# IMPERFECT OR MONOPOLISTIC COMPETITION

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HONOUR POLITICAL ECONOMY

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# INTRODUCTION

In our economic system, the role of prices is of fundamental importance in directing the allocation of the available productive resources - land, labour and capital - among the various uses to which such resources may be applied. Whether the existing society be communism, socialism, fascism or capitalism, there must be some way of deciding the amount of man's effort which should be directed into his various activities - whether more energy should be put into the building of factories or railroads etc., or to the production of the almost infinite variety of consumer's goods and services. One of the continuous problems of any society is, therefore, not only to make an allocation of productive resources to their possible uses, but to make the best allocation of such resources.

Some economists have stressed the advantages of individual enterprise - believing that competitive enterprise will work to adopt production to market demands. (1) But in the actual society as we

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(1) Lyon and Abramson - The Economics of Open Price Systems. P.P. 4-7.

know it, a great part of the efforts of the community is inevitably concentrated on the preservation or enhancement of private income rights, by means of the protection or moulding of a certain distributive system. We find, in consequence, throughout the whole of economic society, a striving after group or private advantage, either through the medium of legislative enactment or through contrivances or coercions in the field that the state leaves uncontrolled. And thus whether the attainment of the fullest conceivable measure of individual enterprise and competition is, or is not, a desirable ideal for which society should strive, whether or not it is conducive to the social interest, it is clear that private and group interest will be opposed to it.

Since larger private and group gains can be secured often when competition is restricted, conscious or unconscious falsification of thought has been brought in to justify, and hence obtain the superior benefits that accrue from the restriction. There has been created in this way a popular condemnation on moral grounds of the completely competitive solution in some fields, with competition appearing as an ogre to rob the organized of the just fruits of their efforts and enterprise.

Those who are likely to be injured by such developments, which contribute to plenty, are usually not unsupported in their position. They have the keen sympathy of the spectator, who is more struck by the concentrated loss, though he does not share it, than by the diffused gain, in which he would share. (1)

The modern form of such group interest is to be found largely in the corporate organization of economic life. The rise of the heavy industries, changes in methods of selling and the widening use of this corporate form tend to lessen the influence of competition in our capitalistic era. While in the early stages, conditions in an industry are favorable for competitive action because the firms which are fighting for their place in the industry are relatively more inured to competition; but in time, there follows a continuous trend towards the use of monopolistic restriction as an instrument of gain. (2)

Governments generally have been concerned to maintain, through anti-trust and combines legislation, rather than to control competition. They have more

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(1) W. H. Hutt - Economist and the Public P.P. 82-90
(2) Moses Abramovitz - Monopolistic Selling in a changing Economy Quarterly Journal of Economics Vol. LII, No.2, P. 207.

or less adopted the stand of the 'laissez-faire' economists who accepted competition as generally beneficial, congenial to pioneer attitudes, and justified by economic argument. In Canada particularly, with its highly variable economy, it has seemed to promise that most valuable and indeed necessary flexibility of prices. It has promised to provide a satisfactory stimulus to efficiency, and a reasonable guarantee of low prices to the consumer. The argument has been carried even further, to show that competition tends to direct productive activity in such a way as to maximize the national income.

Later economists have noted the change from conditions where competition could be called free or simple, to the more complex situation, where concentration in production and distribution has made the actual competitive scene progressively less like that competition of the 'laissez-faire' economists. (1) It was Adam Smith who wrote - "People of the same trade seldom meet together even for merriment or diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices." (2)

Because the results of unregulated competition are frequently far from beneficial, it is generally

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(1) Report of Royal Commission on Price Spreads - 1935 p. 5.

(2) Wealth of Nations I.130.

believed that some government action for control is necessary. Much has been written concerning such government action--especially with regard to the judicial efforts to apply anti-trust laws. More recently in the attempts which have been made to reconstruct economic theory, the increasing practical importance of monopoly elements has been recognized.

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## CHAPTER 1.

## GENERAL THEORY OF MONOPOLISTIC OR IMPERFECT COMPETITION

In the course of the 19th century, the theories of free competition and perfect monopoly were set up side by side without much connection, giving the impression that monopoly was in the nature of an exception.

It was customary in the earlier writings to start the analysis of value from the point of view of perfect competition -- buyers being assured a supply of goods at prices just high enough to cover costs; a distribution of resources between different uses that ensured the most efficient satisfaction of demands being indicated, with the competitive struggle eliminating the least fit from each industry. (1)

But somewhere, in an isolated chapter, the analysis of monopoly had to be introduced. This presented a problem with which the competitive analysis could never really cope. The ground between the two limiting cases was looked upon as

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(1) Burns - Decline in Competition P.1.

rather unsafe and yeilding no determinate results; and, since the majority of cases in practical life lie on this stretch of ground, such a position as this was highly unsatisfactory.

Now pure monopoly is not frequent, and close approximations to pure competition in the strict theoretical sense are extremely rare; most actual situations represent something intermediate, with varying degrees of discretionary control, and subject to varying degrees of competitive checks. The conceptions of pure monopoly and pure competition are then for the most part abstractions, useful for certain purposes of analysis, but seldom realistically describing concrete situations. (1) Of course, when we are supplied with theories in respect to the extreme cases of monopoly and competition, as part of the equipment required in order to undertake the study of actual conditions in different industries, we are warned that these industries generally do not fit exactly one or other of the categories, but will be scattered willy-nilly along the intermediate field, and that

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(1) J. M. Clark - Encyclopedia of Social Sciences Vol.X P.624.

the nature of an industry will approximate more closely to the monopolistic or competitive formula according to its particular circumstances.

It is in the terms of the particular organization of industry, that competition has in the past been defined. The modern business corporation has developed in a period when full and free competition was upheld as the all-sufficient economic ideal for the determination of industrial relationships. Prices, wages, interest rates and profits were best regulated by the forces which operate in an open market, unaffected by any monopoly control. (1) The concept was that a definite market price is determined by the competitive conditions of supply and demand. An excellent example of this, though in the agricultural field, was found in the production and sale of wheat before the introduction of government and other controls. Price was very flexible and adjusted itself to conditions of demand and supply, and buyers and sellers adjusted themselves to this prevailing price. It is conditions of this sort which are often assumed in the defence of competition. (2)

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(1) Abraham Berglund -Industrial Price Policies and The Attributes of Industrial Prices.
(2) Report of Royal Commission on Price Spreads 1935 - P. 6.

The divergence from this type of organization essential to competition is now so great, that a better description of the organization of industry and of its functioning has long been needed. Indeed it seems to be taken for granted that a transition has occured from an economy in which competitive elements were preponderant in most markets, to one in which monopoly elements are strong in many. Monopolistic conditions are to be regarded as omnipresent and determining, rather than exceptional and inconsequential features of modern economic life.

Evidences of the emergence of monopoly capitalism began to appear in the seventies of the last century. But the evidence accumulated for half a century before the economists were moved to reformulate the theory of prices, more in harmony with existing conditions. Theories of imperfect competition resting ultimately upon the theory of monopoly, (of which pure competition is a limiting case), have, however, emerged during the past decade and are among the most notable recent developments of economic theory. (1)

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(1) A. R. Burns - Industrial Studies and Nature of Competition.

Monopolistic competition is, then, a challenge to the traditional viewpoint of economists, that competition and monopoly are alternates, and that individual prices are to be explained in terms of either the one or the other. (1) It is held that most economic situations are composites of both monopoly and competition, and that when this is the case, a false view is given by neglecting either of the two forces and regarding the situation as entirely made up of the other.

This assumption, that monopoly and competition necessarily exclude each other in any market, has led to a sharp but futile controversy as to whether public utilities industries are competitive or monopolistic. Entrance into this field is limited by laws which recognize certain economic circumstances, and economists in the past have referred to the enterprises as natural monopolies. (2) But recently, much has been made of the idea that the greater availability of substitutes has changed the monopolistic character. The intermixture of forces of competition and monopoly is well illustrated in

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(1) Ed. H. Chamberlin - Summary of Monopolistic Competition. Quarterly Journal of Economics, Aug.1937.

(2) B. N. Behling - Public Utilities Enterprise.

this field. Substitutes, although they may be found for almost everything, are rarely, if ever, perfect alternates. Thus the important question is the degree of differentiation between public utility service and substitutes, and the practicability of transference from one to the other. However, for many uses, most people prefer the public service to substitutues, and this affords the public utilities the position where substitutes may be thought of as limitations upon the exercise of monopoly power, rather than competition on an equal plane. (1)

At any rate, monopolistic competition is concerned not only with the problem of an individual equilibrium (the ordinary theory of monopoly), but also with that of group equilibrium -- the adjustment of economic forces within a group of competing monopolists, ordinarily regarded as a group of competitors. In this way monopolistic competition differs both from the theory of competition and from the theory of monopoly.

The new theory uses monopoly technique to bring into the picture what the competitive theory

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(1) B.N. Behling - Public Utilities Enterprise.

has left out entirely -- the elements of monopoly which are actually present in any situation -- and therefore, has been regarded by some as a swing too far in the direction of monopoly. If a choice were to be made between the two, monopoly must continue to be a better fit, because the challenge of substitutes can be accounted for thru the elasticity of demand; and since substitution in most cases fails by a wide margin to be a matter of indifference, the elasticity will be far from infinite. (1)

By bringing to light these monopoly elements, and by an extension to include the inter relations of groups of producers, full recognition is given to whatever competition and monopoly may be present in any particular situation. Nevertheless, the theory of perfect competition still remains a most useful and almost indispensable background with which to compare, and by which to understand any other situation, however far removed it may be from it.

Chamberlin, in his book The Theory of Monopolistic Competition, further points out the fact that monopolistic and competitive forces

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(1) B. N. Behling - Public Utilities Enterprise (Round Table - Mon. and Imp. Competition).

combine in the determination of most prices, and therefore feels that a "hybrid theory" affords a more illuminating approach to the study of the price system, than does a theory of perfect competition, supplemented by a theory of monopoly. The analytical technique which he employs is quite distinctive, both from that of the familiar theories of competition and of monopoly, and from any simple compromise with them. In fact, a comparison of the conclusions with those of pure competition, indicates that ordinary economic theory is often more remote and unreal, not because the method is wrong, but because the underlying assumptions are not as closely in accord with the facts as they might be.

To begin a study of the theory of prices, we must have a clear definition of the two fundamental forces, competition and monopoly, and a preliminary examination of each. The second step must be a combination of the two....yet, with the exception of a few ideas on duopoly the middle ground has been little explored.

Pure competition is taken as the point of departure by Mr. Chamberlin, the adjective "pure"

being chosen to describe competition which is free of monopoly elements. Monopoly may exist, however, under conditions that are "perfect" in other respects. As monopoly ordinarily means control over the supply, and therefore over the price, a sole prerequisite to pure competition is indicated -- that no one have such control. That is, there must be a large enough number of buyers and sellers that the influence of one or several in combination is negligible; and the buyers must be all alike in respect of their choices between rival sellers.

It is interesting to note what is said on this point by the Royal Commission on price spreads. In emphasizing the prevalence of imperfect competition, the commission points out that simple competition can be destroyed without the immediate substitution of monopoly. Imperfect competition exists when the output of any one producer or purchaser is a significant portion of the total supply marketed -- that is when one producer may effect the price by substantially altering his supply. In the actual business world, this condition

ranges from two firms in an industry to the case where there are many firms, but a few are predominantly large. Many groups of agricultural producers, who on the supply side most completely illustrate the meaning of simple competition, must market their products through a few powerful corporations which, on the demand side, compete with one another, if at all, imperfectly. Very common, also, is the condition where a producer of a commodity has some of the characteristics of a monopolist, with respect to his own brands. The development of brands, trade marks and national advertising has, indeed, made this last type the characteristic producer of the present. (1)

If goods are not thus perfectly homogeneous or standardized, each seller has a degree of control over the price of his own variety. When products are differentiated, the buyers are given a basis of preference, and will therefore be paired with sellers, not in random fashion, as in pure competition, but according to their preferences. The price problem for a differentiated product cannot be forced into the mould of the competitive demand and cost curves without introducing definite errors into the

(1) Report of Royal Commission on Price Spreads 1935 p. 6.

conclusion -- the price is always too low and capacity of production too large.

Mr. Chamberlin and Mrs. Joan Robinson agree that the criterion of the competitive status of a firm is the elasticity of the demand schedule for its particular product. They add that there is no such thing as perfect competition in actual conditions. Every commodity is in some measures subject to the competition of substitutes.

In actual practice, the distinction between the threat of substitution and the threat of competition from rival producers of what may be regarded as the "same" commodity, is a hazy one. Since manufacturers of quality goods seek to establish a difference or an impression of a difference between their products and those of competitors, it is perhaps permissable to say that to the extent to which they succeed, they possess a monopoly of those elements in which their product or its reputation is unique, but not of the basic elements common to their product and to that of their rivals.

Such a monopoly holds a peculiarly limited degree of power, since rivals are free to make an identical good and build up an equivalent reputation for it. (1)

(1) J. M. Clark - Encyclopedia of Social Sciences Vol. X p.624.

On the willingness of buyers to turn from one product to nearby substitutes depends the elasticity of demand for the product of each seller. The greater the loyalty of the buyers, the less elastic is the demand for the product of the seller and the less the inducement to reduce prices. (1)

This possibility of substitution, the persistence of personal habits and social customs, the capacity to pay, and similar conditions, always acting on the demand side of price, have had to be reckoned with in all ages by the individuals or organiations which have obtained any control over market conditions. (2) Of course, potential competition and the competition of substitute commodities are not always effective in protecting the public against monopoly or monopolistic combination. Inter-industrial agreements can nullify the effect of the latter, and newcomers to an industry can be quickly assimilated, the ultimate effect being the development of excess capacity and consequent increase of production costs.(3)

Although, in reality, homogeneity of product is not a necessary condition of perfect competition,

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(1) Burns - The Decline of Competition. P. 27.
(2) Abraham Berglund - Industrial Price Policies and The Attributes of Industrial Prices.
(3) Royal Commission Report on Price Spreads P.49 (1935)

things sold in a perfectly competitive market must be regarded by buyers as perfect substitutes. Monopoly, on the other hand, can have meaning only with reference to a specific commodity, the elasticity of demand for which is conditioned in part by the effective use of substitutes.

Generally, with a differentiated product, the number of producers ceases to have the definite meaning which it has in relation to any standarized product, and broad generalization as to the effect of numbers upon the slope of the demand curves for individual producers is no longer possible.

It has been pointed out by Mr. L. J. Chandler that differentiation and lack of homogeneity occur even in the field of banking. He also points out that the deviation from conditions of pure competition is increased by the small number of banks in many local areas. Naturally, if the nearest alternative banking service is some distance away, this fact may afford a bank a considerable degree of independence in fixing rates and charges.

But when a bank competes with only one or a few nearby banks for the bulk of its business, it is likely to expect its own price reductions to be

followed by similar action by its competitors. If other banks lower their prices immediately and to the same extent, the reduction may not attract business from one competitor to another. Thus without necessary collusion among the banks, the price structure with few banks would approximate that which would maximize the net receipts of the banks as a group. In fact, price and service competition, of the kind recognized as lowering profits of the group, are considered unethical.

The monopolistic conditions present in the banking field affect the efficiency of the system. Many cities have too many banks, operating at less than the most efficient scale. The elimination of excess capacity is prevented, or at least retarded, by the action of the banking fraternity in doing nothing which would lower the net profits as a whole. (1)

We are now faced with the question of determinateness of equilibrium in perfect and imperfect competition. Under pure competition, the price which equates supply and demand establishes itself, because it is the only one which is consistent

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(1) L. J. Chandler - Monopolistic Elements in Banking Journal of Political Economy, Feb. 1938.

with maximum profits for every seller in the market. The demand curve for the product of any individual seller is the horizontal line at the height of the ruling market price. It is horizontal for the reason that adjustments of supply controlled by any individual seller will cause changes in price so small that they may be neglected. Of course, the individual supply curves are many in number, and give a smooth even curve.

These individual demand and supply curves are the counterparts of those for a monopolised commodity. They are the ones which determine the adjustments of output made by the individual seller, whose goal is the making of a maximum profit. The demand schedule will seldom have that infinite elasticity which is the mark of"perfect" competition. It may show high elasticity through a price range at which the monopolized product is about as attractive as some important substitute; but consumers' preferences will impose some inertia, so that there will be no definite price above which all consumers will shift to the substitute and below which none will do so.

With such a finite elasticity of demand, the

law of monopoly price comes into play. Raising of the price above the strict competitive level yields a net profit, although it decreases in some measure the volume of business. Somewhere above the strictly competitive level this net profit will reach a maximum. (1)

In fact, the assumption of maximizing profits must be made in defining equilibrium under monopoly. With given demand and supply curves, this maximizing of profits seems to lead to one result, and competition to another; but this arises solely from the fact that the curves representing monopoly conditions pertain to a single seller, whereas, when representing competitive conditions, they embrace a group of sellers. By breaking up the competitive curves into as many parts as there are sellers, the competitive solution approximates the monopoly one.

Chamberlin examines several ways in which monopolistic and competitive elements can be blended. There may be one, few or many selling the identical product in the identical market. A condition of monopoly gradually shades into one of pure competition as the sellers increase in number. The theory

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(1) J. M. Clark - Encyclopedia of Social Sciences Vol. X p.624.

of value for the intermediate ground is treated, mainly by the mathematical economists, as duopoly or oligopoly, depending on the number of sellers. This is simply an extension of the ordinary theory of monopoly to include several sellers, although not so many as to render negligible the contribution of each to the total supply.

In duopoly, there are two sellers, completely independent, for if they combine, there is monopoly. Each is forced by the situation itself to take into account the policy of his rival in order to determine his own. If the sellers have regard to their total influence on the price, then, naturally, the price will be the monopoly one. If, however, each assumes his competitor's supplies to be unchanged, the equilibrium price goes continually lower than the monopoly one as the sellers are more numerous, and descends to the purely competitive price level when the number of sellers is very great. If each assumes the other's prices unchanged and if competitive bidding continues, they will reach a point where further change in price brings disadvantage to one. This equilibrium price is the purely competitive one for the two sellers.

Under certain circumstances, the few sellers may, although acting with complete independence, follow a policy of price and output which will maximize their joint profits. In other cases, leadership in price and specific agreements are needed--when there are uncertainties about changing demand and cost variations between the firms in the market. A firm securing a large proportion of all the business can influence the policies of its rivals; its superior size may enable it to compel rivals to accept its lead or rivals may be very willing to do so. (1) At any rate, under oligopoly, there is no automatic result--many different results may follow the actions of the firms already in the market and may be influenced by the relative ease of entry.

The possibility exists that the leader might for one reason or another, come closer to the competitive price than the monopoly one, and the matter is complicated if the leader follows a policy of stabilization. (2) It is interesting to note the characteristics of a machine economy--such an economy is bound up with large consumption and extensive markets. Any drastic limitations of

(1) Burns - Decline in Competition p. 20.
(2) D. H. Wallace - Monopolistic Competition and Public Policy, American Economic Review, Mar. 1936.

output for the purpose of securing high prices tends to be more than offset by a higher cost per unit of product. Conditions governing costs vary a great deal in different industries, but it is not too broad a generalization to say that present-day machine technique, even under monopoly conditions, is forcing producers to adopt moderate price policies. Large scale industry is interested in price and industrial stabilization, for fluctuation in trade and rapid and uncertain changes in prices tend to add materially to industrial costs.

The pressure, therefore, to steady trade and make long run business relationships more calculable becomes greater as large scale production becomes a more prominent feature of modern industry. (1) In a market where price leadership regulates short run policy, firms may indulge in truly competitive rivalry in the long run adjustment of investment to demand. However, trade associations may be quite ineffective where the numbers are just large enough so that the individual firm is in doubt whether its policies will produce a relatively

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(1) Abraham Berglund - Industrial Price Policies and The Attributes of Industrial Prices.

quick reaction upon the policies of others.

As we see, the trade association movement is but a further example of the widespread resort to some measure of cooperative control of industry. Of course, industrial combinations have assumed many forms--from the loose federations of competitors--through price agreements and pooling arrangements of various types--to the technical trusts, holding companies, and unified corporations which have involved mergers of the combining enterprises. Trade association movements mark a reversion to the looser forms of combination. The identity of the constituents is absolutely maintained, and their independence limited only to the extent of their common undertakings.

They are designed to utilize the combined experience of the trade to steer the trade into the right channels, rather than to effectuate, often secretly, a specific temporary market control which was the case in early pools and price agreements. While some of the activities of trade associations have been directed toward restrictive ends--curtailing of output and manipulating prices--these restrictive undertakings generally constitute

but a single phase of the activity of the association, and reflect the abuses of which all combinations are subject, rather than disclose the characteristic significance of the trade association movement. Associations which include all those in an industry and which are sure of complete allegiance to the policy chosen, might be expected to aim at a maximum profit. Where non-members are not expected to follow the policy of the association, the capacity of non-members to accept additional business naturally limits the power of the association to raise prices above those charged by non-members. (1) But the great bulk of the undertaking is calculated to promote economy and stability in manufacturing and marketing processes, to reduce costs, both on the technical and the commercial side, and often to spread such trade information as may provide the knowledge essential for intelligent business conduct. (2)

The term "open prices," has been applied to such schemes, plans or systems by means of which some or all of the individual members of an industry

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(1) Burns - Decline of Competition P. 46
(2) Curtis- Trusts and Economic Control P. 176

make available to one another information concerning the prices at which their products have been sold, are being offered, or are to be offered. Such attempts to violate the spirit and purpose of the anti-trust laws as occur among trade associations are not conspicuous among open-price associations, but because some of the latter prefer to work under cover, they have frequently been the subject of judgment by the courts. (1)

Besides being motivated by desires to allay the disastrous effects of competition by establishing a condition of imperfect competition and by bringing in improved and more economical methods of manufacturing, marketing and financing, combinations are too often promoted to provide the promoters and investment houses with an opportunity of profit. A scheme of consolidation designed to provide merchandise for the investment houses to sell is likely to have its origin in the brain of a professional promoter or investment dealer, to occur in times of stock market activity. (2) Such monopolistic combinations, by protection of

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(1) Lyon and Abramson - The Economics of Open Price System p. 3

(2) Report of Royal Commission on Price Spreads, 1935 p. 29

relatively inefficient members from outside competition and by suppression or delayed introduction of new methods or inventions, may obstruct industrial progress. Even if efficiency is increased, benefits may not be distributed to the public in lower prices or to the employees in higher wages. In fact, in cases of this nature, increased profits, if any, may not even be passed on to the shareholders, but may be diverted to the promoters or a controlling managerial group.

On the other hand, in times of trade stagnation, a consolidation designed to reduce competition and secure the economies of large scale production, is likely to originate in the minds of the competing industrialists. Indeed, the whole question of imperfect competition is in large measure a product of the depression. During periods of brisk business activity, both the number and the capacity of the plants increase up to a point where a setback in business leads to overproduction and excess capacity. This situation presents itself as a phase of the cycle, not as a static situation. This means that the single producer will not try to

restrict his output in order to earn the normal profit, because at that particular time there will be the pressing need for sales. Rather the case will be that prices will be lower, than that costs of the marginal producers under a competition will crush the weaker enterprises. That will not be prevented by smallness of the number of producers, unless there is agreement. It is due to such situations that monopolies and cartels orginate during depressions. (1)

During a depression, unfair trade practices and other abuses, which exist to some extent in prosperity, are thrown into bold and challenging relief. Depression provides more opportunity for and greater temptation to indulge in unfair practices, because the very necessities of a shrinking volume of trade put the weak and unorganised in a less favourable bargaining position than ever in relation to the strong and the organized. The depression has demonstrated unquestionably that the latter are attaining an ever increasing position of dominance in our economic life. With this concentration of economic power,

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(1) Theory of Monopolistic Competition and Its Implications for the General Theory - Emil Lederer

the old theses of economic control are proving inadequate.

Of course, it is not enough to say that these problems are the result of the depression, and will vanish with the depression. It may be true that when complete recovery is achieved, competition will become less predatory, discrimination less general and exploitation less obvious. But it is equally true that, while unfair competition and unequal bargaining are intensified by depression, they will not be absent in prosperity, especially in a prosperity characterized by the increasing substitution of imperfect for free competition. (1)

It has been obvious that since the depression, the number of firms in many industries has fallen very rapidly. In many markets, those for steel, automobiles, rubber tires and others, the number is already too small for sellers to ignore the effects of changes in their output upon the price of the commodity and therefore upon their revenue. The separation of management from ownership, and concentration of the former in few hands have resulted in a large share of profits being retained

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(1) Report of Royal Commission on Price Spreads 1935. p. 6.

in the business, which makes mergers easier and facilitates expansion without need of issuing new securities. (1) When few great corporations are predominant in an industry, their power of blocking entry into the industry, of disregarding the interests of the producers, consumers, and investors, is all the more great because it is impersonal--there is more freedom from legal liability, and the evasion of moral responsibility for inequitable and uneconomic practices is facilitated by the very form of the corporation. (2)

This tendency to monopoly which has marked the development of every industrial country in recent years is evidenced also in the record of consolidations in Canadian industry. Although in only a few industries in Canada (outside of public utilities), such as explosives, nickel and certain heavy chemicals, has this development reached the stage of absolute monopoly, the condition of excess capacity has become widespread. Now if the productive capacity of an industry becomes excessive,

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(1) Burns. Decline in Competition p. 10
(2) Report of Royal Commission on Price Spreads p.13

so that there are losses at competitive levels, the pressure becomes greater to raise prices by cooperative action.

In the later stages of an industry's growth, firms are relatively large, and can better afford to support the expensive trade associations and to maintain the statistical department now so necessary. With practice, the industries develope more efficient instruments for controlling their excess capacity with its depressing influence on price. (1) But since one of the characteristics of trade association policies has been their attempt to restrict price cutting, they are poor instruments for dealing with excess capacity. They are, moreover, inclined to maintain or raise prices so as to make the operation of all or nearly all their members profitable rather than to pursue a price policy likely to eject firms from the industry. (2)

Because of the imperfect nature of industry, the long run elimination of the marginal producer often does not take place, and over capacity may become very large and burdensome. In 1931, the

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(1) Moses Abramovitz - Monopolistic Selling in a Changing Economy - Quarterly Journal of Economics February 1938. p. 213

(2) Burns - Decline of Competition p. 31

"big five" milling companies in Canada were operating at roughly 50% of capacity. (1) Of course, the importance of the tendency for unused capacity to exert a downward pressure on prices depends upon the extent to which unused capacity exists. Some excess is always to be found, for firms equip themselves to carry the peak load of years of great activity, with the result that the burden of unused plant is concentrated in periods when demand is below the peak.

Business men who have come into possession of monopoly power have, as we have seen, evolved various devices to avoid the dangers of pure competition. All tend to hold up prices, to perpetuate this unused capacity, to diminish efficiency in numerous ways and to raise cost. (2) Concerning this, Chamberlin says that normal price is inevitably higher than under pure competition. Expenditures for marketing and differentiating the product cause the price to be still higher. In this way, higher than competitive profits may be

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(1) L. G. Reynolds - The Canadian Baking Industry - Quarterly Journal of Economics Aug. 1938.

(2) D. H. Wallace - Monopolistic Competition and Public Policy, American Economic Review, March 1936.

absorbed in outlays designed to resist the encroachments of competitors in the particular market. Monopoly profits are compatible with long period equilibrium only when some productive factor is peculiar to the firms in question, or when for some reason free entry is effectively obstructed by the existing concerns.

Such obstruction is found in cases when intricate patterns of common intercorporate control are created, perhaps accompanied by a resort to legal protection from the influx of new industries or substitutes. These efforts to restrain competition, to ward off the losses from excess capacity, shift, when successful, the burden to the consumers. The price structure of the combined or monopolistic forces is manipulated to secure the greatest aggregate gain at the expense of maximum social service. (1)

One argument frequently encountered has been noted by Chamberlin--that a field is competitive if profits are not excessive. Of course, the answer is that profits are only one element in the situation; rates, discriminating practices, service in all its

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(1) B. N. Behling - Monopolistic Competition in Public Utility Enterprise.

aspects, investments and other policies may be strikingly influenced by monopoly elements, though profits may not be excessive. Profits will vary among the participants in the industry, depending on relative economic advantages, comparative amounts of excess capacity, and astuteness in estimating market possibilities. For these reasons, regulation concerned with limiting return to a "fair" amount, will fail to achieve socially desirable results.

But so obvious has been the injury to the public (at some times) of high prices and the restricted supply, that the existence of monopoly conditions was bound to evoke interference of some sort by the government. However, as elements of monopoly are such an organic part of our present industrial system, it is useless to hope that they can be removed by law, and the industrial system thus brought into strict conformity with the ideal of perfect competition. It may even be found that monopoly, which often follows when victory is assured to one party, will be preferable to fierce and unrelenting competition. The necessity for regulation of monopoly is apparent, and therefore

it is possible to institute and operate machinery for such regulation with comparatively little opposition. The need for controlling monopolistic competition is not always admitted, and there is as yet little experience to guide those called on to exercise such control. (1)

Without any doubt, we can see that monopolistic competition is here to stay; free competition will never be universal again. Will this monopolistic competition lead then, to a greater and greater government control of industry? In his day, much the same problem faced Adam Smith--he favoured a minimum of government control--what would he advocate were he facing the present problem? In any case, government control of industry should be undertaken only when its evils are less than those to be remedied. Analysis of the monopolistic elements, in kind and in degree, should precede control. In some cases, conditions can be changed, so as to make economics available to the small through the encouragement of associations or through direct government action.

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(1) Report of Royal Comm. on Price Spreads p. 7

Such analysis of industry is being undertaken in Canada by the various royal commissions. It is recognized that the interdependence of industries in the national economy is very significant and that a remedy designed to assist one group in society may injure some other group. Thus it is vital that the parts should be surveyed by the commissions and analyzed in relation to the whole.

The provision for federal control of monopolies etc. in Canada is provided for by the Combines Investigation Acts of 1923-38, and Section 498 of the Criminal Code. These condemn the undue lessening of competition, and action has been taken against associations or corporations which have or are likely to operate contrary to the public interest. They authorize investigation, publicity and, if necessary, punishment. (1) We have in Canada tried to avoid an error of too much state control--the substitution of one man's judgment to produce uniform action for the aggregate of individual opinion.

State aid and state control may be needed up to a point--but certainly not so far as to discourage

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(1) Report of Royal Comm. on Price Spreads p. 49

individual enterprise. In industry as a whole, private initiative in judgment and control should go, as much as possible, its own way.

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# CHAPTER 11

## MONOPOLISTIC COMPETITION IN CANADIAN HISTORY

Among the peculiar circumstances which make Canadian economics unique is the dependence of our national prosperity on the exports of a small number of raw materials whose price is fixed in the world market. It is this dependence on the prices of pulp and paper, wheat etc., that has made such statements as, "dollar wheat means Canadian prosperity"--more than mere political catch phrases.

For some years there has been a fall in the export prices of agricultural products, and in our economy, there must necessarily be a corresponding downward movement in domestic prices, both agricultural and industrial. Agricultural producers, because of their simple competitive organization, are unable to offer any resistance to a drastic decline in prices; on the other hand, industry, with powerful corporations operating under imperfect competition, has been able to present a more effective resistance to this decline.

It is here we see the growing inflexibility of the Canadian economy--the prices of agricultural goods are very flexible, while one of the characteristics of large scale industrial production everywhere is the rigidity of costs and prices. This fact is accentuated by the distribution of Canada's natural resources--certain areas are capable of producing one thing, and one thing only. Thus we have our wheat producing regions, our pulp and paper regions, our mineral regions, and still other areas in which little but industrial activity is carried on. Since there is no resource to alternative activities in these regions, smooth adjustment to changed conditions is hardly possible.

Our climate also accentuates the rigidity--large capital equipment must be sufficient to carry peak loads in short seasons and perhaps remain completely idle for much of the year. And then, to further complicate matters, as corporations increase in size, their financial burdens become more rigid.

Canada presents also a relatively small consumer market, spread over a large area. Methods

of production have been borrowed almost entirely from the United States, and as mass production became so typical there, it soon became important in the Canadian economy. This has made it possible for two or three firms to supply all the requirements in many branches of industry. In fact, it has been inevitable that as American sales methods were introduced into Canadian business that firms should go after the whole market.

Such large units, interested in the market in long periods of time are willing enough to behave as monopolists producing the most profitable output. But the calculation of this profit is very difficult--the growing importance of overhead in total costs increasing the range within which prices may fluctuate and the extent to which prices can be driven below total average costs. In consequence, manufacturers seek to induce attitudes to demand and costs which discourage price cutting.

As we have seen, many industries have resorted to sharing the market; many have sought to stabilize

prices; some have resorted to price discriminations and a number to rivalry in matters other than prices. The net result is that unregulated competition is no longer a guarantee of efficiency or maximum production at fair prices.

The following pages represent an examination of three specific industries, noting possible dominance of monopolistic competition, the general conditions of the industry, and especially the government action which has taken place. These three industries are, A.-The Textile Industry--where large and small concerns exist side by side; B.-The Pulp and Paper Industry--in which government intervention has been rather frequent; and C.-The Tobacco Industry--where concentration has developed far, although perhaps singularly.

A. The Textile Industry.

The Textile Industry occupies a prominent place in Canadian industrial life--employing about 18% of the total engaged in manufacturing industries in the Dominion. Statistics of manufactures in Canada are divided into 10 groups according to

materials used; in this classification, the textile industry stood fifth, measured by value of its products and third in the number of wage earners employed. It is an industry which often comes before the public eye, partly because of the extent to which it is bound up with the tariff. Changing economic conditions with increasing competition bring demands for increased protections, from those firms of the industry whose profits are threatened. (1)

The "Textile Industry" (2) is a term which includes producers of all kinds of textile goods; in its different divisions are found conditions which range from fairly simple competition to duopoly and monopoly. In the woollen group, the largest single company has only 12.5% of the total sales of the group--while in the synthetic silk industry, two companies, using radically different technical processes, enjoy practical monopolies. The large primary cotton manufacturing group, presents a perfect example of imperfect competition.

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(1) J. A. Coote - Graphical Survey of the Canadian Textile Industries.

(2) Main scource of Material on Textile Industry drawn from Turgeon, Report of Royal Commission on Textile Industry 1938.

Here one company, the Dominion Textile Company Limited with its subsidiary the Montreal Cottons Limited has 48% of total sales; while the next two companies together have 31%.

Concentration has taken a somewhat different form than is usual in industry. It has not developed to the point where several giant corporations completely overshadow the remaining competitors--rather the connection between the companies is carried on more or less by interlocking directorates. Most of the smaller companies in the industry are owned by the management, the public company being rare.

There has been a marked development of such management control in the larger textile companies, where four out of five companies are controlled by groups owning less than 20% of the voting stock.

Trade associations of the manufacturers have appeared in several branches of the industry. Their purpose has been stated to be the keeping of statistic information and data on credit. Actually, these associations are busily engaged in spreading propaganda which will help in dealing with government departments and in gaining more favourable terms from the tariff board.

In fact, due to tariff revisions gained in 1930 and later years, which had the effect of virtually excluding cheaper lines which had previously been imported, and with which Canadian manufacturers could not compete, textile manufacturers on the whole suffered less during the depression than industry in general. The Royal Commission has found that from 1929 to 1933, the number of employees fell only 3%, and total wages only 15%, whereas in manufacturing in general, the decline in number employed reached 29%, and the amount of wages by 38%.

Canadian mills now produce over half of the domestic requirements, as compared with about 23% in 1930. Thus we see the extent to which increased tariffs have benefited the industry, and the extent to which trade associations have been successful in building a sheltering wall around the industry. Whether this tariff policy, with greater home production, and exclusion of imports, is a benefit to Canadian economic life in the long run is another question--a question with which trade associations have, unfortunately, too little concern.

One of the subdivisions of the textile

industry is the manufacture of woollens. Developing out of a domestic industry into factory manufacture, it was unable to compete with the more advanced English industry, and until it received the stimulus of war demands, it lost ground. It was in 1930, that important tariff changes had a marked effect on importation and Canadian production of woollen goods. In one year, imports were cut by one half, and home production of our consumption rose from 26% to 49%.

The Canadian producers are organized under conditions of fairly simple competition. The largest company, the Dominion Woollen and Worsteds Limited, accounted for only 12.5% of the total 1935 sales. In contrast to the cotton industry, where the largest company was more profitable than the average, the largest of the woollen companies was not as profitable as average producers in the group. In fact, for some years the Dominion Woollen and Worsteds Limited have done badly; it is the only large company in the whole textile industry whose losses have been great enough to necessitate an arrangement with

bondholders and a writing down of capital.

The cotton manufacturing industry received its stimulus when the American civil war hindered the flow of cotton goods to Canada. This hastened the growth of the industry in Canada, which is now carried on under a protective tariff. Even in its early development, imperfect competition was to be found. The expansion in the capacity of the mills in the 1880's was more than sufficient to meet the domestic demand. The potential supply had increased by more than 60%, while the population had increased only 4.5%.

To relieve this over-capacity, a co-operative venture by Canadian mills was undertaken, to export cotton cloth to China. In 1887, the Dominion Cotton Manufacturers Association was formed, "for the purpose of maintaining prices as far as possible to a uniform standard." Then to bring production under more centralized control, 1890 a merger was completed creating the Dominion Cotton Mills Company Limited by uniting ten of the mills. And in 1892, another merger was carried out, forming the Canadian Coloured Cottons Limited.

These mergers appear to have been planned to bring mills producing similar lines under control; and agreements made with companies not in the amalgamation schemes also attempted to eliminate domestic competition in the specialized lines. But as the industry prospered competition again became keen, and in 1905, after meetings where representatives met "with a view to bringing about a better relationship between competing companies", the Dominion Textiles Company was formed. This new Company controlled (and still does), about half the equipment of the cotton industry.

But even today, the larger companies do not compete with each other in certain goods. The Dominion Textile Company Limited does not produce cotton denim, while other companies are the sole producers of other lines. Thus the wholesaler, if he wishes to carry a complete line of cottons, must buy from all the larger companies.

Profits of the cotton manufacturing companies, while not consistent, have often been high , and as a whole, the companies have suffered little. Practically all companies have met bond interest

and preferred share dividends regularly. Their employment record has been fairly good--while wages are not as high as in some textile industries, there appears to be a fair policy of employment, with few cases of unscrupulous tactics.

The manufacture of synthetic silk is duopolistic in form, for practically the whole industry is controlled by two companies. Both are foreign controlled and each uses a different method, in which method of production each has almost complete monopoly. Courtaulds (Canada) Limited produces rayon from wood fibres, and although patents covering the chemical process have expired, the investment required is so large, that only a company with great resources can enter the field. The other large company, Canadian Celanese Limited produces artificial silk from cotton lintels, its processes still patent protected.

The earnings of both companies are higher than found elsewhere in the textile industry and appear to be definitely related to the absence of competition in the field. Tariffs, placed on the industry in 1930 have tended to preserve the home

market for domestic producers; but attempts also have been made by the leading companies to reduce international competition. A report by the United States Department of Commerce--Representative International Cartels, Combines and Trusts--showed that national and international cartels existed among rayon producers prior to 1929.

This international rayon cartel is a combination of the British Courtaulds, the German Glanzstoff, and the Italian Sina Viscosa concerns. This cartel forms the center of the world-wide network of interrelations in the rayon industry, which are founded on patent agreements, technical collaboration, interlocking directorates and other commercial agreements. The co-operative agreements of this cartel include division of markets, joint use of patents and processes, and price understandings.

Although the rise of newer producers has tended to lessen the influence of the larger groups, the latter have made efforts to complete arrangements for stabilization of prices and sales conditions. In so far as Canada is concerned, the two producers are certainly closely related to the international

concerns, and the pricing policies of the Canadian producers, the division of the Canadian market, and imports under the preferential tariff, are clearly under the discretion of the large group of producers.

We have seen that the textile industry is one which is engaged in the production of tariff--protected goods--it is, therefore, an industry for the establishment and the development of which the community has consented to tax itself. And thus it is the right and even the duty of the Parliament which provides the tariff to see that the true facts concerning profits etc. are made know at certain intervals by those who are sheltered by the tariff. Governments would then have reliable figures on which to base further tariff changes. Consumers would also have a chance of knowing what was going on, especially since it is they who pay all the manufacturer's taxes which are shifted onto them in the price of the manufactured goods.

In glancing at one of the secondary branches of the textile industry, the clothing manufacturing industry, we see conditions which

run the gamut of competition; for the industry is reaching the latter stages of the transition from an industry of small producers to an industry concentrated in few but relatively powerful hands. In the lower and middle price ranges, competition is fierce, and it is only the large producer using mass production methods who can keep in the race. But in the higher price ranges, in the so called custom tailoring, the small bench tailor can compete with his large competitors. Local reputations and trade names seem ample protection from the national advertising campaigns of larger producers; so that small sized firms are able to carry on under a more or less permanent partial monopoly.

As the industry grew in size and in the dominance of large corporations, the government was called upon to settle labour disputes etc. and for some time there has been a good deal of government legislation concerning the industry. In Ontario, the Industrial Standards Act of 1935 completed former pieces of legislation in defining labour conditions in the industry. The province was divided into zones, for the purpose

of equating labour conditions to suit the opportunities presented by the different labour markets. It so happened, that in an industry which is predominantly controlled by Jews, this zoning practically separated the Jewish from the non-Jewish firms, although all producers are united, albeit loosely, under the Canadian Association of Garment Manufacturers. All this has meant, that instead of imperfect competition being used to unduly raise prices (which is hardly possible at present), the force of competition in recent years has meant a rather persistent dog fight between the Jewish and non-Jewish competitors, with the more powerful Jewish combination using all its weight to gain more favourable terms from the Minister of Labour.

On the whole, the clothing manufacturing industry has not been unfair in its pricing policies. Profits have not been high, and in some cases, in particular some of the larger firms, there have been losses for several years.

B. The Pulp and Paper Industry.

The pulp, paper and newsprint industry in 1936, ranked second to the non-ferrous metal smelting and refining group in gross production, and ranked first in respect to employment and wage and salary distribution, capital investment and net value of production. In both newsprint production and exports of newsprint, Canada is unsurpassed. Expansion has been rapid, with the tonnage capacity per day increasing from 2200 tons in 1919, to 12,200 tons in 1932. Problems which have arisen in the industry have been partly the result of this expansion in the post-war period.

Of course, the expansion has been supported by the great timber reserves, the supplies of water power, the proximity to the largest market for newsprint and by favourable operating conditions. Low capital cost, arising from the availability of timber under lease, at little or no cost, has also been intrumental in the industry's development. It is because of these extensive tracts of timber available under

government lease and an abundance of good water power sites, that initial investment required was distinctly less in Canada than in the United States and thus the greater part of the industry's expansion on this continent has taken place in Canada.

One of the problems of the industry has been brought on by over capacity. In good years, mills seldom produce more than 90% of their capacity; and in 1932, the average Canadian production was 51.2% of capacity. Now capitalization, power contracts, wood contracts, and other items are created on the basis of nearly 100% of capacity, and when operating percentage drops off, overhead charges per ton rise very rapidly. Due to this over capacity, mills which produce 58% of the total Canadian capacity have been in bankruptcy or receivership, or are experiencing some form of reorganization.

Now up to 1927, there was no influence on the market other than the competitive weight of the big companies, of which the International Paper Company was the most important. Naturally, effort has been made on the part of mill owners

to stabilize the industry. Several unsuccessful attempts were made, one in May 1927, when the Canadian Newsprint Company was formed by the independent companies, to market their products, control output, allocate tonnage and set prices.

This was dissolved in 1928, after a tentative agreement with the Hearst papers had been turned down. Then in 1929, The International Paper Company obtained a Hearst contract, at prices from seven to ten dollars below those prevailing, with the new price extending to all International's customers. The other Canadian manufacturers were quick to protest against the use of this Hearst price as a base, and it was not long before the Provincial governments intervened. The Prime Minister of Ontario warned the large companies that the Province would not allow the industry to collapse.

Under the guidance of the Provincial governments of Ontario and Quebec, the Newsprint Institute of Canada was formed--agreements being made to curtail production and pool orders. The efforts of this group to bring about a satisfactory measure of stabilization were hampered by the

fact that while many large companies were members, a number of firms (including the International), capable of producing substantial tonnages, remained apart, and continued to act independently. Thus the non members benefited as the members reduced their production. However, after negotiations between Premier Taschereau of Quebec and Hearst and International officials, in which the Premier threatened to increase timber dues of mills who would not cooperate, and rebate to the mills who lived up to the Institute agreements, an increase of five dollars per ton was finally reached.

Another increase was outlined by the Ontario and Quebec premiers in 1930, but despite the threat of penalties, The International Company refused to cooperate, with the result that the Newsprint Institute collapsed in that year. In 1933, The Newsprint Export Manufacturers of Canada was formed, and almost all Canadian producers became members or agreed to cooperate with the association. Recommendations covering capacities, trade practices etc. were drawn up and agreements made with American producers, (later declared unconstitutional).

In 1934 Mr. Taschereau again was forced to intervene, placing increased stumpage dues against a subsidiary of The International Company, The St. Lawrence Paper Mills Limited, as a penalty for quoting a price of $40 to the Scripps--Howard Newspaper Syndicate, for 1935. But regardless of this penalty, the company did not (or could not) withdraw its contract. (1)

Finally a committee of newsprint executives obtained a promise from Premier Bennett of aid, if the industry as a whole should request it. At present, a committee is investigating possibilities of a merger of some of the larger Canadian companies.

The condition of the industry is rather serious as we have seen--Canada is using up her forest wealth, getting little in return beyond the wages of the workers. Real cash investment of millions of dollars, used in building mills and opening up forests, has gone for several years without a cent of return. In a publication issed by the Abitibi Power and Paper Company in 1937, the following is written--"If some

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(1) Canadian-American Industries--Marshall, Southard, Taylor p.p. 49, 50, 51.

expansion of productive capacity is necessary in the future, the duty and problem of all concerned in the Canadian industry will be to manage that expansion in an orderly and moderate fashion. The first method should be improvements in existing machines, a method capable of providing new capacity with construction of no new mills or machines. Delay in such improvements and the subsequent risk of scarcity have been due to low price levels. Therefore, establishment of a price sufficient to induce and permit improvements should be recognized by newsprint buyers as a necessity in their own interests."

At any rate, it seems rather obvious that government control of prices and production is inevitable in the pulp, paper and newsprint industry. Certainly some means of stabilization is necessary, and if the companies or their associations cannot bring about this situation, then the government will be obliged to continue its intervention, to save the industry from still more serious conditions.

## C. The Tobacco Industry

Perhaps the most outstanding example in the Canadian economy of an industry where monopolistic competition, with all the characteristic abuses and price policies etc. is present, is in the Tobacco Industry.

Since the war, the Canadian industry has expanded rapidly--leaf production rising from 13 million pounds in 1921, to 46 million in 1936, with the estimated crop for 1937 at 71 million. (1)

It is an important industry from the point of view of government revenue, for excise duties paid on tobacco products in 1937 amounted to over $28,000,000.

The industry is carried on behind rather high customs duties, and thus competition from other producing countries is relatively insignificant. Imports of both raw leaf tobacco and the manufactured products have fallen severely; the former falling from 18 million pounds in 1928 to 3 millions in 1937. Most of the imported tobacco

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(1) Canada 1938. Dominion Bureau of Statistics.

consists of bright flue-cured tobacco from the United States, and it is hoped by Canadian producers that eventually less of this will have to be imported to be blended with the domestic product.

Tastes in tobacco are of a peculiar nature. Smokers become attached to a peculiar blend, and are usually quite reluctant to a change. If a manufacturer were to cut out entirely or sharply limit the amount of certain types of tobacco which go to make up his particular blend, persons accustomed to that brand would be quick to notice, and sales of the brand would probably drop off immediately. Thus any change must be slow enough so that the smoker notices no difference in flavour, mildness etc. Changes from the use of imported tobacco to domestic tobacco must therefore be gradual; and under these circumstances even with high tariffs, imported types will for some time be used in Canadian products.

Of the Canadian produced tobacco, about three-quarters is consumed by the domestic market. The remainder is exported, mainly to

Great Britain, where it enjoys a tariff preference along with other Empire tobaccos. This preference was first introduced in 1919, and in 1932, was fixed for a ten year period at 2 s. 0½d. per pound.

Notwithstanding the increasing importance of the export market in the Canadian tobacco situation, and the expansion which has taken place in the industry, imperfectly competitive conditions have led to much dissatisfaction and difficulties for the growers and smaller producers. For the industry is almost completely dominated by the greatest factor in the Canadian tobacco industry, the Imperial Tobacco Company.

The methods adopted by the Imperial Tobacco Company to obtain and maintain its dominant position appear to be about the most flagrant examples of the use of overpowering strength to be found in Canadian industry. The policies of this Company, in the maintenance of its sales volume, involve practices which are clearly discriminatory. Twenty-five per cent of its business is carried on directly with the retail trade--with firms on this retail list receiving

a 10 per cent price advantage over those who buy indirectly through jobbers.

Qualifications for entrance to the direct list seem to be merchandising ability, size of market, type of store, possible advertising outlets, and financial solidarity. Although company officials have denied it, it has been suggested that another condition was also necessary, that of giving prominence to Imperial products in store display, rather than to the products of other manufacturers. Whatever the actual details of the case, there can be no doubt that preferential selling is being carried on, constituting an effective weapon which may be and is being used against the smaller competitors and independent retailers in the unbalanced market.

The Imperial Tobacco Company has also attempted (with great success) to put into effect a policy of resale price maintenance; under which prices to the trade and to consumers are set by the Company and are strictly enforced. The wholesale and retail prices set by other manufacturers also have been closely maintained, following changes

in selling practices developed between 1934 and 1936, when the Imperial Tobacco Company made agreements under which it would withhold its products from any distributor who deviated from the set prices of any tobacco manufacturer. The Imperial Tobacco Company simply removes from its lists those dealers and jobbers who cut prices of either Imperial or competitive products--naturally the effect on the dealer of being cut off from the Company which produces three-quarters of the supply, is very great.

On one occasion, in 1934, The Imperial Tobacco Company asked its dealers to enter into an agreement of price maintenance, by acceptance of a written contract. Those who refused to sign the contract were dropped from the Imperial list, while those who signed were obliged to maintain the prices of all manufacturers. The obligations were practically all on the side of the dealer or jobber, and the extension of such a policy to the products of all manufacturers gives some idea of the complete domination of this one Company over a large industry.

In respect of these restraints of trade in

force in the distribution of tobacco products in Canada, and in particular in the Province of Alberta, it is clear that a combination with almost full monopoly power exists. Now the Combines Investigation Act defines as a "combine" any combination, merger, trust or monopoly which has operated or may operate in a manner detrimental to the public interest, and regards participation in the forming or operation of such a combine as an indictable offense. Therefore the question here is whether the actions of the Imperial Tobacco Company and Trade Associations in the Tobacco Industry are in the interests of the public.

In spite of the unprecedented levels to which raw leaf tobacco has fallen in recent years in Canada, accompanied by the marked increase in its use rather than the more expensive imported leaf, there has been only a gradual and rather insignificant decrease in the manufacturer's selling price. The regular price of cigarettes, the consumption and production of which have risen greatly in recent years, is $1.00 per hundred cigarettes. Before 1932, the price had been $1.25 per hundred.

But in that year, the excise duty on cigarettes was reduced from $6.00 per thousand to $4.00. The slight reduction not accounted for by this tax change was absorbed almost entirely by the jobber and retailer; profits of the manufacturers not being appreciably affected.

In comparison with prices in the United States, Canadian prices are high. The American excise tax is slightly less, $3.00 per thousand, but price competition is present, and no one manufacturer is in a position to dominate the industry. A number of brands are sold at half the minimum Canadian retail price, while the brands selling in the largest volume in that country retail at from 60 to 75 cents per hundred.

With such prices, and with costs having little to do with these prices, profits in the Canadian industry have been large, if not exhorbitant, even in a period of general economic distress--evidence that the policies outlined by the dominating leader are definitely contrary to the best interests of the public.

The basic position of the law with respect to a trade combination of such kind, is believed

to be broadly indicated in the following passage from the reasons for judgment in a case (1) appealed to the supreme court of Canada. "The state assuredly has the right to withdraw its aid from him who plots with another to deprive his follow-men of the reasonable expectations which each of them is entitled to cherish if the ordinary results of competition are allowed--that free scope upon which so much of prosperity and happiness of the dwellers in a free country hangs."(2)

Thus in the opinion of F. A. McGregor, Commissioner of the Combines Investigation Act, a combine within the meaning of the Act exists in the manufacture and distribution of tobacco products, and that the Imperial Tobacco Company and the various jobbers and retail associations are parties to the formation and operation of the combine, and therefore government action to temper and eradicate the condition is necessary.

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(1) Shragge v. Weidman 46 Can. S.C.R. 1.

(2) Report of Commissioner 1938 - Investigation Into Alleged Combine in Distribution of Tobacco Products p. 38.

# C O N C L U S I O N

The solution of the serious problems of Canadian business--the exploitation of the consumer and the smaller business establishments by the powerful corporations; the reorganization and refinancing activities by profit seeking promotors who often leave whole industries ruined; and all the other injurious situations brought about by widespread monopolistic, imperfect competition--seems to lie inevitably in the form of greater government control.

The aim of such control should always be to require that competition shall not lead to the violation of the rights of the wage earners, consumers, investors; but the control should not impair competitive vigour. Of course, the degree of intervention which may be required of the government varies; from the mere exercise of general supervision of private activity to complete public ownership and operation.

Naturally, any government reforms must be undertaken gradually for previous experience

with similar problems is lacking and no substantial change in social policy can be undertaken experimentally with the hope of a return to the status quo if the experiment is not a success.

The following conclusions are quoted from the Royal Commission Report on Price Spreads (1) "That in certain industries, such as public utilities, monopoly control requires complete regulation or government ownership; that in certain other industries, competition can be satisfactorily restored by state action; that in some imperfectly competitive industries, the attempts to restore competition must be supplemented at least by some sort of maximum price control, profit restriction, or other method of regulation; that in other industries where simple competition is operative, such competition may continue to be relied upon as the best method of control; and that finally, there may be a few industries in which competition has become so cut-throat that some modification of it may be attempted or permitted."

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(1) Royal Commission Report 1935, p. 264

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