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JAS. J. SALMOND
Managing Director

FRED. W. FIELD
Editor

A. E. JENNINGS
Advertising Manager

Capitalization, Mergers and Living Costs

A *ANALYSIS of Their Relations—What an Industrial Combine Must Do to Control Prices—Failure of Canadian Merger Movement—Overcapitalization and Watered Stock—Common Stock Bonus Issues.*

REGARDING the relation of capital stock of joint stock companies and of industrial amalgamations, to the cost of the commodity to the consumer, the following statement, specially prepared by *The Monetary Times* for the cost of living commission, was filed some time ago with the commission. It has now appeared in the report of the commission, just issued:—

The relation of the capital stock of joint stock companies, to the price paid by the consumer for commodities has been the subject of little complaint. The chief exception is in regard to industrial amalgamations. The corporations represented by the words "merger," "combine" and "trust" have generally come into disfavor with the public. This may be ascribed partly to the abuses of trusts, particularly in the United States, to the occasional regulation of prices to what is regarded as too high a level, and to the failure or reorganization of many industrial amalgamations, particularly in Canada.

The most common charge is that the industrial combine dictates throughout the country the price of the commodity it sells. This is not necessarily so, simply because the combine is a combine representing a group of allied industries under one management.

The other charge is that the average industrial combine is overcapitalized and therefore having what is commonly known as "watered stock," is placing improper burdens upon the consumer.

It should first be made clear that unless an industrial merger or trust has a monopoly, or practically so, in its own sphere of business it cannot easily, if at all, dictate prices with any success. Suppose a merger is formed with the idea of securing a monopoly. It can fix prices with sole regard to the welfare of its promoters, directors, management and shareholders only until competition appears. If the would-be monopoly is selling an article at thirty cents and independent companies are selling a similar article at twenty-five cents or less, there are apparently only two alternatives: (1) to force the competitors out of business or (2) to meet the competition by reducing prices.

The experiences of recent years in Canada have proved that it is not by any means an easy matter to eliminate all competition. The industrial amalgamations which can claim truly to have a monopoly in Canada are comparatively few.

There are several limitations to the freedom of monopolies, such as, for instance, the power which consumers possess of substituting other goods for those

monopolized; the danger of monopoly exciting new competition; and the decreasing sales that frequently accompany increasing prices. These help to confine the profits of many monopolies within fixed limits.

Some industries are natural monopolies and others may exist because of defects in the law. The contention is often made that the charges exacted and the service rendered by natural monopolies should be controlled by the government and that monopolies created by defective laws should be attacked through such laws revised. Another contention is that in every industry in which free competition is permitted by the government, the government should enforce fair competition. The prices of many commodities are undoubtedly affected by monopolies in basic materials, and it would seem that it is in this direction that the high cost of living can in any well defined way be ascribed to joint stock companies, whether "overcapitalized" or not.

The industrial amalgamation in Canada as a financial and economic factor has been strikingly unsuccessful. The life of what may be termed "the merger movement," which extended notably over the years 1909 to 1912 inclusive, was so short in the aggregate, and still shorter in the case of many individual amalgamations, that it had little opportunity to operate as an economic factor of importance in relation to cost to consumers. This refers to the movement generally, there having been several individual exceptions to the rule.

The number of industrial mergers negotiated from January, 1909, to January, 1913, was fifty-six. The aggregate authorized capitalization, including bonds, of these mergers, was \$456,938,266. The fifty-six amalgamations absorbed 248 individual companies. The aggregate capitalization of 206 of these individual companies was approximately \$167,289,182, which amount in various ways was increased upon amalgamation. The forty securities issued to the public, resulting from the amalgamation movement, totalled \$57,346,666. With sixteen of these, amounting to \$16,500,000, an aggregate bonus of \$6,750,000 was given.

These figures representing authorized capitalization are very large, but they have not so much significance as might at first appear. The most important figures are in regard to capital actually subscribed and paid-up. This information is somewhat difficult to obtain. Even allowing for the fact that the above figures represent authorized and not paid-up capital, and allowing for money required for extensions, reorganizations, new factories, etc., one