125	165	175	
	3	62	82	77	100	127	165	182	
	4	60	85	70	100	140	205	243	
	Total	75	97	82	100	125	158	169	
Income and Excess Profits Tax Provision	Group 1	69	91	77	100	225	337	381	Inc Refund Portion (398)
	2	60	73	65	100	236	390	439	(469)
	3	56	72	67	100	263	405	497	(533)
	4	56	75	63	100	300	500	669	(725)
	Total	64	83	72	100	235	365	419	(444)
Net Income to Stockholders	Group 1	85	111	90	100	100	104	106	Inc Refund EPT (102)
	2	74	89	76	100	95	105	104	(96)
	3	63	85	79	100	94	106	105	(96)
	4	61	87	71	100	96	122	125	(110)
	Total	78	101	84	100	98	105	106	(99)
Cash Dividends	Group 1	83	106	103	100	94	93	95	
	2	84	92	106	100	100	108	98	
	3	60	71	97	100	111	104	94	
	4	72	63	147	100	119	97	91	
	Total	82	98	104	100	98	98	95	
Undistributed Income	Group 1	78	138	22	100	127	162	165	Inc Refund EPT (138)
	2	50	83	9	100	84	99	118	(91)
	3	71	113	42	100	59	109	129	(101)
	4	48	118	(**)	100	69	153	169	(135)
	Total	65	112	19	100	96	128	141	(113)

* These tables cover the same data as that on page 83 of the Oct -Nov 1943 Statistical Summary, except that the railway category is excluded here. Depletion charges and special inventory reserve provision, formerly shown in footnotes, have here been deducted from net operating income. In classifying companies according to the size of their total assets (less depreciation inventory and bad debt reserves) 1941 was taken as the base year. ** Income was over-distributed

IV—PROFIT STATISTICS FOR 627 COMPANIES

Compiled by Bank of

GROUP 1 : ASSETS OVER \$25 mm.*: 44 COMPANIES

FISCAL YEAR NEAREST TO CALENDAR YEAR	1936	1937	1938	1939	1940	1941	1942
Net Operating Profit (Before Depreciation)	235.4	290.9	249.8	284.1	360.1	441.8	516.0
<i>Depreciation, Deferred Development & Patent Write-Offs</i>	59.2	63.2	63.1	65.2	79.6	107.3	152.9
Investment and Other Non-Operating Income (Net)	38.4	42.5	40.3	35.6	28.7	32.3	26.2
<i>Bond Interest (incl. Exchange & Amortization of Discount)</i>	36.2	35.7	35.4	35.7	36.8	36.7	37.4
Net Profit before Income and Excess Profits Tax Provision	178.4	234.5	191.6	218.8	272.4	330.1	351.9
<i>Income and Excess Profits Tax Provision (ex. Refundable Portion)</i>	30.0	39.5	33.7	43.6	97.9	147.1	166.0
Net Income to Stockholders	148.4	195.0	157.9	175.2	174.5	183.0	185.9
<i>Forced Saving (Refundable Portion of Excess Profits Tax)</i>	—	—	—	—	—	—	7.7
Net Income Available for Dividends	148.4	195.0	157.9	175.2	174.5	183.0	178.2
Net Income Paid Out in Cash Dividends	126.2	155.8	151.7	146.7	138.2	137.0	139.0
Undistributed Income (ex. Forced Saving)	22.2	39.2	6.2	28.5	36.3	46.0	39.2

GROUP 2 : ASSETS \$5 - 25 mm. : 129 COMPANIES

Net Operating Profit (Before Depreciation)	115.4	134.0	118.7	150.5	183.5	238.5	255.7
<i>Depreciation, Deferred Development & Patent Write-Offs</i>	31.7	33.7	32.6	37.1	44.2	54.9	61.7
Investment and Other Non-Operating Income (Net)	7.1	6.8	7.0	8.5	10.3	9.5	9.7
<i>Bond Interest (incl. Exchange & Amortization of Discount)</i>	12.6	12.5	11.5	11.4	11.2	10.7	10.5
Net Profit before Income and Excess Profits Tax Provision	78.2	94.6	81.6	110.5	138.4	182.4	193.2
<i>Income and Excess Profits Tax Provision (ex. Refundable Portion)</i>	13.9	17.0	15.0	23.2	55.1	90.8	102.3
Net Income to Stockholders	64.3	77.6	66.6	87.3	83.3	91.6	90.9
<i>Forced Saving (Refundable Portion of Excess Profits Tax)</i>	—	—	—	—	—	—	7.1
Net Income Available for Dividends	64.3	77.6	66.6	87.3	83.3	91.6	83.8
Net Income Paid Out in Cash Dividends	50.9	55.6	64.2	60.7	61.0	65.3	59.6
Undistributed Income (ex. Forced Saving)	13.4	22.0	2.4	26.6	22.3	26.3	24.2

GROUP 3 : ASSETS \$1 - 5 mm. : 243 COMPANIES

Net Operating Profit (Before Depreciation)	45.6	57.6	55.0	67.4	83.9	105.5	115.7
<i>Depreciation, Deferred Development & Patent Write-Offs</i>	13.7	15.2	15.3	16.3	19.1	22.4	24.4
Investment and Other Non-Operating Income (Net)	2.2	2.0	1.9	2.1	2.3	3.0	3.5
<i>Bond Interest (incl. Exchange & Amortization of Discount)</i>	2.7	2.6	2.4	2.3	2.3	2.3	2.2
Net Profit before Income and Excess Profits Tax Provision	31.4	41.8	39.2	50.9	64.8	83.8	92.6
<i>Income and Excess Profits Tax Provision (ex. Refundable Portion)</i>	5.6	7.1	6.7	10.0	26.3	40.5	49.7
Net Income to Stockholders	25.8	34.7	32.5	40.9	38.5	43.3	42.9
<i>Forced Saving (Refundable Portion of Excess Profits Tax)</i>	—	—	—	—	—	—	3.6
Net Income Available for Dividends	25.8	34.7	32.5	40.9	38.5	43.3	39.3
Net Income Paid Out in Cash Dividends	16.5	19.8	27.0	27.7	30.7	28.9	25.9
Undistributed Income (ex. Forced Saving)	9.3	14.9	5.5	13.2	7.8	14.4	13.4

GROUP 4 : ASSETS UNDER \$1 mm. : 211 COMPANIES

Net Operating Profit (Before Depreciation)	6.4	8.3	7.1	9.2	12.6	18.1	20.9
<i>Depreciation, Deferred Development & Patent Write-Offs</i>	2.2	2.2	2.1	2.2	2.7	3.3	3.4
Investment and Other Non-Operating Income (Net)	.5	.5	.5	.6	.7	.6	.7
<i>Bond Interest (incl. Exchange & Amortization of Discount)</i>	.2	.3	.3	.2	.2	.2	.2
Net Profit before Income and Excess Profits Tax Provision	4.5	6.3	5.2	7.4	10.4	15.2	18.0
<i>Income and Excess Profits Tax Provision (ex. Refundable Portion)</i>	.9	1.2	1.0	1.6	4.8	8.1	10.7
Net Income to Stockholders	3.6	5.1	4.2	5.8	5.6	7.1	7.3
<i>Forced Saving (Refundable Portion of Excess Profits Tax)</i>	—	—	—	—	—	—	.9
Net Income Available for Dividends	3.6	5.1	4.2	5.8	5.6	7.1	6.4
Net Income Paid Out in Cash Dividends	2.3	2.0	4.7	3.2	3.8	3.1	2.9
Undistributed Income (ex. Forced Saving)	1.3	3.1	.5	2.6	1.8	4.0	3.5

GROUP 4 : ASSETS UNDER \$1mm. : 211 COMPANIES

Millions of Dollars

FISCAL YEAR NEAREST TO CALENDAR YEAR	1936	1937	1938	1939	1940	1941	1942
SOURCE AND USE OF FUNDS							
SOURCE OF FUNDS							
Net Income to Stockholders (incl Refundable EPT)	3 6	5.1	4 2	5.8	5 6	7.1	7.3
Cash Dividends	2.3	2 0	4 7	3.2	3 8	3.1	2.9
Undistributed Profits	1.3	3 1	.5	2 6	1 8	4.0	4.4
Depreciation Charges	2.1	2 2	2.1	2.1	2 6	3 3	3 4
Special Wartime Inventory Reserves	—	—	—	—	—	1	.1
Other Non-cash Charges Against Current Income ⁽¹⁾	.1	—	1	—	1	1	.2
TOTAL FUNDS FROM CURRENT INCOME	3 5	5 3	1 7	4 7	4 5	7 5	8.1
Increase in Bank Loans	.2	1 4	1 0	.6	1	1 4	.4
Increase in Accounts Payable	1 3	9	2 0	2 3	1 5	2.6	.1
Increase in Accrued Taxes Payable	2	.3	.2	6	3 2	3.0	.4
Issue of Common Stock	—	—	—	5	—	—	—
TOTAL NET SOURCE OF FUNDS	5.2	7.9	1.5	7.5	9.3	14.5	9.0
USE OF FUNDS							
Investment in Plant, Property and Equipment	2 0	2 9	1 8	1 5	3 2	3 4	2.1
Investment in Inventories	1.7	2.8	2.0	1.4	3 2	5 1	.9
Investment in Other Companies	.2	—	.5	—	.5	7	.7
Investment in Marketable Securities	—	.3	.2	.1	1 0	1 4	3.6
Refundable Portion of Excess Profits Tax	—	—	—	—	—	—	.9
Redemption of Funded Debt.	.2	.1	—	.5	.3	.2	.5
Redemption of Preferred Stock	—	.3	2	.2	.8	.3	.1
Increase in Accounts Receivable	.7	1 4	.9	2.8	3 1	2.8	.5
Increase in Holdings of Cash	.8	1.0	—	1 7	.5	.9	2.1
Increase in Misc Assets (less Misc Liabilities)	.4	3	3	.1	.3	.3	—
TOTAL NET USE OF FUNDS	5.2	7.9	1.5	7.5	9.3	14.5	9.0
YEAR-END BALANCE SHEET							
ASSETS							
Cash	5 8	6 8	6 8	8 6	8 1	9 0	11.1
Marketable Securities	3 5	3.2	3 4	3.3	4 3	5 7	9.4
Inventories ⁽²⁾	18.7	21 5	19 4	20 8	23 8	28 7	29.4
Accounts Receivable	12 0	13 4	12 4	15 2	18 3	21.1	20.8
TOTAL CURRENT ASSETS	40.0	44 9	42.0	47.9	54.5	64.5	70.7
Plant, Property and Equipment (Net) ⁽³⁾	32.3	32.8	32.7	31.8	32.3	32.8	32.1
Investment in Subsidiary Companies (Net) ⁽⁴⁾	1.8	1.4	1.7	1.4	.3	1.9	1.8
Investment in Other Companies	1.9	1.8	1.7	1.7	1.6	1.6	1.5
Goodwill, Franchises, etc	6.2	4.7	4 5	4.0	4 0	4.0	4.0
Refundable Portion of Excess Profits Tax	—	—	—	—	—	—	.9
Other Assets ⁽⁵⁾	3.5	3.3	2 0	2 1	2.3	2.4	2.4
TOTAL ASSETS	85.7	88.9	84.6	88.9	95.0	107.2	113.4
LIABILITIES							
Accounts Payable	7.5	8.4	6.5	8.7	10.2	12.7	12.9
Bank Loans	4.7	6.2	5.1	4.6	4.7	6.1	6.5
Accrued Taxes Payable	1.1	1.4	1.2	1 7	4 9	8.3	8.6
Interest and Dividend Accruals	.4	.4	.4	.5	.2	.3	.2
TOTAL CURRENT LIABILITIES	13.7	16.4	13 2	15.5	20 0	27.4	28.2
Funded Debt ⁽⁶⁾	4.9	4 8	4.8	4 3	4 0	3 8	3.3
Preferred Stock Outstanding	14.1	13.8	12 7	13 2	14 0	13.8	13.5
Common Stock Outstanding	39 4	37 5	37 1	35 2	34 6	34.7	35.0
Earned Surplus and Surplus Reserves ⁽⁷⁾	9 0	11 4	11 8	15 4	16 9	21.1	27.2
Other Liabilities ⁽⁸⁾	4 6	5 0	5 0	5 3	5 5	6.4	6.2
TOTAL LIABILITIES	85.7	88.9	84.6	88.9	95.0	107.2	113.4

* See notes on previous pages.



GROUP 1: ASSETS OVER \$25mm. : 42 COMPANIES

Millions of Dollars

FISCAL YEAR NEAREST TO CALENDAR YEAR	1936	1937	1938	1939	1940	1941	1942
SOURCE AND USE OF FUNDS							
SOURCE OF FUNDS							
Net Income to Stockholders (incl. Refundable EPT)	137.7	179.1	138.3	151.4	156.8	164.6	165.3
Cash Dividends	113.9	143.1	138.1	130.5	121.0	120.6	117.8
Undistributed Profits	23.8	36.0	.2	20.9	32.8	44.0	47.5
Depreciation Charges	54.1	57.4	56.1	58.3	71.5	79.4	101.0
Special Wartime Inventory Reserves	—	—	—	1.8	2.6	6.0	2.7
Other Non-cash Charges Against Current Income ⁽¹⁾	5.6	7.7	7.0	7.0	7.7	8.5	8.5
TOTAL FUNDS FROM CURRENT INCOME	83.5	101.1	63.3	88.0	114.6	137.9	159.7
Increase in Bank Loans	5.9	11.8	13.6	6.6	.1	24.9	.1
Increase in Accounts Payable	10.0	8.7	9.5	10.3	31.1	29.4	16.8
Increase in Accrued Taxes Payable	8.6	9.8	6.1	5.8	43.1	49.2	8.4
Issue of Common Stock	1.9	27.9	10.0	1.8	6.6	3.1	1.0
TOTAL NET SOURCE OF FUNDS	98.1	159.3	44.1	112.5	195.3	244.5	169.2
USE OF FUNDS							
Investment in Plant, Property and Equipment	43.6	69.9	61.4	54.0	63.7	81.9	75.8
Investment in Inventories	17.6	46.3	6.5	12.8	49.0	62.1	22.0
Investment in Other Companies	1.1	10.7	.6	16.7	2.7	4.5	10.2
Investment in Marketable Securities	.5	12.2	17.0	12.0	1.5	16.5	61.8
Refundable Portion of Excess Profits Tax	—	—	—	—	—	—	7.5
Redemption of Funded Debt	7.4	19.5	5.1	15.4	34.4	25.2	2.1
Redemption of Preferred Stock	2.2	12.6	—	2.2	.1	—	3.3
Increase in Accounts Receivable	17.5	.2	10.4	27.9	27.0	29.5	45.0
Increase in Holdings of Cash	23.3	1.1	.7	7.3	34.4	45.9	33.2
Increase in Misc. Assets (less Misc. Liabilities)	7.3	13.4	8.8	23.4	17.5	12.1	4.9
TOTAL NET USE OF FUNDS	98.1	159.3	44.1	112.5	195.3	244.5	169.2

YEAR-END BALANCE SHEET

ASSETS							
Cash	111.7	110.6	109.9	117.3	151.6	197.6	164.4
Marketable Securities	109.0	97.0	80.1	68.4	70.1	86.3	148.3
Inventories ⁽²⁾	236.4	282.5	289.1	300.7	347.7	403.9	423.3
Accounts Receivable	110.1	110.6	100.1	128.1	155.1	184.6	229.6
TOTAL CURRENT ASSETS	567.2	600.7	579.2	614.5	724.5	872.4	965.6
Plant, Property and Equipment (Net) ⁽³⁾	1,615.2	1,620.6	1,621.0	1,603.8	1,589.3	1,580.5	1,557.2
Investment in Subsidiary Companies (Net) ⁽⁴⁾	178.9	189.8	193.5	208.6	207.5	196.9	189.6
Investment in Other Companies	32.1	35.1	26.4	27.2	28.0	30.9	33.3
Goodwill, Franchises, etc.	68.0	69.7	60.1	60.1	60.2	60.2	60.2
Refundable Portion of Excess Profits Tax	—	—	—	—	—	—	7.4
Other Assets ⁽⁵⁾	50.2	47.6	43.5	64.0	47.7	47.2	44.8
TOTAL ASSETS	2,511.6	2,563.5	2,523.7	2,578.2	2,657.2	2,788.1	2,858.1
LIABILITIES							
Accounts Payable	69.0	77.6	68.2	78.6	107.2	136.4	153.3
Bank Loans	29.4	41.2	27.6	34.2	34.1	58.9	59.0
Accrued Taxes Payable	33.0	42.8	36.7	43.1	88.7	136.0	128.5
Interest and Dividend Accruals	17.9	16.0	16.1	17.5	17.9	17.3	17.1
TOTAL CURRENT LIABILITIES	149.3	177.6	148.6	173.4	247.9	348.6	357.9
Funded Debt ⁽⁶⁾	744.2	724.8	731.0	748.9	715.4	690.3	723.6
Preferred Stock Outstanding	251.1	238.5	238.5	240.6	240.5	238.1	234.8
Common Stock Outstanding	837.6	863.2	868.4	867.9	873.1	852.5	853.5
Earned Surplus and Surplus Reserves ⁽⁷⁾	469.6	497.3	479.7	484.6	516.8	588.1	607.9
Other Liabilities ⁽⁸⁾	59.8	62.1	57.5	62.8	63.5	70.5	80.4
TOTAL LIABILITIES	2,511.6	2,563.5	2,523.7	2,578.2	2,657.2	2,788.1	2,858.1

(3) Reserves for depreciation and depletion have been deducted.

(4) Includes current accounts receivable from subsidiaries and fixed investments in subsidiaries less current and non-current accounts payable to subsidiaries.

(5) Includes non-current accounts receivable, bond discount and other deferred charges, deferred development, etc.

(6) Bonds and Mortgages outstanding less bonds held in the sinking fund.

(7) Includes contingent and general reserves, capital surplus and the refundable portion of the Excess Profits Tax.

(8) Includes non-current accounts payable, accounts payable to parent companies, deferred credits, pension fund reserves, insurance reserves, etc.

Millions of Dollars

GROUP 2 : ASSETS \$5 - 25mm. : 129 COMPANIES

FISCAL YEAR NEAREST TO CALENDAR YEAR	1936	1937	1938	1939	1940	1941	1942
SOURCE AND USE OF FUNDS							
SOURCE OF FUNDS							
Net Income to Stockholders (incl Refundable EPT)	64 3	77 6	66 6	87 3	83 3	91 6	90 9
Cash Dividends	50 9	55 6	64 1	60 7	61 0	65 3	59 6
Undistributed Profits	13 4	22 0	2 5	26 6	22 3	26 3	31 3
Depreciation Charges	31 0	33 1	31 5	36 2	43 5	54 6	61 3
Special Wartime Inventory Reserves	—	—	—	5	1 9	2 7	1 8
Other Non-cash Charges Against Current Income ⁽¹⁾	2 1	2 6	3 1	2 1	2 4	1 9	2 0
TOTAL FUNDS FROM CURRENT INCOME	46 5	57 7	37 1	65 4	70 1	85 5	96 4
Increase in Bank Loans	6	11 7	1 4	4 3	5 6	22 1	2 9
Increase in Accounts Payable	6 9	5 8	6 6	7 9	18 9	25 3	17 3
Increase in Accrued Taxes Payable	2 5	3 4	1 7	8 0	29 8	34 3	12 1
Issue of Common Stock	5 6	5 7	7 7	3 6	1 6	1 6	2 7
TOTAL NET SOURCE OF FUNDS	60.9	60.9	35.1	89.2	126.0	168.8	101.4
USE OF FUNDS							
Investment in Plant, Property and Equipment	28 6	39 3	29 2	29 4	38 8	55 7	36 4
Investment in Inventories	14 5	5 3	10 6	24 3	52 7	54 7	5 3
Investment in Other Companies	5 4	2	5 5	1 9	3 0	2 9	8
Investment in Marketable Securities	1 5	3 7	5 2	1 7	8 5	9 8	40 7
Refundable Portion of Excess Profits Tax	—	—	—	—	—	—	7 1
Redemption of Funded Debt	8	1 9	9 4	4 6	7 1	6 5	11 5
Redemption of Preferred Stock	1 5	1 1	1	3	1 5	1 5	6
Increase in Accounts Receivable	8 2	9 2	4 5	15 1	22 6	34 4	5 2
Increase in Holdings of Cash	2 5	9 8	8 5	14 6	3 8	5 7	13 4
Increase in Misc. Assets (less Misc Liabilities)	9	1 8	3 3	1 1	1 6	2 4	8 0
TOTAL NET USE OF FUNDS	60.9	60.9	35.1	89.2	126.0	168.8	101.4
YEAR-END BALANCE SHEET							
ASSETS							
Cash	61 9	71 6	80 1	94 7	90 8	96 5	109 9
Marketable Securities	78 3	74 7	79 7	81 7	90 4	100 2	140 9
Inventories ⁽²⁾	166 7	171 9	161 1	185 0	235 8	288 0	291 7
Accounts Receivable	72 1	81 2	76 7	91 8	114 2	148 7	143 6
TOTAL CURRENT ASSETS	379 0	399 4	397 6	453 2	531 2	633 4	686 1
Plant, Property and Equipment (Net) ⁽³⁾	685 5	688 8	681 9	673 0	665 3	665 5	640 4
Investment in Subsidiary Companies (Net) ⁽⁴⁾	54 1	52 4	45 9	45 1	44 6	48 1	47 3
Investment in Other Companies	22 1	22 2	21 4	23 4	23 1	22 9	23 0
Goodwill, Franchises, etc	43 5	41 2	34 5	33 9	31 8	30 6	29 7
Refundable Portion of Excess Profits Tax	—	—	—	—	—	—	7 1
Other Assets ⁽⁵⁾	28 9	29 5	31 7	26 9	25 2	25 2	27 4
TOTAL ASSETS	1,213.1	1,233.5	1,213.0	1,255.5	1,321.2	1,425.7	1,461.0
LIABILITIES							
Accounts Payable	45 1	51 0	44 3	52 2	71 1	96 3	113 6
Bank Loans	39 8	28 2	26 7	31 1	36 6	58 7	55 9
Accrued Taxes Payable	16 8	20 6	19 2	27 6	58 1	93 4	80 3
Interest and Dividend Accruals	9 8	11 2	11 2	12 9	11 4	12 0	11 7
TOTAL CURRENT LIABILITIES	111 5	111 0	101 4	123 8	177 2	260 4	261 5
Funded Debt ⁽⁶⁾	240 2	238 6	228 6	224 7	217 8	211 2	199 8
Preferred Stock Outstanding	226 2	224 2	222 8	220 4	211 9	210 3	210 9
Common Stock Outstanding	416 7	421 9	419 8	425 0	428 3	430 9	434 4
Earned Surplus and Surplus Reserves ⁽⁷⁾	203 7	222 0	224 4	248 2	270 0	295 4	327 8
Other Liabilities ⁽⁸⁾	14 8	15 8	16 0	13 4	16 0	17 5	26 6
TOTAL LIABILITIES	1,213.1	1,233.5	1,213.0	1,255.5	1,321.2	1,425.7	1,461.0

* These statistics are for the same companies as were covered in the tables on pages 39 and 40 of the April-May Statistical Summary with the omission of two companies in Group 1. The present statistics are of course subject to all the limitations and qualifications which apply to the accounting statements on which they are based. In particular the 'Source and Use of Funds' statement, which is designed to show net cash received

from all sources and paid out for all purposes may nevertheless be affected by purely bookkeeping transactions where these are not shown separately in the company accounts or referred to in the company reports.

(1) Includes depletion charges, patent write-offs, deferred development charges and amortization of bond discount.
(2) Special wartime inventory reserves have been deducted.

GROUP 3 : ASSETS \$1 - 5mm. : 243 COMPANIES

Millions of Dollars

FISCAL YEAR NEAREST TO CALENDAR YEAR	1936	1937	1938	1939	1940	1941	1942
SOURCE AND USE OF FUNDS							
SOURCE OF FUNDS							
Net Income to Stockholders (incl. Refundable EPT)	25.8	34.7	32.5	40.9	38.5	43.3	42.9
Cash Dividends	16.5	19.8	27.0	27.7	30.7	28.9	25.9
Undistributed Profits	9.3	14.9	5.5	13.2	7.8	14.4	17.0
Depreciation Charges	12.4	13.6	13.8	14.6	17.6	21.4	23.5
Special Wartime Inventory Reserves	-	-	-	.2	1.3	1.7	1.1
Other Non-cash Charges Against Current Income ⁽¹⁾	1.6	2.0	1.9	2.0	1.9	1.4	1.3
TOTAL FUNDS FROM CURRENT INCOME	23.3	30.5	21.2	30.0	28.6	38.9	42.9
Increase in Bank Loans	1.3	2.2	1.7	3.6	3.4	3.7	3.7
Increase in Accounts Payable	3.2	1.3	4.3	6.8	8.6	14.1	7.4
Increase in Accrued Taxes Payable	1.5	1.9	.3	3.2	15.9	13.8	3.1
Issue of Common Stock	.9	2.0	.1	.9	.5	.2	.4
TOTAL NET SOURCE OF FUNDS	25.8	37.9	15.0	44.5	57.0	70.7	51.3
USE OF FUNDS							
Investment in Plant, Property and Equipment	11.5	17.9	12.2	14.6	15.7	19.3	14.2
Investment in Inventories	4.5	9.0	6.6	12.4	18.5	28.9	7.9
Investment in Other Companies	2.8	1.5	1.1	1.4	2.4	.2	.8
Investment in Marketable Securities	1.6	1.1	.4	.8	8.2	7.3	14.0
Refundable Portion of Excess Profits Tax	-	-	-	-	-	-	3.7
Redemption of Funded Debt	1.5	.7	2.2	1.6	.9	1.3	3.1
Redemption of Preferred Stock	3.5	.4	1.1	.3	1.8	1.1	.6
Increase in Accounts Receivable	2.8	4.7	3.6	10.3	12.6	10.6	2.4
Increase in Holdings of Cash	.3	2.6	6.7	2.1	1.0	2.1	4.6
Increase in Misc. Assets (less Misc. Liabilities)	1.1	-	1.5	1.0	.7	.3	1.6
TOTAL NET USE OF FUNDS	25.8	37.9	15.0	44.5	57.0	70.7	51.3
YEAR-END BALANCE SHEET							
ASSETS							
Cash	30.3	32.9	39.7	41.7	42.7	44.8	49.4
Marketable Securities	18.5	19.6	19.7	20.5	28.7	35.9	49.9
Inventories ⁽²⁾	75.0	83.8	77.0	89.2	106.4	133.3	139.9
Accounts Receivable	38.6	43.3	39.7	50.1	62.7	73.3	75.8
TOTAL CURRENT ASSETS	162.4	179.6	176.1	201.5	240.5	287.3	315.0
Plant, Property and Equipment (Net) ⁽³⁾	233.7	236.0	231.6	229.9	228.7	225.2	215.0
Investment in Subsidiary Companies (Net) ⁽⁴⁾	13.7	13.5	15.4	15.2	16.0	16.5	15.0
Investment in Other Companies	6.4	6.2	6.3	6.0	6.2	6.3	6.8
Goodwill, Franchises, etc.	32.1	29.4	27.6	25.0	23.2	22.4	22.4
Refundable Portion of Excess Profits Tax	-	-	-	-	-	-	3.7
Other Assets ⁽⁵⁾	19.5	17.9	16.7	18.1	15.1	15.2	15.4
TOTAL ASSETS	467.8	482.6	473.7	495.7	529.7	572.9	593.3
LIABILITIES							
Accounts Payable	23.1	24.3	20.0	26.8	35.4	49.5	56.9
Bank Loans	12.7	15.0	13.3	16.9	20.3	24.0	27.7
Accrued Taxes Payable	6.4	8.3	8.1	11.2	27.9	43.2	38.8
Interest and Dividend Accruals	3.4	3.8	3.3	4.0	3.9	4.6	4.4
TOTAL CURRENT LIABILITIES	45.6	51.4	44.7	58.9	87.5	121.3	127.8
Funded Debt ⁽⁶⁾	50.6	50.1	47.0	44.6	43.7	41.4	39.4
Preferred Stock Outstanding	87.8	87.0	82.6	77.1	74.0	73.1	72.7
Common Stock Outstanding	199.2	199.4	199.1	200.8	201.3	200.7	201.0
Earned Surplus and Surplus Reserves ⁽⁷⁾	74.0	83.7	89.1	103.6	110.6	122.0	137.5
Other Liabilities ⁽⁸⁾	10.6	11.0	11.2	10.7	12.6	14.4	14.9
TOTAL LIABILITIES	467.8	482.6	473.7	495.7	529.7	572.9	593.3

(3) Reserves for depreciation and depletion have been deducted.

(4) Includes current accounts receivable from subsidiaries and fixed investments in subsidiaries less current and non-current accounts payable to subsidiaries.

(5) Includes non-current accounts receivable, deferred charges, bond discount, deferred development, etc.

(6) Bonds and Mortgages outstanding less bonds held in the sinking fund.

(7) Includes contingent and general reserves, capital surplus and the refundable portion of the Excess Profits Tax.

(8) Includes non-current accounts payable, accounts payable to parent companies, deferred credits, pension fund reserves, insurance reserves, etc.

Millions of Dollars

TOTAL OF 625 COMPANIES

FISCAL YEAR NEAREST TO CALENDAR YEAR	1936	1937	1938	1939	1940	1941	1942
SOURCE AND USE OF FUNDS							
SOURCE OF FUNDS							
Net Income to Stockholders (incl. Refundable EPT)	231 4	296 5	241 5	285 5	284 2	306 6	306 5
Cash Dividends	183 7	220 5	234 0	222 2	219 5	217 9	206 1
Undistributed Profits	47 7	76 0	7 5	63 3	64 7	88 7	100 4
Depreciation Charges	99 5	106 3	103 5	111 3	135 2	158 8	189 0
Special Wartime Inventory Reserves	-	-	-	2 5	5 9	10 5	5 8
Other Non cash Charges Against Current Income ⁽¹⁾	9 5	12 3	12 1	11 2	12 1	11 9	11 9
TOTAL FUNDS FROM CURRENT INCOME	156 7	194 6	123 1	188 3	217 9	269 9	307 1
Increase in Bank Loans	7 6	3 8	17 7	14 0	9 0	52 0	1 3
Increase in Accounts Payable	21 4	16 7	22 4	27 2	60 0	71 3	41 6
Increase in Accrued Taxes Payable	12 8	15 4	18 3	17 6	92 0	100 4	23 3
Issue of Common Stock	6 7	35 6	17 9	6 7	8 7	4 9	4 2
TOTAL NET SOURCE OF FUNDS	190.0	266.1	92.6	253.8	387.6	498.5	330.9
USE OF FUNDS							
Investment in Plant, Property and Equipment	55 7	130 0	104 7	99 5	121 3	160 2	128 5
Investment in Inventories	38 3	63 3	12 7	30 9	123 4	150 9	36 1
Investment in Other Companies	6 8	12 0	4 3	16 2	3 2	1 2	10 8
Investment in Marketable Securities	3 6	15 1	11 2	9 6	19 1	35 0	120 1
Refundable Portion of Excess Profits Tax	-	-	-	-	-	-	19 1
Redemption of Funded Debt	5 3	22 2	6 4	8 7	42 7	33 2	17 2
Redemption of Preferred Stock	2 9	14 3	1 5	1 7	2 6	2 9	3 3
Increase in Accounts Receivable	29 2	15 6	19 4	36 1	65 4	77 5	41 5
Increase in Holdings of Cash	26 3	12 4	14 5	25 7	31 1	54 7	13 2
Increase in Misc Assets (less Misc Liabilities)	9 7	11 4	13 1	25 4	14 8	14 5	11 2
TOTAL NET USE OF FUNDS	190.0	266.1	92.6	253.8	387.6	498.5	330.9

YEAR-END BALANCE SHEET

ASSETS							
Cash	209 6	222 0	236 5	262 2	293 3	347 9	334 7
Marketable Securities	209 3	194 5	183 0	174 0	193 3	228 2	348 5
Inventories ⁽²⁾	496 8	559 7	546 6	595 7	713 7	853 9	884 3
Accounts Receivable	232 8	248 5	229 0	285 2	350 4	427 6	469 8
TOTAL CURRENT ASSETS	1,148 5	1,224 7	1,195 1	1,317 1	1,550 7	1,857 6	2,037 3
Plant, Property and Equipment (Net) ⁽³⁾	2,566 6	2,578 3	2,567 1	2,538 6	2,515 5	2,503 9	2,444 7
Investment in Subsidiary Companies (Net) ⁽⁴⁾	248 5	257 1	256 5	270 3	268 4	263 5	253 7
Investment in Other Companies	62 5	65 3	55 7	58 2	59 0	61 8	64 6
Goodwill, Franchises, etc	149 8	145 0	126 9	123 1	119 3	117 2	116 3
Refundable Portion of Excess Profits Tax	-	-	-	-	-	-	19 1
Other Assets ⁽⁵⁾	102 2	98 2	93 9	111 1	90 2	90 0	90 0
TOTAL ASSETS	4,278.1	4,368.6	4,295.2	4,418.4	4,603.1	4,894.0	5,025.7
LIABILITIES							
Accounts Payable	144 7	161 3	139 0	166 3	223 9	294 9	336 7
Bank Loans	86 7	90 5	72 8	86 7	95 7	147 7	149 0
Accrued Taxes Payable	57 3	73 1	65 2	83 6	179 5	280 9	256 2
Interest and Dividend Accruals	31 4	31 5	31 0	34 9	33 4	34 3	33 5
TOTAL CURRENT LIABILITIES	320 1	356 4	308 0	371 5	532 5	757 8	775 4
Funded Debt ⁽⁶⁾	1,039 9	1,018 3	1,011 4	1,022 5	980 9	946 7	966 1
Preferred Stock Outstanding	579 1	563 6	556 5	551 3	540 4	535 3	531 8
Common Stock Outstanding	1,493 0	1,522 0	1,524 4	1,528 9	1,537 3	1,518 8	1,523 9
Earned Surplus and Surplus Reserves ⁽⁷⁾	756 3	814 3	805 0	851 8	914 3	1,026 5	1,100 3
Other Liabilities ⁽⁸⁾	89 7	94 0	89 9	92 4	97 7	108 9	128 2
TOTAL LIABILITIES	4,278.1	4,368.6	4,295.2	4,418.4	4,603.1	4,894.0	5,025.7

* These statistics are for the same companies as were covered in the tables on pages 39 and 40 of the April May Statistical Summary with the omission of two companies in Group 1. The present statistics are of course subject to all the limitations and qualifications which apply to the accounting statements on which they are based. In particular the Source and Use of Funds statement, which is designed to show net cash received

from all sources and paid out for all purposes may nevertheless be affected by purely bookkeeping transactions where these are not shown separately in the company accounts or referred to in the company reports

(1) Includes depletion charges patent write offs deferred development charges and amortization of bond discount
 (2) Special wartime inventory reserves have been deducted

FINANCIAL STATISTICS
OF
625 COMPANIES: 1936 - 42

FROM
BANK OF CANADA
STATISTICAL SUMMARY
JUNE - JULY 1944

6
APPENDIX - VIII

Stockholdings by Management

Officers' and Directors' proportionate holdings of common and preferred stock in 1922 by industries arranged in order of holdings for comparison with size of corporations involved.^a

Approximate number of companies ^b	Total par value of stock held by management		Average par value of total outstanding stock per corporation	
	Common	Preferred	Common	Preferred
44 Steam railroads	1.2	.1	\$52,402,000	\$11,799,000
22 Gas	1.4	.4	8,063,000	4,079,000
36 Other mining and quarrying	1.8	8.2	7,777,000	17,000
378 Trans. & other public utilities	2.1	.7	7,839,000	1,858,000
46 Electric Light & Power	4.2	1.8	4,457,000	1,675,000
132 Mining and quarrying	4.5	6.2	4,479,000	681,000
102 Telegraph and telephone †	5.3	13.4	1,441,000	46,000
53 Petroleum mining	5.3	2.7	3,686,000	775,000
24 Electric railroads	5.4	8.4	3,390,000	399,000
6 Chemical and allied substances *	6.3	.3	138,546,000	2,889,000
43 Coal mining	8.4	9.4	2,989,000	1,064,000
4367 All industries	10.7	5.8	1,715,000	361,000
16 Metal and metal products	11.4	12.0	35,729,000	15,084,000
1363 Manufacturing	15.0	9.6	2,367,000	547,000
275 Food products	17.5	5.3	1,392,000	443,000
1203 Finance	22.0	23.1	433,000	18,000
698 Other manufacturing	22.7	10.6	1,408,000	506,000
140 Other public utilities	23.4	24.7	354,000	23,000
13 Rubber, rubber goods, etc.	39.0	2.1	794,000	1,705,000
192 Textile products	42.9	17.2	363,000	89,000
41 Leather products	44.7	6.1	645,000	387,000
950 Trade	48.4	19.7	224,000	25,000
172 Service	49.7	21.6	106,000	14,000
70 Agriculture and related industries	55.9	61.2	146,000	3,000
122 Lumber and wood products	56.9	37.3	250,000	18,000
99 Construction	67.6	46.3	107,000	14,000

+ Does not include the largest telephone or the largest telegraph company.

* Mostly petroleum mining. The figure is presumably dominated by one of the Standard Oil units.

a Derived from Federal Trade Commission, National Wealth and Income, p. 159, Table 90. The table is based on data furnished to the commission from 4367 representative corporations.

b. Approximated by applying percentage of corporations reported by Federal Trade Commission, *ibid.* p. 145, to number of corporations reported by Treasury Department, Statistics of Income, 1922, p. 16.

6 *Ibid* - p. 51

APPENDIX - IX ⁷Estimated Number of Book Stockholders^a
of American Corporations - 1900 - 1928

Year	Total Capital Stock of all Corporations in the United States	Average No. of \$100 par value shares per stockholder	Estimated No. of stockholders in the United States	Annual rate of increase (Compounded annually)
1900	\$61,831,955,370	140.1	4,400,000	
1910	64,053,763,141	86.3	7,400,000	5.2%
1913	65,038,309,611	87.0	7,500,000	.5%
1917	66,584,420,424	77.3	8,600,000	3.5%
1920	69,205,967,666	57.3	12,000,000	12.0%
1923	71,479,464,925	49.7	14,400,000	6.2%
1928	91,881,243,985 ^b	51.0 ^c	18,000,000	4.5%

a. As compiled and computed by H.T. Warshaw (op. cit., p.28) for 1900-1923 and compiled by the present writer for 1928 on a comparable basis. The relative accuracy of Mr. Warshaw's estimate is suggested by the estimate of the number of book stockholders in 1922 made by the present writer on the basis of quite different basic figures compiled by the Federal Trade Commission (see Table IX). By interpolation, Mr. Warshaw's figures indicate 13,600,000 book stockholders in 1922. The Federal Trade Commission figures covering approximately one eighth of corporate capital indicate 13,564,000. While the almost identical results must be looked upon as fortuitous, the figure arrived at is not likely to be wide of the mark.

b. Statistics of Income, 1927, p. 373.

c. The wide use of no-par stock makes both the figure for total stock of all corporations and the estimate of the average shares per stockholder less reliable than in earlier years.

7. Ibid - p. 56.

APPENDIX - XSection 498A of the Criminal Code of CanadaPrice Discrimination

498A. Every person engaged in trade or commerce or industry is guilty of an indictable offence and liable to a penalty not exceeding one thousand dollars or to one month's imprisonment, or, if a corporation, to a penalty not exceeding five thousand dollars, who

- (a) is a party or privy to, or assists in, any transaction of sale which discriminates, to his knowledge, against competitors of the purchaser in that any discount, rebate or allowance is granted to the purchaser over and above any discount, rebate or allowance available at the time of such transaction to the aforesaid competitors in respect of a sale of goods of like quality and quantity;

The provisions of this paragraph shall not, however, prevent a co-operative society returning to producers or consumers, or a co-operative wholesale society returning to its constituent retail members, the whole or any part of the net surplus made in its trading operations in proportion to purchases made from or sales to the society;

- (b) engages in a policy of selling goods in any area of Canada at prices lower than those exacted by such seller elsewhere in Canada, for the purpose of destroying competition or eliminating a competitor in such part of Canada;
- (c) engages in a policy of selling goods at prices unreasonably low for the purpose of destroying competition or eliminating a competitor.

APPENDIX - XIAn Act to provide for the Investigation of Combines,
Monopolies, Trusts and Mergers

Chapter 26 of the Revised Statutes of Canada, 1927
As amended by Chapter 54 of the Statutes of 1935 and by
Chapter 23 of the Statutes of 1937.

Short Title

1. This Act may be cited as the Combines Investigation Act.

Interpretation

2. In this Act, unless the context otherwise requires,

(1) "Combine" means a combination having relation to any commodity which may be the subject of trade or commerce, of two or more persons by way of actual or tacit contract, agreement or arrangement having or designed to have the effect of

(a) limiting facilities for transporting, producing, manufacturing, supplying, storing or dealing, or

(b) preventing, limiting or lessening manufacture or production, or

(c) fixing a common price or a resale price, or a common rental, or a common cost of storage or transportation or

(d) enhancing the price, rental or cost of article, rental, storage or transportation, or

(e) preventing or lessening competition in, or substantially controlling within any particular area or district or generally, production, manufacture, purchase, barter, sale, storage, transportation, insurance or supply, or

(f) otherwise restraining or injuring trade or commerce;

or a merger, trust or monopoly; which combination, merger, trust or monopoly has operated or is likely to operate to the detriment or against the interest of the public, whether consumers, producers or others.

(2) "Commissioner" means the Commissioner of the Combines Investigation Act appointed as hereinafter provided.

(3) "Corporation" includes "Company."

(4) "Merger, trust or monopoly" means one or more persons

(a) who has or have purchased, leased or otherwise acquired any control over or interest in the whole or part of the business of another; or

(b) who either substantially or completely control, throughout any particular area or district in Canada or throughout Canada the class or species of business in which he is or they are engaged;

and extends and applies only to the business of manufacturing, producing, transporting, purchasing, supplying, storing or dealing in commodities which may be the subject of trade or commerce: Provided that this subsection shall not be construed or applied so as to limit or impair any right or interest derived under The Patent Act, 1935, or under any other statute of Canada.

(5) "Minister" means the Minister of Labour.

(6) "Special commissioner" means a temporary commissioner appointed as hereinafter provided for the purpose of conducting an investigation.

3. No proceedings under this Act shall be deemed invalid by reason of any defect of form or any technical irregularity.

4. Nothing in this Act shall be construed to apply to combinations of workmen or employees for their own reasonable protection as such workmen or employees.

Administration

5. (1) The Governor in Council may appoint an officer to be known as the Commissioner of the Combines Investigation Act.

(2) The Commissioner shall perform the duties and exercise the powers conferred upon him under this Act and shall report directly to the Minister as required by this Act.

(3) The Commissioner shall, before entering upon his duties, take and subscribe before the Clerk of the Privy Council, and shall file in the office of the said Clerk, an oath of office

in the following form:-

"I do solemnly swear that I will faithfully, truly and impartially, and to the best of my judgment, skill and ability, execute the powers and trusts reposed in me as Commissioner of the Combines Investigation Act. So help me God."

(4) The Commissioner shall be paid such salary as may be from time to time fixed and allowed by the Governor in Council.

6. (1) An Assistant Commissioner of the Combines Investigation Act may be appointed in the manner authorized by law.

(2) When the Commissioner is absent or unable to act, or when so authorized by the Commissioner with respect to any investigation or matter, the Assistant Commissioner, or, if he also is at the same time absent or unable to act, another officer designated by the Minister, may and shall exercise the powers and perform the duties of the Commissioner.

7. (1) The Governor in Council may appoint, from time to time, one or more persons to be special commissioners under this Act.

(2) It shall be the duty of a special commissioner to conduct an investigation into and concerning any alleged combine indicated in the Order in Council signifying his appointment.

(3) Every special commissioner shall have, with respect to and for the duration of the investigation which he is appointed to conduct, the powers which are conferred on the Commissioner in sections fourteen to twenty-four, both inclusive, of this Act; and wherever the word "Commissioner" occurs in sections fourteen to twenty-four, both inclusive, and thirty-three to thirty-six, both inclusive, of this Act, it shall be deemed to include the words "special commissioner."

(4) The exercise of any of the powers herein conferred upon special commissioners shall not be held to limit or qualify the powers by this Act conferred upon the Commissioner.

8. (1) The Commissioner may, with the approval of the Governor in Council, employ such temporary, technical and special assistants as may be required to meet the special conditions that may arise in carrying out the provisions of this Act.

(2) Any technical or special assistant or other qualified person employed under this Act shall, when so authorized or deputed by the Commissioner, inquire into any matter within the scope of this Act as may be directed by the Commissioner.

9. (1) Any special commissioner and any temporary, technical and special assistants employed by the Commissioner shall be paid for their services and expenses as may be determined by the Governor in Council.

(2) The remuneration and expenses of the Commissioner and of any special commissioner and of the temporary, technical and special assistants employed by the Commissioner, and of any counsel instructed by the Minister of Justice under this Act, shall be paid out of such appropriations as are provided by Parliament to defray the cost of administering this Act.

(3) The CIVIL SERVICE ACT and other Acts relating to the Civil Service, insofar as applicable, shall, except as otherwise provided in section five of this Act, apply to the Commissioner and to all other permanent employees under this Act.

10. It shall be the duty of the Commissioner

- (a) to receive and register, and, subject to the provisions of this Act, to deal with applications for investigation of alleged combines;
- (b) to bring at once to the Minister's attention every such application;
- (c) to conduct such correspondence with the applicants and all other persons as may be necessary;
- (d) to call for such returns and to make such inquiries as he may consider to be necessary in order that he may thoroughly examine into the matter brought to his attention by any application for an investigation;
- (e) to make reports from time to time to the Minister;
- (f) to keep a register in which shall be entered the particulars of all applications, inquiries, reports and recommendations, and safely to keep all applications, records of inquiries, correspondence, returns, reports, recommendations, evidence and documents relating to applications and proceedings conducted by the Commissioner and when so required to transmit all or any of such to the Minister;
- (g) to supply to any persons on request information as to this Act or any regulations thereunder;

- (h) generally to do all such things and take all such proceedings as may be required in the performance of his duties under this Act or under any regulations made hereunder.

Applications

11. (1) Any six persons, British subjects, resident in Canada, of the full age of twenty-one years, who are of the opinion that a combine exists, may apply in writing to the Commissioner for an investigation of such alleged combine, and shall place before the Commissioner the evidence on which such opinion is based.

(2) The application shall be accompanied by a statement in the form of a solemn or statutory declaration showing

- (a) the names and addresses of the applicants, and at their election the name and address of any one of their number, or of any attorney, solicitor or counsel, whom they may, for the purpose of receiving any communication to be made pursuant to this Act, have authorized to represent them;
- (b) the nature of the alleged combine and the names of the persons believed to be concerned therein and privy thereto;
- (c) the manner in which, and where possible the extent to which, the alleged combine is believed to operate or to be about to operate to the detriment or against the interest of the public whether consumers, producers or others.

Investigations

12. The Commissioner shall on application made under the last preceding section, or on direction by the Minister, cause an inquiry to be made into all such matters with respect to the said alleged combine as he shall consider necessary to enquire into with the view of determining whether a combine exists or is being formed.

13. (1) If, after such preliminary inquiry as the Commissioner deems the circumstances warrant, the Commissioner is of the opinion that the application is frivolous or vexatious, or does not justify further inquiry, the Commissioner may decide that no further inquiry is justified and shall inform the applicant of the decision giving the grounds therefor.

(2) The Commissioner shall thereupon make a report in writing to the Minister showing the inquiry made, the information obtained and his conclusions.

(3) On written request of the applicants or on his own motion, the Minister may review the decision of the Commissioner under this section, and may, if in his opinion the circumstances warrant, instruct the Commissioner to make further investigation.

14. The Commissioner may at any time in the course of an inquiry, by notice in writing, require any person, and in the case of a corporation any officer of such corporation, to make and render unto the Commissioner, within a time stated in such notice, or from time to time, a written return under oath or affirmation showing in detail such information with respect to the business of the person named in the notice as is by the notice required, and such person or officer shall make and render unto the Commissioner, precisely as required a written return under oath or affirmation showing in detail the information required; and, without restricting the generality of the foregoing, the Commissioner may require a full disclosure of all contracts or agreements which the person, named in the notice, may have at any time entered into with any other person, touching or concerning the business of the said person so named in the notice.

15. Repealed.

16. The Commissioner shall have authority to investigate the business, or any part thereof, of any person who is or is believed by the Commissioner to be a member of any combine or a party or privy thereto, and to authorize a representative on his behalf to enter and examine the premises, books, papers and records of such person.

17. Every person who is in possession or control of any such business, premises, books, papers or records as are referred to in the last preceding section shall give and afford to the Commissioner admission and access thereto whenever and as often as demanded.

18. All provisions of the INQUIRIES ACT not repugnant to the provisions of this Act shall apply to any inquiry or investigation under this Act, and the Commissioner shall have all the powers of a commissioner appointed under the Inquiries Act, except in so far as any such powers may be inconsistent with the provisions of this Act.

19. No person shall in any manner impede or prevent or attempt to impede or prevent any investigation, examination or inquiry under this Act.

20. All books, papers, records or things produced before the Commissioner, whether voluntarily or in pursuance of an order, may be inspected by the Commissioner and also by such persons as the Commissioner directs, and copies thereof may be made by or at the instance of the Commissioner.

21. Repealed.

22. (1) The Commissioner may order that any person resident or present in Canada be examined upon oath before, or make production of books, papers, records or articles to, the Commissioner or before or to any other person named for the purpose by the order of the Commissioner and may make such orders as seem to the Commissioner to be proper for securing the attendance of such witness and his examination, and the production by him of books, papers, records or articles, and the use of evidence so obtained, and may otherwise exercise, for the enforcement of such orders or punishment for disobedience thereof, all powers that are exercised by any superior court in Canada for the enforcement of subpoenas to witnesses or punishment of disobedience thereof.

(2) Any person summoned before the Commissioner shall be competent and may be compelled to give evidence as a witness.

(3) Every person who is summoned and duly attends as a witness shall be entitled to an allowance for attendance and travelling expenses according to the scale in force with respect to witnesses in civil suits in the superior courts of the province in which the inquiry is being conducted.

(4) The Minister may issue commissions to take evidence in another country, and may make all proper orders for the purpose and for the return and use of the evidence so obtained.

(5) Orders to witnesses and all other orders, process or proceedings shall be signed by a commissioner.

23. (1) The Commissioner may accept or require evidence upon affidavit or written affirmation, in every case in which it seems to him proper to do so.

(2) The Commissioner and all persons authorized to administer oaths to be used in any of the superior courts of any province may administer oaths in such province to be used in applications, matters or proceedings before the Commissioner.

(3) All persons authorized to administer oaths within or out of Canada, in or concerning any proceedings had or to be had in the Supreme Court of Canada or in the Exchequer Court of Canada, may administer oaths in or concerning any application, matter or proceeding before the Commissioner.

24. No person shall be excused from attending and giving evidence and producing books, papers, or records, in obedience to the order of the Commissioner on the ground that the oral evidence or documents required of him may tend to criminate him or subject him to any proceeding or penalty, but no such oral evidence so required shall be used or receivable against such person in any criminal proceedings thereafter instituted against him, other than a prosecution for perjury in giving evidence upon such investigation, inquiry, cause or proceeding; nor shall any such documents be used or receivable in any criminal proceedings except proceedings under this Act or under section four hundred and ninety-eight of the Criminal Code.

25. The proceedings before the Commissioner and any special commissioner shall be conducted in private, but the Commissioner may order that all or any portion of the proceedings shall be conducted in public. All preliminary investigations shall be conducted in private.

26. Whenever in the opinion of the Commissioner the public interest so requires, the Commissioner may apply to the Minister of Justice to instruct counsel to conduct the investigation before the Commissioner and upon such application the Minister of Justice may instruct counsel accordingly.

Reports

27. (1) The Commissioner at the conclusion of every investigation which he conducts shall make a report in writing and without delay transmit it to the Minister. Such report shall set out fully the conclusions reached, the action, if any, taken, and any other material which may be required by regulation under this Act.

(2) The Commissioner shall at the same time deliver into the custody from whence they came, if not already delivered, all books, papers, records and other documents in his possession as evidence relating to the investigation, but before doing so the Commissioner may extract from such documents and certify as true copies such relevant parts thereof as he may deem to be necessary for any purpose of this Act, whereafter such parts, so certified shall have and be accorded in all courts the same probative force as the equivalent parts of the originals of which they are copies.

(3) Every special commissioner at the conclusion of the investigation which he conducts shall make a report in writing which he shall sign and transmit to the Commissioner, together with the evidence taken at the investigation, certified by the special commissioner, and all documents and papers relating to the investigation remaining in his custody; and the Commissioner shall without delay transmit the report to the Minister.

(4) The Minister may call for an interim report at any time, and it shall be the duty of the Commissioner or special commissioner, as the case may be, whenever thereunto required by the Minister, to render an interim report setting out the action taken, the evidence obtained and any conclusions reached at the date thereof.

(5) Any report of the Commissioner or of a special commissioner, other than an interim report or a report of a preliminary inquiry under section thirteen of this Act, shall within fifteen days after its receipt by the Minister be made public, unless the Commissioner states in writing to the Minister that he believes the public interest would be better served by withholding publication, in which case the Minister may decide whether the report, either in whole or in part, shall be made public.

28. The Minister may publish and supply copies of any report in such manner and upon such terms as he deems proper.

Remedies

29. Whenever, from or as a result of an investigation under the provisions of this Act, or from or as a result of a judgment of the Supreme Court or Exchequer Court of Canada or of any superior court, or circuit, district or county court in Canada, it appears to the satisfaction of the Governor in Council that with regard to any article of commerce, there exists any combine to promote unduly the advantage of manufacturers or dealers at the expense of the public, and if it appears to the Governor in Council that such disadvantage to the public is facilitated by the duties of custom imposed on the article, or on any like article, the Governor in Council may direct either that such article be admitted into Canada free of duty, or that the duty thereon be reduced to such amount or rate as will, in the opinion of the Governor in Council, give the public the benefit of reasonable competition.

30. Repealed.

31. (1) Whenever in the opinion of the Commissioner an offence has been committed against any of the provisions of this Act, the Commissioner may remit to the attorney general of any province within which such alleged offence shall have been committed, for such action as such attorney general may be pleased to institute because of the conditions appearing.

- (a) any return or returns which may have been made or rendered pursuant to this Act and are in the possession of the Commissioner and relevant to such alleged offence; and
- (b) the evidence taken on any investigation by the Commissioner or by any special commissioner and the report of the Commissioner or special commissioner.

(2) If within three months after remission aforesaid, or within such shorter period as the Governor in Council shall decide, no such action shall have been taken by or at the instance of the attorney general of the province as to the Governor in Council the case seems in the public interest to require, the Attorney General of Canada may on the relation of any person who is resident in Canada and of the full age of twenty-one years permit an information to be laid against such person or persons as in the opinion of the Attorney General of Canada shall have been guilty of an offence against any of the provisions of this Act.

(3) The Minister of Justice may instruct counsel to attend on behalf of the Minister of all proceedings consequent on any information being so laid.

Offences and Penalties

32. (1) Every one is guilty of an indictable offence and liable to a penalty not exceeding ten thousand dollars or to two years imprisonment, or if a corporation to a penalty not exceeding twenty-five thousand dollars, who is a party or privy to or knowingly assists in the formation or operation of a combine within the meaning of this Act.

(2) No prosecution for any offence under this section shall be commenced, otherwise than at the instance of the Attorney General of Canada or of the attorney general of a province.

(The next six sections provide additional penalties for refusal to give evidence, refusal to make written returns, or impeding an investigation in any other way.)

Procedure

39. When an indictment is found against any person for any offence against this Act the accused shall have the option to be tried before the judge presiding at the court at which the indictment is found, or the judge presiding at any subsequent sitting of such court, or at any court where the indictment comes on for trial, without the intervention of a jury; and in the event of such option being exercised the proceedings subsequent thereto shall be regulated in so far as may be applicable by Part XVIII of the Criminal Code, respecting speedy trials of indictable offences.

Regulations

40. (1) The Governor in Council may make such regulations, not inconsistent with this Act, as to him seem necessary for carrying out the provisions of this Act and for the efficient administration thereof.

(2) Such regulations shall be published in the Canada Gazette, and upon being so published they shall have the same force as if they formed part of this Act.

(3) The regulations shall be laid before both Houses of Parliament within fifteen days after such publication, if Parliament be then sitting, and if Parliament is not then sitting, then within fifteen days after the opening of the next session thereof.

41. The Commissioner shall, annually, report to the Minister his proceedings under this Act and he shall lay such report before Parliament if it be then sitting, and, if it be not then sitting, within the first fifteen days of its then next session.

42. (1) Notwithstanding anything in this Act, neither the Commissioner nor any special commissioner nor any other person shall have power to compel the attendance of any witness or the production of any book, paper, records or article, or the examination of any person under oath, or have power to exercise for the enforcement of any order made by such Commissioner, special commissioner or person or for punishment on account of disobedience of such order the powers that are exercised by superior courts for the enforcement of subpoenas to witnesses or punishment of disobedience thereof, unless and until on the application of the Minister (which shall be heard and determined ex parte) either the President of the Exchequer Court of Canada or the Chief Commissioner of the Dominion Trade and Industry

Commission shall have certified, as either of them may, that it is fit and proper that the action mentioned in the application should be taken: Provided that when any investigation under this Act is proceeding in any province and the Commissioner or special commissioner is desirous of exercising power to commit to prison or otherwise penalize pursuant to this Act any person whether for contempt or otherwise, the application may be made by the Commissioner or special commissioner upon reasonable notice to the person concerned, to a judge of the Supreme or Superior Court of the Province, who shall for the purposes of the application have the powers which by this section are conferred upon the President of the Exchequer Court and the Chief Commissioner of the Dominion Trade and Industry Commission.

(2) The provisions of this section which relate to the Chief Commissioner of the Dominion Trade and Industry Commission shall apply only whilst such Chief Commissioner is a barrister of one of the provinces of Canada of at least ten years standing.

(3) Such President, Chief Commissioner and judge, respectively, may, before granting such certificate, require the applicant to secure and subsequently produce to him any further evidence or proof of relevant circumstances as he shall deem to be necessary.

The following section was enacted as section 28 of The Combines Investigation Act Amendment Act, 1935:-

No person shall be charged with, tried for or convicted of an offence against this Act, by the same information, upon the same evidence or at the same time as he is charged with, tried for or convicted of an offence against section four hundred and ninety-eight of the Criminal Code. 1935, c. 54, s. 28.

APPENDIX - XIIAn Act to establish a Dominion Trade and Industry Commission

1. This Act may be cited as The Dominion Trade and Industry Commission Act, 1935.

.....

Dominion Trade and Industry Commission

3. (1) There shall be a Commission to be known as the Dominion Trade and Industry Commission consisting of three Commissioners, of whom one shall be the Chief Commissioner and another the Assistant Chief Commissioner.

(2) The members for the time being of the Tariff Board shall, by virtue of holding office as members of the said Board and by virtue of this Act, be the Commissioners, and the Chairman and the Vice-Chairman of the said Board shall be the Chief Commissioner and Assistant Chief Commissioner respectively.

(3) Each Commissioner shall hold office only during such time as he continues to hold office as a member of the Tariff Board.

.....

Price and Production Agreements

14. (1) In any case where the Commission, after full investigation under the Combines Investigation Act, is unanimously of opinion that wasteful or demoralizing competition exists in any specific industry, and that agreements between the persons engaged in the industry to modify such competition by controlling and regulating prices or production would not result in injury to or undue restraint of trade or be detrimental to or against the interest of the public, or where such agreements exist and in the unanimous opinion of the Commission but for their existence wasteful or demoralizing competition would exist in any specific industry, the Commission may so advise the Governor in Council and recommend that certain agreements be approved.

(2) The Governor in Council may, if of opinion that the conclusions of the Commission are well founded, approve of any such agreement, and shall make regulations requiring the Commission to determine from time to time whether the

agreement is resulting in injury to or undue restraint of trade or is detrimental to the public interest.

(3) The Commission shall require persons engaged in the industry to furnish full information relating to operations within the industry under the agreement and may at any time, of its own motion and in its absolute discretion, advise the Governor in Council to rescind the approval of the agreement and the Governor in Council may rescind the approval accordingly.

(4) In any case where the Governor in Council has approved an agreement under this section, no prosecution of a party to such agreement shall be instituted under the Combines Investigation Act or under sections four hundred and ninety-eight and four hundred and ninety-eight A or any other relevant section of the Criminal Code for an offence arising in the performance of such agreement, except with the consent of the Commission (Held invalid by the Supreme Court of Canada, June, 1936).

Commodity Standards

15. (1) The Commission shall be charged with responsibility to recommend the prosecution of offences against acts of the Parliament of Canada and regulations thereunder, relating to commodity standards and the Attorney General of Canada may require the Director of Public Prosecutions to institute criminal proceedings for the punishment of any such offence.

(2) The Commission may, -

- (a) study, investigate, report and advise upon any question relating to commodity standards, the grading of commodities and the protection of consumers generally;
- (b) inquire and hear representatives of industry and trade and of consumers as to the desirability of establishing commodity standards and grades for any commodity and report thereon to the Minister.

National Research Council

16. In addition to its powers and duties under any other statute or law, the National Research Council shall, on the request of the Commission, from time to time,-

- (a) study, investigate, report and advise upon all matters relating to commodity standards;
- (b) prepare draft specifications of commodity standards for any commodity or grade, and recommend methods of designating such grade;
- (c) analyze and report upon any commodity as to its quality, properties and content, and as to whether and to what extent it conforms to the requirements of any recognized or generally accepted standard.

17. (1) The National Research Council shall, in respect of any commodity forwarded to it by the Commission or the Director of Public Prosecutions, report

- (a) the ingredients of such commodity, in so far as such information may be necessary to the proper use of the commodity;
- (b) any adulterants and harmful, injurious or deleterious substances the commodity may be found to contain;
- (c) its quality and probable performance and efficiency, and
- (d) whether it conforms to any recognized or generally accepted standard and specification;

and if adequate information to answer the inquiry is not already available, the National Research Council shall analyze or test the commodity.

(2) The report of the National Research Council upon any analysis or test made under the provisions of this section shall not be used for advertising or commercial purposes in any way; and any person who contravenes the provisions of this subsection shall be guilty of an offence and liable upon summary conviction, for each such offense, to a penalty not exceeding one hundred dollars.

(3) No action or other proceedings may be instituted against the National Research Council or any officer or employee of the Council, in respect of any advice, information or report given or made in good faith under this Act or any other Act of the Parliament of Canada.

"Canada Standard"

18. (1) Notwithstanding anything contained in The Unfair Competition Act, 1932, or any other statute or law, the words "Canada Standard" or initials "C.S." shall be a national trademark and the exclusive property in and the right to the use of such trademark is hereby declared to be vested in His Majesty in the right of the Dominion of Canada, subject to the provisions of this Act.

(2) Such national trademark, as applied to any commodity pursuant to the provisions of this Act or any other Act of the Parliament of Canada, shall constitute a representation that such commodity conforms to the requirements of a specification of a commodity standard for such commodity or class of commodity established under the provisions of any Act of the Parliament of Canada.

19. (1) Any producer or manufacturer or dealer or merchant in Canada may apply the national trademark "Canada Standard" or initials "C.S.," to any commodity produced or manufactured or sold by him or to the covering thereof, in such manner as the Commission may by regulation prescribe, under and subject to the following conditions:-

- (a) Such commodity shall conform to the requirements of a specification of a commodity standard for such commodity or class of commodity established under the provisions of any Act of the Parliament of Canada;
- (b) Where grade designations, whether numerical or alphabetical or special, have been established under the provisions of any Act of the Parliament of Canada for various qualities of such commodity, the appropriate grade designation for each quality of such commodity shall be conspicuously applied to the commodity, or on the covering thereof, in association with the words "Canada Standard" or initials "C.S." in such form as the Commission may by regulation prescribe: Provided that the Commission may by regulation prescribe a list of specific commodities to which, in its opinion, it is impossible to apply this paragraph, and this paragraph shall not apply to any commodity appearing in such list.

(2) Every person who applies the national trademark "Canada Standard" or initials "C.S.," to any commodity in violation of the conditions hereinbefore provided shall be guilty of an offense and liable upon indictment, or upon

summary conviction, to a penalty, for each and every such offence, not exceeding five thousand dollars in the case of a corporation, and not exceeding one thousand dollars in the case of an individual and in addition in the case of an individual to imprisonment for any term not exceeding six months.

Unfair Trade Practices

20. The Commission shall receive complaints respecting unfair trade practices and may investigate the same and, either before or after an investigation, if of opinion that the practice complained of constitutes an offence against any Dominion law prohibiting unfair trade practices, may communicate the complaint and such evidence, if any, in support thereof as is in the possession of the Commission to the Attorney General of Canada with a recommendation that all persons who are parties or privies to such offence be prosecuted for violation of the applicable Act. The Attorney General of Canada, if he concurs in such recommendation, may refer it with such complaint and such evidence, if any, either to the Director of Public Prosecutions or to the Attorney General of the province within which the offence is alleged to have been committed for such action as may seem to be appropriate in the circumstances.

Director of Prosecutions

21. (1) The Governor in Council may appoint an officer to be called the Director of Public Prosecutions with a salary not exceeding twelve thousand dollars per annum.

(2) A person appointed as Director of Public Prosecutions shall be a barrister or advocate of at least ten years standing at the bar of any of the provinces of Canada.

(3) The Director of Public Prosecutions shall hold office during good behaviour for a period of ten years from the date of appointment but may be removed for cause at any time by the Governor in Council.

22. It shall be the duty of the Director of Public Prosecutions under the superintendence of the Minister of Justice

(a) to institute, at the instance of the Attorney General of Canada criminal proceedings for violation of any of the laws prohibiting unfair trade practices in cases which appear to be of importance or difficulty or in

which special circumstances or the refusal or failure of any other person to institute, such proceedings appear to render the action of such Director necessary to secure the due prosecution of an offender;

- (b) to give such advice or assistance to the Attorney General of any province in connection with the prosecution of offenders against laws prohibiting unfair trade practices as appears necessary to secure the prosecution of such offenders;
- (c) to assist the Commission in the conduct of any investigation where it is alleged or complained that an offence against any of the laws prohibiting unfair trade practices has been or appears to be about to be committed.

Fair Trade Conferences

23. (1) The Commission may from time to time at the instance of the Governor in Council or at the request of representative persons engaged in any industry, or of its own motion, invite persons engaged in such industry to a conference for the purpose of considering the commercial practices prevailing in such industry and determining what practices are unfair or undesirable in the interest of the industry and of any person engaged in such industry and of the general public.

(2) The Commission may make public the general opinion of the conference or the opinion of the Commission as to and trade practice considered to be unfair or undesirable.

Co-operation with Boards of Trade

24. The Commission may co-operate with and assist in any manner in which it deems advisable any board of trade or chamber of commerce in connection with any commercial arbitration being conducted by or under the direction or authority of such board of trade or chamber of commerce.

Economic Investigation

25. The Commission shall, when so required by the Governor in Council, study, investigate, report and advise upon questions relating to the general trend of social or economic conditions or to any social or economic problem of Canada,

and shall co-operate, when so required, with the Economic Council, established under The Economic Council of Canada Act, 1935, in connection with any economic investigation.

General

26. All the provisions of the Inquiries Act, the Combines Investigation Act and of the Tariff Act, and of any amendment thereto not repugnant to the provisions of this Act shall apply to any inquiry or investigation under this Act and the Commission shall have all the powers of a commissioner appointed under the Inquiries Act, except in so far as any such powers may be inconsistent with the provisions of this Act.

27. (1) The Commission shall within fifteen days after making any report, recommendation or finding under this Act make the same public in such manner as seems desirable unless the Commission is unanimously of the opinion that the public interest would not be served by publication or that the public interest would be better served by withholding publication.

(2) Wherever possible the Commission shall with the report, recommendation or finding make public the reasons and the facts upon which the decision is based.

(3) In the case of any agreement or proposed agreement for the control and regulation of prices or production, the Commission shall in such manner as seems desirable make the same public, and shall fix a date at least fifteen days from the date of publication aforesaid for hearing representations by any interested persons whether producers, consumers or others.

28. This Act shall come into force on the first day of October, 1935.

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