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CHAPTER I

For ever seventy five years, the term "Nineteenth Century" has been used in a derogatory sense to describe any individual or organization whose development has not kept up with the expansion and complexities of the Twentieth Century. In every field of social and economic endeavor there have been particular elements which have set the pace in this struggle to control changing conditions. In Canadian retail trade, the department store, particularly the T. Eaton Company, became the pre-eminent institution providing innovation, development and leadership. The department stores not only introduced fundamental changes in the distribution system, they were crucial in the transformation of retailing from a simple activity into a profession. In setting the standards for retail commerce as they experienced spectacular development, they incurred the enmity of their less able competitors, the independent retailers.

By the end of World War I, population distribution had established a different pattern from that of the turn of the century. The West had been settled and large scale immigration to that region had ceased. The trend was now towards development of the urban areas; immigrants settled in towns and cities, and there was a constant inflow of people from rural areas.

It is estimated that in 1920, 90 percent of all retail trade was carried on by independent firms, ranging from humble one-man esta-
The independent retailer was the traditional means of public access to consumer goods. He was the final stage in the functional chain which enabled raw materials to be developed into finished goods and placed with consumers. In the traditional pattern which had prevailed at least from Confederation until the War period, the functional progress of commodities from raw materials to finished goods in the consumer's possession was quite straightforward. The banks provided the financing for manufacturers to acquire raw materials and upon production, the goods passed to the wholesaler who also used borrowed bank capital. The retailer, however, was given the merchandise on credit provided by the wholesaler. In practice, the wholesaler was the pre-eminent party in this functional model. There was very little manufacturer-consumer or retailer-manufacturer contact. The wholesaler was very much the middleman; he would dictate terms and specifications of goods to be produced to the manufacturer. As the wholesaler financed the retailer, it was in the former's interest that the retailer receive sufficient but not excessive quantities of goods which were deemed appropriate for local conditions. The retailer, in effect, was merely a part of the wholesaler's enterprise. At the turn of the century, an enterprising individual aspiring to success in the consumer goods field became a wholesaler, not a retailer, for it was in this area that prospects of financial reward were greatest.

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¹Twelve Years of the Economic Statistics of Canada by Months and Years. King's Printer, Ottawa, 1951, p.27.
As the number and variety of consumer goods swelled in the post-War period, serious deficiencies became apparent in the traditional distribution system. The expanding production facilities, with an increased consumer awareness and ability to purchase taxed the traditional distributing system. This became apparent in the high costs of distribution which began to receive attention.

Articles published in the Toronto business paper the Financial Post during the twenties illustrated a growing awareness of this problem in consumer goods distribution. The Financial Post published its first edition in 1907. Designed to serve the investment community, it offered broad coverage of industrial, agricultural and banking activities. Its publisher, John Maclean, had already established a string of wholesale trade journals such as Hardware and Metal and Canadian Grocer and the Financial Post drew heavily on these sources. So successful was the paper that by the twenties it had become the foremost business journal in the country, eclipsing the Financial Times and Monetary Times, both of Montreal. This rise to pre-eminence was acknowledged by Thomas Naylor in his History of Canadian Business, 1867-1914. Vol. II: Naylor shifted his use of references from the Monetary Times to an almost exclusive use of the Financial Post. Steadfastly Canadian, the Financial Post did not list U.S. stock exchange figures until 1968, and the rise of the paper was a harbinger of the development of Toronto as Canada's present economic center.

3 Ibid.
4 Ibid. p. 56.
The Financial Post was of greatest interest to those with investment funds; this would preclude the small shopkeeper struggling to make a living. Of the merchandisers, it would therefore have reached only the prosperous wholesalers and retailers. As public investment opportunities in wholesaling and retailing were almost non-existent, this would not appear to account for the increasing attention it gave to retail trade issues.

An article in September of 1920 on the Toronto headquarters of the Wholesale Grocers of Canada reported that the conventional distribution formation must remain, that the fundamental system was sound and that any tampering with it would result in excess profits being charged to the public. But the traditional powers of the wholesaler were coming under direct attack. As early as June of 1920, the paper reported a Board of Commerce decision involving the Hamilton Grocers Association wherein it upheld the rights of manufacturers to set selling prices and to refuse to do business with those who would not comply. The report acknowledged, almost suggested, that wholesalers might strengthen their positions by forming combinations "as long as it cannot be proved that they are working to public detriment."

This focus of concern on the wholesaler's function was echoed in an article reported from Hardware and Metal. A representative of the Western Electric Company said that middlemen were

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5Financial Post - Sept. 3/20, p. 3.
not profiteers, rather the system was wrong. He saw the problem as one of isolating the costs of distribution and streamlining the wholesaler's function. He declared that present methods were wasteful and that the whole system should be carefully analysed. A *Financial Post* editorial in December of 1921 complained that wages and returns to wholesalers and producers had dropped, but prices had remained steady. This implication that the retailer might be the villain of the piece was not accepted without comment. An article printed in January of 1922 contained excerpts from an item in *Canadian Grocer*. A member of the Retail Merchants Association, speaking in Toronto, had claimed that retailers were passing any price reductions on to consumers and that their profits had not increased.

These articles reflected a growing uneasiness amongst wholesalers and independent retailers. Attention on their activities had been brought into focus by the dramatic upward displacement of prices compared to wages and profits, which reached a peak in the 1921 economic slump. Concern over high prices, low profits and the steady movement of goods through the system, however, were not to be swept aside with the settling down of economic conditions. While both retailers and wholesalers came under pressure, it was the retailer whose immediate position appeared most precarious.

7 *Financial Post* Nov. 10/22, p. 2.
By and large, retailing had never been a secure or particularly lucrative endeavour. Its biggest attractions were the relatively small amount of capital and direct experience required to begin operations. Paradoxically, poor economic conditions favoured the proliferation of retail outlets. As unemployment increased, out-of-work individuals would become self-employed as retailers. This phenomenon was noted in a Financial Post article in May of 1921 which said that the increasing depression had caused many unemployed persons to become retailers, particularly in the grocery trade.\footnote{Financial Post, May 13/21, p. 4.}

This state of affairs did not predispose the banking establishment to encourage retailers. A Financial Post article in February 1922 noted a record number of business failures in 1921, citing as a chief cause the lack of capital.\footnote{Ibid., Feb. 24/22, p. 16.} Another article nearly a year earlier suggested a reason for this shortage: the general attitude of bank managers who claimed that retailers were not entitled to bank loans. They received their goods on credit, and would therefore have little in the way of collateral.\footnote{Ibid., May 20/21, p. 20.} This theme had also been revealed in a December 1920 article; the president of the Canadian Bankers Association cautioned retailers not to look to them for money.\footnote{Ibid., Dec. 10/20, p. 9.} A February 1922 article reflecting the same mood was titled simply "Why Retailers Are Not Entitled to Bank Credit".\footnote{Ibid., Feb. 24/22, p. 8.}
The early 1920's, therefore, saw the independent retailer in an insecure position. The economic expansion of the previous twenty years had allowed him to survive and even thrive in some cases. As a group, their control of the market was overwhelming but they were in for a rude awakening, for the expansion period had also seen the growth and development of the mass retailer. In 1920, the ten percent of consumer trade not accounted for by the independent merchants was controlled by department stores. The other mass retailer, the chain store, had not yet appeared in significant numbers in Canada, but the department store had been around for at least forty years.\textsuperscript{15}

The Dominion Bureau of Statistics considered a retail outlet to be a department store if it had sales in excess of $100,000 per annum and traded in a variety of goods arranged in separate departments. It also included mail order operations run by department stores and those firms which had more than one location.\textsuperscript{16}

Retail trade before the turn of the century had been dominated by the general store. In a predominantly rural society with few large urban centers, the general store provided goods of all description, serving as a one stop shopping center. Only in large towns and cities was there a sufficient concentration of population to support specialized merchants. Trade in the general store was character-


ized by a standard use of barter and credit. Farm products were exchanged for consumer goods; lines of credit were extended to farmers who might have only one payday a year after harvest, and the prices of goods were negotiable. The population shift to towns and villages, increased mobility, the development of mail order firms and a profusion of new consumer trade articles all combined to diminish the role of the general store until it became a minor component of the retailing industry. It served, however, as a model for its functional descendent, the department store, and shared with it the prime features of offering a wide variety of goods and services at a central location. Ironically, the department store as first developed in Canada did not emerge from an expanded general store operation, but traced its roots to Timothy Eaton's dry goods operation in Toronto.

Eaton started a conventional dry goods store in Toronto with funds borrowed, as per custom, from a wholesaler whom he knew. His operation differed from those of his contemporaries in two crucial aspects: all of his goods were sold at fixed prices, and all transactions were for cash only. This was in direct contrast to the prevailing methods of haggling and the granting of credit. Apart from its impact on the public, the "cash only" provision gave Eaton a powerful tool for expansion—more capital. With a steady flow of cash, he was able to purchase goods for cash and thus avoid the standard prac-


tise of relying on wholesalers for credit.

The base of operations was Toronto, with a store in Winnipeg opened in 1905 serving the local market as well as housing the extensive mail order empire in the West.\(^{19}\) The mail order establishment in Moncton was opened in 1920 to serve all the Maritimes.\(^{20}\) By 1919, Eaton's catalogue contained 588 pages and the Toronto mail order dept alone had 2140 employees.\(^{21}\) From being in thrall to wholesalers, Eaton had virtually eliminated the middleman by subsuming his function. Eaton's buying organisations had offices in Europe, Great Britain, the United States and Japan which procured both finished goods and raw materials.\(^{22}\) Much of Eaton's inventory, however, came from the vast manufacturing concern which Eaton's owned outright and which produced articles of all description. This manufacturing division had plants in Montreal, Toronto and Hamilton, with a combined work area of twenty acres. Eighteen thousand people worked full time in the Eaton empire, 8000 in the Toronto and Winnipeg stores, the rest in the mail order and manufacturing ends.\(^{23}\)

Eaton's was the archetypal department store of 1920, but it

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\(^{19}\) Golden Jubilee. p. 174.


\(^{21}\) Golden Jubilee. p. 151.

\(^{22}\) Ibid. p. 161.

\(^{23}\) Ibid. p. 141.
but it was not alone in the retail field. The Robert Simpson Company had become a stiff competitor, and its development followed closely behind that of Eaton's.

Like Eaton, Robert Simpson was in the dry goods trade in Toronto, having opened his store in 1872.\textsuperscript{24} For the next fourteen years Simpson's prospered and expanded its variety of wares, and in fact took over premises which Eaton had previously owned.\textsuperscript{25} After the death of Robert Simpson in 1896, the store was purchased by three men whose backgrounds and positions provided a very complementary management team. In the next fifteen years the operations were expanded; the Toronto store was enlarged in 1907 and Murphy's department store in Montreal was acquired.\textsuperscript{26} Compared to other independent retail outlets, the Simpson's operation under the new owners H.H. Fudger, Joseph Flavelle and Senator Cox had some distinct advantages. Fudger was a successful wholesaler, adept at purchasing and trained in furnishing retailers throughout the country. He knew what to get, where to get it and how to merchandise it. Flavelle, a bank director with extensive business experience and connections, was probably as able as any man in the country when it came to plotting the fiscal course of the business. Cox, with his banking connections and political position had ready access to financing. Not one of these men had the innovative and dynamic approach to retailing of Timothy Eaton, but they were eminently ca-

\textsuperscript{24}Burton, C.L. \textit{A Sense of Urgency}. Toronto, Clarke, Irwin and Co., 1952. p. 41.

\textsuperscript{25}Ibid. p. 154.

\textsuperscript{26}Ibid. p. 155.
pable of following and emulating the pattern of merchandising which Eaton's was establishing, a pattern which would cause a great deal of distress among the independent retailers.

The ownership and financing of the Robert Simpson Company was as different from that of Eaton's as it was from most independent retailers. By 1920, Joseph Flavelle had two thirds ownership of all voting stock, having bought control from his partners. 27 The remaining shares were distributed among the other two partners and C. L. Burton, an ex-employee of Hudson and manager of operations from 1912 onwards. Two and one quarter million dollars worth of preferred shares had been issued in the company around 1905, but most of them had been re-acquired by the partners over the years. 28 In no way could the company be considered public; ownership and control was jealously guarded by the partners.

Significantly, Simpson's had undergone physical and capital expansion during the early years of the twentieth century but did not start to fulfill its potential until after 1912, when C. L. Burton took over direct management. 29 With one eye on Eaton's and the other on the pragmatic day-to-day problems of the enterprise, with years of experience as a buyer and seller with Hudson's firm, Burton led Simpson's to greater prosperity. The mail-order department expanded,

28 Ibid. p. 158.
29 Ibid. p. 159.
with centers opening in Regina in 1916 and in Halifax three years later.\textsuperscript{30} By 1920, the Toronto mail order department took up an area of 25,000 square feet and employed several hundred people.\textsuperscript{31} The overall prosperity of the enterprise is reflected in the growth of capital assets. In 1896 the assets had been assessed at $137,000, not including the store itself. By 1911, it was valued at $3,250,000 and by 1918 they were in excess of 7 million dollars.\textsuperscript{32}

By 1920, the department store had evolved into a successful, dynamic enterprise. The growth and development of Eaton's from a single, specialised store into a complex distribution empire and the parallel success of Simpson's clearly demonstrated the advantages of the department store concept. The next decade would see the department stores reap the benefits of their position while their competitors, the independent retailers would fully realise their inability to compete headlong with the giants, before the onslaught of the Great Depression.

\textsuperscript{30}See text, p. 107.
\textsuperscript{31}Ibid., p. 159.
\textsuperscript{32}Ibid., p. 227.
CHAPTER II

As retail trade was dependent upon the consumer's ability to purchase goods, the economy during the twenties deserves attention. Each individual is a consumer; therefore for our purposes it will be sufficient to determine the relative prosperity of the country without necessarily identifying specific groups within the population.

The inflationary trend from 1913 to 1920 was accompanied by a sharp rise in both distributed income and prices, characterised by a tendency for upward price movements to precede income increases. After 1921, however, income figures and prices settled into a relatively stable relationship. Prices fell sharply after 1921 and remained low, but while wages dipped, they did not go as low as prices. The national income in terms of value (constant dollars) receded in 1921 to a low point of 4.5 billion dollars. This was followed by seven years of expansion to a maximum of $6,584,000,000 in 1928. These figures include all forms of income: wages, salaries, dividends and corporate profits disbursed in the economy. The rise in labour income was even more pronounced. In 1926, labour income was 197 million dollars and increased to 245 million dollars in three years. The cost of living for the same period based on a 1949 index of 100 remained remarkably constant at seventy five. Even after allowing for a 5 percent growth in population, there is still a substantial increase.

35Ibid.
36Ibid.
in prosperity. The working population, collectively, showed an increase in disposable income, notwithstanding recent studies which have indicated that many unskilled and semi-skilled workers remained at or below the poverty level. 37

As the demand for food, clothing and shelter is rather inelastic, consumption of these items is controlled more by population changes than economic conditions. 38 An American study of consumer spending during the Great Depression revealed that food consumption and overall clothing purchases declined only slightly. 39 There was a shift in clothing purchases away from the higher priced goods, however, and there was a contraction of the housing market reflected in reduced construction. Sales of such "luxury" items as sporting goods, leather goods, luggage and tobacco plummeted and furniture sales suffered heavy declines. 40 The crucial point was that although there was a decided drop in consumption during the depression, the market for essential items was not drastically affected. The contraction was dramatic only in the discretionary items. This would indicate that the period before the Great Depression was indeed characterised by relative affluence and high consumption.

In Canada, this prosperity was demonstrated most succinctly

40 Ibid. p. 16.
by the burgeoning of automobile registrations which went from 409,000 in 1920 to 2,232,000 in 1930, more than a three fold increase.\(^{41}\) Another minor but revealing story was the success of the candy industry. A 1930 article in Financial Times recorded the 'spectacular growth' of the high quality Laura Secord candy firm and steadily increased demand for the products of Moir's, a Halifax chocolate manufacturer.\(^{42}\)

This suggests that a significant number of people were not struggling to feed and clothe themselves; increasingly, they were entering the "motor age" and hoping to enjoy the finer things the marketplace had to offer. The department stores were ready to accommodate them.

In terms of market control, the department stores in Canada peaked in 1926, when it was estimated that they controlled 16.5 percent of the retail market.\(^{43}\) The largest firm by far was the T. Eaton Company, an organisation which throughout the twenties set the standard in price, service and organisation for the other department stores and for the entire retail industry.

At its peak in this period, almost one out of every ten retail dollars in the country was spent at Eaton's, and in some areas their domination of local markets was much greater.\(^{44}\) In Winnipeg,

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\(^{42}\) Financial Times Nov. 30/28. p. 2.


\(^{44}\) Thid. p. 206.
it was estimated that Eaton's controlled over 20 percent of the local market, and in some lines, such as furniture and clothing, had a virtual monopoly.\textsuperscript{45}

In 1920, Eaton's operations had been physically confined to Toronto, Winnipeg and Moncton. Before the decade was over, Eaton's controlled over half the 148 department stores listed in the 1931 Census and were represented in almost every Canadian city from coast to coast.\textsuperscript{46}

A Financial Post article in March of 1928 listed recent acquisitions by Eaton's; they had purchased existing department stores in Saskatoon and Halifax to which they were building large additions, and had acquired building sites in Windsor and Calgary. It was noted that Eaton's had moved into Hamilton and Montreal in the previous five years and that there were now Eaton's grocerias in twenty-seven different cities and mail order depots in twelve.\textsuperscript{47} Shortly after, another article noted the purchase by Eaton's of the Canadian Department Stores, a dry goods chain with twenty-one locations. This deal was first mentioned by the Financial Post on March 9, 1928 when it noted that the chain had been purchased by an anonymous party from a receiver for five million dollars.\textsuperscript{48}

\textsuperscript{46}\textit{Price Spreads Report} p. 206.
\textsuperscript{47}\textit{Financial Post} March 9/28. p. 16.
\textsuperscript{48}Ibid. p. 1.
been bought by Eaton's for 4.4 million dollars. This appears to typify a significant aspect of Eaton's growth: the purchasing of existing firms rather than totally new development whenever possible. The 1925 purchase of the Goodwin's department store in Montreal is another example. This appears to have been a viable operation when it was purchased for $5,294,525; Eaton's reportedly outbid the American firm of Sears-Roebuck.

While Montreal seemed an obvious area for Eaton's expansion, the stage was set as well for a demonstration of the competitive nature of the department stores amongst themselves. Simpson's had had a foothold in Montreal since its purchase of the Murphy store in 1905 and had continued to business under that name until on the eve of the Depression in 1930, they consolidated the surrounding land and built a 3.5 million dollar store. The business flourished, despite or because of the presence of the Eaton's store three blocks away. Simpson's overall operation was much smaller than Eaton's, but they both seemed to thrive on head-to-head competition in Montreal, Toronto and other major cities.

While expansion was the most dramatic aspect of Eaton's during this period, there was also a constant process of re-organisation. The mail order business had peaked early in the 1920's; a 1925 report cited the boom period of mail order sales as being from

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51 Urgency p. 303.
1916 to 1919. The automobile had made shopping easier, and rapidly changing fashions had occasioned a sharp decline in rural sales. The only increased area of business was to be found in the larger cities; Eaton's, in fact, was organised so that its mail order department carried different merchandise from its over-the-counter trade, and there was direct competition between them. In 1928 it was noted by the Financial Post that while the mail order sales were up to average, they had not shown the increase of other departments. Eaton's therefore organised a campaign to bolster the business by emphasising tie-ups with Tecc and Rideau stores where mail order goods were displayed. The mobility of the farmer and small town was seen as a key issue in the limited growth of the mail order operation. Previously, Eaton's had added to its mail order business by entering into a new field, life insurance.

While Eaton's was setting the pace and style of department store growth, its closest competitor, Simpson's, was hard on its heels. Simpson's never approached Eaton's in size but it developed along similar lines. They were direct competitors where ever they impinged, with urban and mail order trade battlefronts. In retrospect, their relative growth and prosperity appear remarkable alike throughout the twenties. A comparison between Eaton's and Simpson's total sales

52 Financial Post Nov. 20/25, p. 8.
54 Ibid. Feb. 26/26, p. 17.
during the 1915-1933 period supports the parallel growth theory.
In 1915 Eaton’s total sales amounted to sixty million dollars,
Simpson’s approximately fifteen million dollars. By 1920, Eaton’s
showed a growth to over 150 million while Simpson’s had increased to
almost forty million. By 1929 when both organisations showed peak
sales for the period, Eaton’s did 220 million dollars worth of busi-
ness to Simpson’s fifty million. Thus there appears to be an ap-
proximate ratio of 4:1 between the sales of each firm, and as their
methods and standards of efficiency appear similar, it would seem that
this ratio could be used on other statistics as well.

As previously mentioned, Simpson’s assets had been estimated
at over seven million dollars around 1920. In 1925 when the company
was re-organised, its assets were recorded to be in excess of 23 million
dollars. In the 1924-30 period, net earnings on invested capital
averaged 14 percent per annum. Despite a controversy over financial
manipulation and charges of stock watering in a 1920 refinancing
scheme, there can be no doubt that the business was flourishing.
While comparable figures for Eaton’s are not available owing to its
private ownership, if the 4:1 ratio is applied, it would indicate
that Eaton’s net worth at the end of the twenties was at least 100
million dollars.

56 Ibid. p. 350.
57 Minutes of Proceedings and Evidence. The Royal Commission
A 1928 *Financial Post* article describing Simpson's recent history refers to it as being organized as a holding company for the various Simpson's operations in Montreal, Regina, Toronto and Halifax. It also lists two manufacturing plants; the Thompson Manufacturing Company and Keen's Manufacturing, as being totally owned subsidiaries. The bulk of Simpson's purchases were through jobbers and manufacturers in which they had investment interests or else owned outright. The holding company had been created in 1925 to allow the directors and top executives to buy shares in the business. In all, ten voting shareholders were listed with the vast bulk of stock owned by the original three owners, Fudger, Cox and Flavelle; Flavelle controlled two thirds of the stock.

While the success of and similarities between Eaton's and Simpson's has been demonstrated, it is interesting to look at the record of another department store with a different background and location. Woodward Stores Limited was a Vancouver department store totally owned and run by the Woodward family. While its operations were far more modest than Eaton's or Simpson's, having only one location, it nonetheless shared the functional structure of the giants and showed similar prosperity. Approximately half of its profits in 1934 came from the sale of groceries and related items, but the rest of its mer-

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58 *Financial Post* April 13/28, p. 2.
59 *Chesley*, p. 72.
60 *Financial Post* April 13/28, p. 2.
chandise reflected a similar distribution to its Eastern equivalents. In 1924, Woodward's operating profit was $208,529 and net assets were $1,614,792. As with Eaton's and Simpson's, its most profitable year in the pre-Depression period was 1929 when its earnings showed an increase to $757,191 and its assets were valued at $4,869,613.

That Eaton's, Simpson's and Woodwards, along with other department stores generally enjoyed unparalleled success in the 1920's is evident. As has been mentioned earlier, their financial structures and efficient supply networks gave them distinct advantages over most independent retailers. Some other features are worthy of notice.

The department store, with its functional roots in the old general store, could distribute a wide variety of goods at a central location. In this respect, the mail order catalogue and the physical store were identical. Geographically, retail shops tended to cluster in distinct shopping areas rather than being distributed randomly throughout a community. The department store was essentially a vertical shopping area offering a variety of goods not merely within a reasonable walking distance but under one roof. The very name de-

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62 Ibid.
scribes the structure of the store. Rather than incur the administrative problems of centralized control, each department operated as a semi-autonomous entity responsible for its operating costs, advertising, turnover and profits. Within each store, the department was in competition for a portion of the consumer's dollar, and its relative success could be easily judged. 63

The department store had a psychological advantage as well. A shopper entering a store retailing only one type of merchandise did so with a direct intent to purchase, or at least a strong "need" for a particular item. In contrast, the department store encouraged people to wander at will and browse, the concept being that the customer would find articles of interest which he had not been aware of upon entering the store. 64 A specialty store was dependent on increasing numbers of customers to expand; the department store could not only strive to serve more people, but could compete for a larger portion of the consumer's disposable funds. 65

Thus the department stores were taking advantage of the prosperity of the 1920's. They moved ever increasing volumes of products and expanded their clientele through direct store access and by development of mail order systems. This growing consumer market was also fertile ground for the other mass retailer, the chain store.


64 Neal, Lawrence S. Retailing and the Public London, George Allen and Unwin Ltd., 1932. p. 16.

65 Ibid.
From an imperceptible presence in 1920, the various chains expanded to take over 10 percent of retail trade by 1931. However, one group of retailers was not so fortunate. As the twenties progressed, a shrill cry of alarm grew louder and louder from the independent retailer. The first uneasiness had been expressed at the beginning of the decade. The smaller, specialized retailer regarded the mass merchandiser nervously, but this unease became panic and outrage as it became apparent that sales were being lost and financial hardship loomed because of their inability to match the price levels of the giants.

Articles from the *Financial Post* throughout the twenties reflect an increasing bewilderment among the retail merchants and wholesalers. The problem was prices; the retailers were being pressured by shrinking profits occasioned by their inability to maintain margins. The areas of trade most affected were dry goods and clothing of all description, hardware items, furniture and foodstuffs. The first three lines accounted for the bulk of department store merchandise, and while the department stores were in the grocery trade to a degree, the emerging grocery chains were probably responsible for most of the pressure in this area. At any rate, the prices against which the independent retailers had to compete were being established by the mass merchandisers. It took some time, however, before attention

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66Moyer, p. 99.
was focused on the giants. Initially, the search concentrated on problems concerning the independent's business habits and functions.

A 1924 Financial Post article concerning the men's wear industry raised the issue of "unfair" competition. Many retailers were going bankrupt, paying 30-60 cents on the dollar. Their merchandise was then being offered to the public at distress sale prices, thus placing the retailers who were still in business at an unfair disadvantage. Attention seemed directed more towards the low price goods coming on to the market than to the actual business failures.  

A number of Financial Post articles directed attention to the inefficiencies of business practices which contributed to small margins. In January of 1926, the elementary principle that the margin should be calculated as a percentage of the selling price, not the cost was revealed. The same year saw a spate of Financial Post articles relating to efficiency problems in retailing and distribution. Nation-wide action was called for and the lack of distribution data was cited; the Dominion Bureau of Statistics was taken to task for not amassing statistics relating to distribution. Statistics seemed to be a popular issue; market analysis using statistical data was seen as "paving the way to reduced selling costs".  

Greater margin efficiency resulting in reduced selling costs was encouraged by articles relating to budgeting, buying, advertising, credit, stock turnover, orderings etc. Thus was the retailer importuned to put his house in order.

The wholesaler came under close scrutiny as well. "The Wholesaler Performs a Necessary Function" declared the title of a 1926 Financial Post article which proceeded to tell how wholesalers must discreetly forego their traditional pre-eminent position and encourage direct manufacturer-retailer contact. In other words, the wholesaler's "necessary function" was to do less business. It was argued that wholesaling was becoming unmanageable because of too many lines being promoted and an increase in "hand to mouth" buying practices. This feature was the subject of a 1925 article describing how up until the end of the War, retailers, especially those in dry good's and men's wear, would place substantial orders months in advance of delivery. The trend towards smaller, more frequent orders was caused by changing styles, price fluctuations, cutting of credit lines by wholesalers and manufacturers, and the intention of the retailer to reduce inventories to allow more working capital and greater variety. Not mentioned, but presumably a strong factor was the disastrous position of many retailers during the 1921 slump when prices fell dramatically, leaving many firms with high cost merchandise to dis-

71 Financial Post 1926 passim.
74 Ibid.
Thus the problems of the retailer appeared to be related to either inefficient (and expensive) movement of goods through the producer to the retailer, or to specific areas of business directly under the retailer's control. The latter point is quite illuminating when the retailer's expertise is compared to the level of business acumen found in the executive ranks of the department stores. It is difficult to imagine a senior executive of Eaton's, or Simpson's C. J. Burton being enlightened by an article explaining the proper procedure for figuring profit margins. The men who ran the department stores certainly did not come under the general characterisation of retailers as being uninformed and inexperienced.

Timothy Eaton had been a shrewd, innovative businessman and these traits were cultivated within his empire. Eaton's had developed its own management training program well before the 1920's. As early as 1922, the Canadian Manufacturer's Association had begun to see retailing as an important adjunct to production and suggested that the industry be represented within the C.M.A. The president's specific proposal was for one Eaton's manager to sit on every C.M.A. committee. His assessment was: "There is perhaps no organisation in Canada which has such an able lot of executives". Eaton's, he continued, was the most feared competitor in retailing and was also a leading manufacturer.

75 Goldsmith Jubilee p. 123.
Meanwhile, one vital aspect of the independent retailer's plight which was not met head on was the issue of prices. In 1920, a federal Board of Commerce decision regarding the Hamilton Grocer's Association gave manufacturers the right to set selling prices and to refuse to supply wholesalers who did not conform. "Price Cutting and Price Control are Big Issues" headlined a 1925 Financial Post article which pointed out that the Secret Commissions Act of 1909 required affidavits from salesmen that they would not sell goods below manufacturer's stated cost. The concept of price fixing, it said, was generally agreed to by the courts and was supported by most retailers and wholesalers as a necessary method to regulate and stabilize distribution. The problem at present was the demand of the mass merchandisers to sell goods at lower prices. To this end, many had acquired their own factories or bought complete production lines from manufacturers.

As a matter of fact, there was very little appeal to the courts for any form of price control, and certainly no meaningful legislation was passed. In 1921, the Privy Council had declared the abovementioned Board of Commerce, established under the Combines Act, Ultra Vires. Manufacturers generally did not support retail price controls, preferring the prospect of low retail prices and reduced

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79 Ibid.
profit margins to the stagnation which high prices could incur. 81

Conspicuous by its absence in the Financial Post is any concerted effort to single out the department stores as the independent retailer's nemesis. The few articles which do appear have a vague allusion to the mass merchandisers and a whistling-in-the-dark quality. Typically, in 1926 retailers were offered re-assurance in an article entitled "Independent Retailers Successful in Canada", which said that department store overheads were increasing. In 1923, of 163 U.S. and Canadian department stores with over one million dollars in net sales, the average gross margin had been 32 percent, overhead 28.4 percent and net profit 3.6 percent. A year later, the figures had changed to 32, 30 and 2 percent respectively. Small stores, it was argued, could become competitive as their overhead was lower and they offered advantages of service. 82

Articles aimed at and reflecting the problems of the independent retailer began to wane after 1927, when the department stores' activities began to be reported almost exclusively. The general tone of the first half of the twenties had been to illuminate the retailer's and wholesalers' problems, but the crucial issue, that they could not sell goods as cheaply as the mass retailers, was never joined. No

direct accusations were made and there was no debate or dialogue from either side and the paper's editorial stand was ambiguous.

The plight of the independent retailer and his treatment at the hands of the mass merchandiser was finally presented in a parliamentary speech by Stewart McClenaghan, Conservative member for Ottawa. McClenaghan was a retailer in dry goods, experienced and representative of the middle class, relatively prosperous retailers who were feeling the greatest pressure from the mass merchandisers. He was president of the Southern Ontario branch of the Retail Merchants Association of Canada, and like his Conservative colleagues, a supporter of tariff protection. The first part of his encomium was concerned with the tariff, where he claimed that cheap imported goods were wreaking hardship on Canadian manufacturers and retailers. The brunt of his argument, however, was brought to bear on the mass retailers; he used written evidence from fellow R.M.A. members to illustrate the control which the giants had over the economy and even the way of life of the country.

First he attacked the mail order business, citing a report from the 1924 committee of the Ontario government. He revealed that the R.M.A. had informed them that "No city, town or village could exist unless it had in it retail merchants carrying permanent stocks". Mail order firms paid no local taxes, thus their costs were lower and unfair competition was the result. 84

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84 Ibid. p. 1202.
According to McClenaghan, the mail order trade had been so devastating in some places that where formally ten or fifteen merchants existed, only one or two remained, and they only received credit business. A letter to McClenaghan from the Manitoba secretary of the R.M.A. dated January 22, 1926 had reported that Eaton's and Simpson's mail order departments paid one two hundredth of one percent in taxes on their sales where typical local merchants paid one and one quarter percent. Furthermore, said the secretary, "Take away the life of the community and you endanger the life of the nation". These people (the mail order firms) are not community builders, they are money-makers... undermining local business". A plea was made at the end of the letter for the establishment of a retail department within the Department of Trade and Commerce "to champion the cause of the local retail merchant."

The same tone is apparent in the submission to McClenaghan, which he read into his speech, from the New Brunswick R.M.A. secretary. "The mail order houses are on the broad road to putting 90 percent of the country stores out of business." Reference was made in the letter toward legislative relief as well: "Our only suggestion for protecting local merchants in our small towns is the price maintenance plan, which will stop prices being cut on standard lines". The New Brunswick secretary called for heavier mail order taxation and the C.N.R. was accused of aiding unfair competition by issuing family passes to railway workers who subsequently travelled to Moncton where they could buy cheaper goods at Eaton's. In closing, the secretary added that four retailers, three of whom were R.M.A. mem-

McClenaghan then produced a letter from the President of the R.H.A. concerning the results of the latter’s nation-wide tour, and reported that the President had summed up complaints from the smaller community retailers regarding the mail order firms; first, some mail order goods were sold at “ridiculously low” prices to give the impression of over all low price levels, and second, the mail order houses made no local contributions.

McClenaghan then turned his attention to recent parcel post rate reductions (September 25, 1925) and alluded to a possible collusion between the postal department and the general managers of Eaton’s and Simpson’s, R.Y. Eaton and C.L. Burton respectively. 86

McClenaghan thus presented the independent retailer’s cause succinctly in a manner which could not be found in the pages of the Financial Post. The independent retailers, he argued, were being priced out of business by the giants, led by Eaton’s and Simpson’s. The evidence and sentiments presented in this speech were identical in form to the submissions which would be offered to the Stevens Inquiry eight years later.

86 Debates Feb. 22/26, p. 1206.
A striking aspect of this battle between the mass retailers and the independents was that it never became the subject of prolonged debate nor did it become a public issue during the 1920's. If the allegations of disaster reported by the R.M.A. officials were correct, then a devastation of the retail economy and a way of life was underway. While the independents had very little exposure of their position, there was virtually no response from the department stores whose public relations activities consisted of extolling their low prices, good service and their fair treatment of their employees. Neither the Financial Post nor the House of Commons presented any evidence of the department store reaction to the claims of the R.M.A., save one. A rumour that Eaton's was being sold was denied by Lady Eaton in a 1929 interview. She added by way of information that the store's general state of affairs was sound and that its operations had been of particular benefit to residents of smaller communities where Eaton's had taken over stores. She said that the firm had shortened hours, raised wages, and by offering low priced merchandise had lowered the cost of living.87

Several factors mitigated against the retailer's presenting their position in a stronger, more effective manner. Lack of continuity was a feature of independent business. In a 1931 survey of retail businesses, it was disclosed that 25 percent of the firms had been in business less than two years, and that only half had gone

more than five years without a change of ownership. A steadily changing constituency would have made it difficult for organisations like the R.M.I. to mount a prolonged and complex defence. Perhaps their biggest problem, however, was their inability to admit publically that they were inferior to the department stores in terms of providing the consumer with low cost merchandise and services. This would have been an admission of failure in the free market system and would have evoked little sympathy. Instead, they centered their argument around abstractions such as community service and preservation of a way of life as well as such inequities of the system as postal rates and taxation which they claimed were unfair causes of their predicament. They could not admit that the vertically integrated department store, employing economies of scale, was a far more efficient distributor than the traditional wholesale-retail system.

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68 Reynolds, p. 113.
CHAPTER III

The stock market crash of 1929 was the harbinger of four straight years of economic decline. The Great Depression reversed the expansionary trend of the twenties and while it was more devastating in some areas, the West, for instance, its effects were felt by almost everyone. Falling prices, wage cuts, unemployment and suspended production were its defining characteristics.

Almost all statistical economic studies for the period show an identical pattern; a peak in 1928–29, a bottoming out in 1933, followed by a slow recovery. Perhaps the most significant and dramatic effect was the decline in wages compared to the cost of living. From an index of approximately 75 (based on a 1949 average of 100) in 1929, consumer prices fell to 61.7 in 1933, a decline of roughly 20 percent. In sharp contrast, labour income fell from 245 million dollars to 149 million for the same years, a drop of almost 40 percent. An unofficial report confirmed that this decline was, if anything, even more severe. A Financial Post article noted that buying power had dropped 20 percent in the single year of 1930. The disposition of this reduced income reflected a drastic re-organisation in consumer budgeting. Consumer services saw a reduction of less than

89 Statistical Review-1959 p. 16.
90 Ibid.
one quarter; non-durable spending was off by almost one third, but consumer durables had fallen by over one half.  

As previously mentioned, the relative inelasticity of demand for such basic essentials as rent and heat (services) and food (non-durable) were affected much less than the durable section which included furniture, housewares, major clothing items etc. It was precisely in this last area of merchandising that the struggle between the department stores and independent retailers was concentrated. Certainly this reduction would hit the department stores; a 1930 survey concluded that at that time the department stores controlled 60 percent of the home furnishing trade, 46 percent of the furniture business and had market control of 42 percent in women's wear, 33 percent in shoes and 27 percent in men's clothing. The effect on independent retailers is harder to assess. Statistics available on business failures for the 1920-35 period show only total numbers and liabilities and do not discriminate between types of business. However, the Financial Post reported on business failures for 1929-30 using figures from the R.G. Dun & Company. According to an article headlined "Business Failures Create No New Records", 826 businesses in the general store, clothing, dry goods, furniture and hardware fields went bankrupt in 1929 and the total climbed to only 844 in 1930. The tone of the article suggested that there was no catastrophic

92 Statistical Review-1959 p. 16.
collapse in these trade areas, but cautioned that the figures did not include business failures without loss to creditors. As well, small shopowners were more likely to "hold on" in the face of severe unemployment and survive on drastically reduced returns.\textsuperscript{95}

According to the \textit{Financial Post}, things were not too bad at Simpson's in the spring of 1931. Shrewd buying and quick turnovers were measures held responsible for an increase in volume over 1930, but it was noted that while sales of "popular" furniture were steady, the better lines were down.\textsuperscript{96} Two months later, a \textit{Financial Post} article noted that profits had declined "only" $81,000 over a thirteen week period compared to the previous year.\textsuperscript{97} A report early in 1932 summed up Simpsons for 1931 as having had high volumes and low profits. A positive factor in the firm's trade was its use of astute business practices, but the article added that the record tariff levels had made trade in imported goods insecure.\textsuperscript{98} This trend towards higher volumes and lower profits was to be seen in other mass retailers as well. Reports on Tamblyn's, a drug chain, and Loblaw's chain groceries indicated higher volumes of sales and static or declining profits.\textsuperscript{99} This would seem to indicate that the


\textsuperscript{96}\textit{Financial Post} April 2/31. p. 2.

\textsuperscript{97}Ibid. June 25/31. p. 4.

\textsuperscript{98}Ibid. Feb. 6/32. p. 1.

mass buyers were increasing their market share by cutting prices below their competitors.

If sales were up in some sectors, there was a different pattern in the dry goods, men's wear and hardware trades, all of which reported sagging sales and reduced prices. No definitive reports appear in the Financial Post during 1931 save for an optimistic article headlined "Independent Merchants Meet Chains Successfully" which discussed grocery retailing in the U.S. An article in early 1932 by an Imperial Bank manager counseled retailers on the etiquette and procedures in obtaining bank loans. This is in contrast to the banker's attitude of the previous decade and could reflect on fiscal changes in the position of some retailers, but there is no further evidence to indicate that there had been a dramatic shift in the banker-retailer relationship.

As the Depression deepened, the reports became gloomier. A sharp decline in Simpson's profits was noted in early 1932. By June, volumes were down and the tariff came under attack as a direct cause of business loss. Canadian manufacturers were reported to be unable to supply the imported goods which the tariff had raised to prohibitive price levels.

Generally speaking, the Financial Post did not concentrate

on retail trade conditions. There were virtually no references to Eaton's, possibly due to the family nature of the business and a characteristic reluctance to release business data, in the early thirties; nor was there any detailed exposure of independent retail trade issues. Not until June of 1934 was any major attention given to the specific effects of the Depression on the department stores and this was only possible because of data made public by the Stevens Inquiry.

A June 1934 article in the Financial Post titled "Eaton's-Simpson's sales Records Reflect Slump" showed that Eaton's sales had peaked in 1929 at $225,053,000 and five years later had plummeted to $132,500,000, a decline of 41 percent. Simpson's sales had declined from 48 million dollars to 37 million in the same period, a drop of 22.1 percent. Eaton's greater losses reflected the severity of the Depression on the Prairies, where Eaton's had developed an extensive empire, by contrast, Simpson's was much more centralised. Eaton's Toronto business accounted for 26.2 percent of sales compared to 63 percent for Simpson's Toronto share of its total operations.  

The Parliamentary Committee inquiring into price spreads and mass buying (later to become a royal commission) and the surrounding controversy served to spotlight the battle between the mass retailers and the independents which had been smouldering for some time. The struggle could previously be seen only through the spectacular  

development of department stores and chain organisations and the stream of complaints issuing from the independent retailer, largely under the aegis of the Retail Merchants Association. Now, presumably, a public inquiry would clear the air, define the problems and propose solutions. From the outset, however, the inquiry and its proceedings were under suspicion and this sense of unrest centered around the instigator of the investigation, H. H. Stevens.

Steven's background and experience deserve attention in understanding his motives towards the inquiry. He had emigrated from England with his family as a child and grew up in Peterborough, the family moving West while he was in his teens. He was raised in and held belief in conservatism, Methodism and the sanctity of the individual. For Stevens, "The independent businessman was the finest expression of democratic life to be found anywhere."

He deplored big business of any kind, but his support for the "little guy" did not extend too far down the socio-economic ladder. Despite his assertion in a 1934 address that the health of the nation depended on the success of the farmer and industrial worker, it is hard to find evidence of direct concern for the working man. He had used the issue of sweated labour to impugn the buying practises of the mass retailers, but he also refused to support the removal of

108 Ibid.
the infamous "Section 96" of the criminal code. Furthermore, he defended an across-the-board civil service wage cut of 10 percent in 1932.\textsuperscript{109} He was also violently opposed to Oriental immigration and voiced the opinion that they could not and should not ever integrate into Canadian life.

As Minister of Trade and Commerce since 1930, Stevens had been singularly unsuccessful in bolstering the sagging economy, an admittedly impossible task. He deplored the attention focused on the government to take control of the situation and combined this sentiment with a deprecating opinion of the average citizen. He stated that "Unless we can imbue the mass of the people with a sense of responsibility, there is not much hope for the Canadian democracy."\textsuperscript{110}

Stevens' political confrontation with the department stores may have stemmed from a 1916 encounter with Joseph Flavelle, Chairman of the Imperial Munitions Board and soon to become a majority shareholder in Simpson's. Stevens, a B. C. member of parliament, incensed at his inability to persuade Flavelle to let war contracts in the West, called for Flavelle's dismissal.\textsuperscript{111} Whatever the merits of Stevens' charges, Flavelle's prominence as a business magnate grated on Stevens who did not approve of big businessmen and who felt family enterprises were superior.

\textsuperscript{109} Wilbur, p. 100.
\textsuperscript{110} Ibid., p. 105.
\textsuperscript{111} Ibid., p. 27.
Beyond support of the Conservative Party plank of high tariff protection, Stevens' initial attitudes expressed misgivings towards government intervention in the economy. As late as 1932, he refuted a proposal in the House of Commons calling for a national council of social and economic research to study problems of distribution, purchasing power and exchange value. Stevens commented that Canada did not need a planned economy "Like Russia". 112

Despite this evidence of arch-conservatism, by 1926 Stevens was being referred to as a "Public Defender", a champion of the little man and received encouragement from small businessmen. 113 The Canadian Manufacturer's Association and the Retail Merchant's Association were staunch Stevens supporters. The early months of 1934 saw the hardening of Stevens' position as the foe of the mass merchandisers, and his supporters rallied around him. In late 1933, the president of the C. M. A. had begged Stevens to do something about the "two hundred small manufacturers being driven to bankruptcy by certain practices of the buyers of large department stores and chain organizations". 114 In April, the current R. M. A. spokesman in the House of Commons presented a petition signed by about 30,000 retail merchants calling for a fair trade board under government supervision. The petition came as a result of a campaign in the R. M. A. monthly bulletin. 115 A survey of over 400 letters to Stevens in this period:

113 Ibid. p. 56.
114 Ibid. p. 105.
115 Ibid. p. 162.
indicated that the independent retailers were the most responsive and enthusiastic supporters of his inquiry.\footnote{Wilbur. p. 157.}

The birth of the Stevens Inquiry was accompanied by stormy political weather. On January 15, 1934, Stevens addressed a Toronto meeting of representatives from the boot and shoe industry, which was broadcast. From the specific issues of the footwear trade, he launched into a polemic against big business interests in general and delivered an inflammatory broadside against the mass buyers. He singled out the department stores as the prime culprits in the crippling of commerce: "I do object to such powerful organisations being used for the purpose of crushing or eliminating their individual competitors".\footnote{Ibid. p. 109.}

So vigorous was his attack that C. L. Burton and R. Y. Eaton moved to refute the charges of unfair competition, a unique reaction and the first public denial of complaints which had been voiced by independent retailers for years. The reaction was so heavy that Bennett was called upon to discipline his minister. Stevens, in turn, threatened to resign, and the final result was the decision by Bennett to establish a special parliamentary committee with Stevens at its head. The committee would inquire into mass buying and price spreads, beginning on February 2, 1934. Obviously, this was not to be an impartial investigation; Stevens was on record as a vehement foe of the practices and philosophies of big business, particularly the mass merchandisers.
The members of the Stevens Committee did not include any direct protagonists in the retail struggle. There were four lawyers, three farmers, one lumber merchant, one manufacturer and Stevens, who, perhaps out of deference to his own shaky business career, was classed as a career politician by the Financial Post.  

The committee began calling witnesses in February and on the 28th they heard evidence concerning minimum wage law violations which were connected to department store operations. Gustave Franco, the head of the Quebec Minimum Wage Board, claimed that orders to manufacture goods were placed by department stores at "ridiculously low prices". According to standard procedures, the "manufacturer" would then sub-contract the work to small contractors who in turn would hire workers on a cottage industry basis. The "unfair" competition of large department stores was responsible for low wages and the rampant flouting of the minimum wage laws. To the Question "Where there is keen competition for a large order...coming from big retail distributors, it is taken out of the hide of the worker?", Franco replied, "Undoubtedly". No investigation, however, was conducted towards the efficacy of this system which appeared to have been a proliferation of middlemen.

Cutthroat competition apparently had not only made for

120 Ibid. p. 93.
miserable wages and working conditions but had spawned other abuses. The misrepresentation of goods, false advertising and the promotion of "loss leaders" were frequent tactics employed by the mass buyers to maintain sales in a shrinking market, according to testimony given to the commission. In March, the issue of goods retailing for less than cost and the promotion of "loss leaders" were themes explored in testimony from representatives of the R.M.A. A brief from the Manitoba Retail Association protested the trade discounts given to chain and department stores by manufacturers. They claimed that a 2 percent discount was equitable, but the mass buyers were getting discounts in excess of 25 percent. 121 C. C. Falconer of the Manitoba R.M.A. claimed that Eaton's of Winnipeg had ordered large quantities of overcoats from local manufacturers at prices which would have given an experienced tailor $5-$6 a week for a ten hour day. 122 As well, an unnamed department store supplied material to a woman's correctional facility towards the production of mattresses for which no wages were paid. Falconer also claimed that a manufacturer had told him that he could get experienced men on relief to work for fifty cents a day. 123 He offered further examples of price cutting abuses and summed up his argument by stating that these practices were driving small merchants in all fields out of business. 124

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122 Ibid. p. 377.
123 Ibid. p. 379.
124 Ibid. p. 380.
The secretary of the Saskatchewan division of the R. M. A., W. L. McQuarrie, followed with a statement that in many cases department stores were selling goods for less than the cost to independent retailers; therefore either the mass buyers got goods cheaper than retailers or they sold "loss leaders". He compared department store advertisements with retailer's invoices showing that goods were advertised at less than wholesale prices; the articles thus distributed included footwear, groceries, batteries and farm equipment.\textsuperscript{125} The Charlottetown Board of Trade submitted that chain and mail order stores were putting local retailers and wholesaling out of business, emphasizing the unfair competition in the footwear trade where independent retailers could not match prices and still cover their overheads.\textsuperscript{126} This presentation was followed by a R. M. A. representative from Nova Scotia who claimed that retailers paid more for goods than prices listed in mail order catalogues.\textsuperscript{127} The same complaint was voiced by George Matthews, the R. M. A. representative from B. C. whose list of goods sold for less than independent retailer's cost included furnaces, footwear, dry goods, and he presented evidence that Woodward's sold plumbing and hardware items at less than retail cost as day to day items, not "loss leaders".\textsuperscript{128} Matthews criticised the B. C. labour laws which provided a minimum wage for women but not for men. As a consequence, women were being let out and men hired in their place.

\textsuperscript{125} Minutes of Proceedings, Vol. 1, p. 391.
\textsuperscript{126} Ibid., p. 405.
\textsuperscript{127} Ibid., p. 422.
\textsuperscript{128} Ibid., p. 486.
at greatly reduced wages.129

The setting up of the Stevens Commission and ensuing controversy did not escape the major urban newspapers. Shortly after Stevens' January speech, the Financial Post editorialized the issue. The speech was said to have caused a "mild sensation" in business circles, but really had not brought up any new points.130 The allegations against the mass retailers were not new; there had been a plethora of representations from "competition-weary trades". The paper discouraged the concept of government regulation of retail trade, seeing this as a trend towards the corporate statism of Italy and Germany. There was no public proof that mass buyers had put factories out of business, but in fact many manufacturers had sought out large retailers. The issue of sweated labour could best be remedied, the Financial Post argued, by putting teeth in the minimum wage laws. Retailers, it said, should organize to bring pressure to bear on price-cutting manufacturers.131

R. T. Eaton was quoted by the Financial Post in reaction to Stevens' speech, saying that the practices of which his firm was accused were quite contrary to Eaton's principles. He likened Eaton's buying methods to the tendering system used by governments and claimed that Eaton's could not operate their own manufacturing plants which paid good wages if they could obtain goods produced by sweated la-

130 Financial Post Jan 20/34, p. 1.
131 Ibid.
bour more cheaply. If cheaper goods were available to Eaton's, there
would be no point in operating their own production facilities. 132

C. L. Burton also dismissed Stevens' charges. "The buying
needs of the department stores are a complete reflection of the buying
needs of the public", he was quoted in the *Financial Post*. Simpson's
would not pay less than market price for goods as it depended on wor-
kers to buy them. Simpson's therefore had a direct interest in main-
taining the purchasing power of the workers. 133

In February, the *Financial Post* declared that the Stevens
Committee would provide useful information regarding distribution if it
avoided politics. It gave its interpretation of the economic phil-
osophy underlying the Committee, citing eight problems, including the
issue of low wages in spite of a high tariff, the interplay of the
retailer and community life, the point at which mass merchandising be-
comes inefficient, the reasons for wide consumer-producer margins and
the ideal extent of government intervention in trade. 134

As the hearings began, the issue of Stevens' chairmanship
of the Committee in light of his censorious remarks was raised in the
House of Commons by Liberal member Robert Mackenzie. He said the price
spread problem was most profound between producer and manufacturer and

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133 Ibid.
as for the mass buyers, he said that "Mass buying is a system which has
grown up in the last few years which has as its purpose the overcoming
of an evil (the inefficient distribution system) and cannot be con-
sidered an evil in itself from the consumer's viewpoint". 135

The Financial Post ran several articles dealing with issues
raised in the Committee during the Spring of 1934. In February, it
reported that retail grocery and meat dealers in Vancouver had adopted
a trade code which set minimum/prices of cost plus ten percent, es-

tablished exact grading standards and prohibited giveaways. 136 This
was a positive example of independent merchants working in concert to
protect their trade. In April, the paper discussed buying practices
and related problems as part of a series of articles called "Codes
for Canada". 137 The ambiguity of the Committee and the surrounding
controversy, however, was best illustrated by a March cartoon. It
showed a businessman and his wife reading newspapers in their living
room. The headline on the husband's paper reads "Mass Buying Evils
Exposed at Ottawa" and his reaction is -"Terrible". His wife's head-
line reads "Bargain Day", to which she replies -"Wonderful". 138

In June, the Stevens Committee received financial state-
ments from the major department stores which had been prepared by
an independent accounting firm. For Eaton's, Simpson's, Woodward's

135 Canada. Debates of the House of Commons 1934, Feb. 19,


137 Ibid. April 14/34. p. 1.

and others, the pattern was almost identical; there was a universal expansion and growth of profits and volumes throughout the Twenties followed by a heavy reduction in profits after 1929, but with relatively high volumes of sales. Eaton's was the hardest hit; its huge empire suffered a 41 percent loss in business between 1929-33, but individual department store operations such as Woodward's were not as seriously affected. In fact, Woodward's best sales volume was in 1932, although its profits were down considerably from their 1929 peak.

As the wage issue was being used to attack the department stores, it is interesting to note how the employees of these firms fared. Both Eaton's and Simpson's had developed paternalistic attitudes towards their employees. Eaton's had developed recreational and benevolent facilities for its workers, while Simpson's was an early proponent of an employee profit sharing scheme. Both firms projected secure and benevolent images as employers. Eaton's was forced into layoffs and wage reductions during the Depression, but it is difficult to accurately assess their treatment of their employees. Simpson's is somewhat easier to study. Simpson's loss of business during the Depression was not as great as Eaton's, and it appears to have exposed its people to minimal disruption. According to C. L. Burton, Simpson's had 6,700 full time employees before the depression and had 6,200 in 1932; the attrition, Burton said, was largely due to deaths, re-

tirement or voluntary departure. He claimed that the firm forewent dividends in order to maintain its work force. Wages, however, were reduced. According to testimony presented to the Stevens Committee, there was a total decline of 1.4 million dollars in wages and a ten percent reduction in personnel.

If it is assumed that each employee was making the average department store annual wage of $1103 for full time employees, and that there was a loss of some seven hundred employees, the remaining work force would have received wage cuts totaling some $600,009, or roughly a ten percent reduction, exactly the cutback given to civil servants. As some of this total wage reduction was undoubtedly due to elimination of part-time positions, the reduction for full time employees would be even less. It certainly did not approach the 40 percent reduction experienced by the work force as a whole. In fact, department store wages in 1930 averaged $1103, compared to $1036 as the average annual salary in the retail trade, $1065 average in the apparel group and slightly less than $1300 for the furniture retail business. When it is considered that women department store employees outnumbered men in a 4:3 ratio, and that women earned less than two thirds the salaries of men on a national basis, department store employees, as a group, came out ahead of their counterparts in most other fields.

142 *Urgency* p. 306.
144 Figures constructed from data in 1931 Census of Canada, Vols. V and X.
145 Ibid.
146 Ibid.
The Stevens Committee became a Royal Commission after Parliament prorogued for the summer of 1934, and Stevens determined to carry on the investigation with vigour. However, his tempestuous relationship with Bennett reached a breaking point after an address Stevens gave to the Conservative Study Club in late July. In his speech, he attacked his old enemy Sir Joseph Flavelle, accusing him of defrauding the Simpson's company shareholders in a watered stock manipulation. The speech was quoted by the Ottawa Citizen and the Toronto Star and Stevens prepared 3000 copies of the address for distribution.\textsuperscript{147} Stevens' persistence in attacking Flavelle might have had an extra element of pique in this confrontation, for Flavelle had experienced the success in business which had eluded Stevens. Despite the controversy over his methods, Flavelle had prepared for the Depression by liquidating his assets in Simpson's just before the Crash. In a 1927 speech, reported in the Financial Post Flavelle had foretold the economic disaster of 1929. In the address, he had declared that the real expansionary phase of the economy had occurred shortly after World War I and that the public were deluding themselves as to the ability of the current economy to sustain rising expectations. He warned:\textsuperscript{148} 

> When the present stock exchange boom will crack, I do not know (but it is an) inevitable reaction to a period of expansion...this is a time for greater sanity.

Now, while Stevens was desperately trying to cope with the Depression, Flavelle must have appeared to Stevens to have foregone the suffering of most other people.

\textsuperscript{147} Wilbur. p. 134.
With a threat of suit from G. L. Burton over Stevens' remarks and undoubted pressure from other business interests, Stevens and Bennett parted in October, when Bennett accepted Stevens' resignation from the cabinet and as chairman of the Commission. Bennett commented that Stevens had been "fundamentally unsound" in discussing the work of the Commission before it had ended. 149 The Financial Post followed Stevens' situation and reported rumours that he might quit the inquiry as early as August 11, 1934. 150 Another article noted that Stevens' Study Club speech was at variance with evidence from the commission, particularly charges by Stevens that Simpson's had increased its mark-up to cover the losses incurred by Flavelle's manipulation. 151 After Stevens' resignation, the Financial Post noted that he had had the support of neither Bennett nor the cabinet throughout the inquiry and that the July Pamphlet issue was the turning point. Stevens was now fighting for his political life, claimed the paper; party leadership the prize if the Commission had a powerful impact, political oblivion if it did not. 152

The Financial Post's description of Stevens at the crossroads was apt. He quit the Conservatives to found the unsuccessful Reconstruction Party after his work on the Commission was through, and never again came close to national prominence. His inquiry ground

149 Wilbur, p. 141.
151 Ibid. Aug. 18/34, p. 2.
152 Ibid. Nov. 3/34, p. 3.
to a close; the final report was published, but it had little impact.
Evidence submitted had alerted people to the ineffectiveness of the ex-
isting labour laws and some attention was directed towards consumer com-
plaints of false advertising, short weighting etc., but no controls were
applied to the retail economy. One reason, perhaps, was that the spec-
tacular growth of the department stores had ended with the coming of
the Depression; in fact, despite the success of firms such as Eaton's
and Simpson's, the department store share of the retail market had fal-
len from its peak of 16.5 percent in 1926 to 12.5 percent in 1930.\textsuperscript{153}
The independent retailers had increased their share from 62 percent
to over 68 percent in the same period, a figure which has remained
relatively stable to the present day.\textsuperscript{154} According to a distribution study,
by 1930 only 28 percent of manufacturer's sales were to wholesalers,
while 50 percent were to retailers. This was an indication, perhaps;
of a movement by the retail industry in general towards greater ef-
ficiency.\textsuperscript{155}

The final report of the Commission did not contain the pro-
mnouncements which Stevens had hoped for at the outset. It expressed,
instead, the equivocations and ambiguities reflected by the evidence pre-
seated and the surrounding discussions. Of Eleven Commission mem-
bears, the seven who signed the report without reservations included

\textsuperscript{153}Moyer. p. 100.
\textsuperscript{155}Reynolds. p. 109.
five Conservatives, one U. F. A., and one Social Credit member. Three Liberals signed with reservations and one Liberal delivered a dissenting minority report. It is hard to believe that such an alignment was coincidental and not governed by political motives.

The Commission members found that the department stores were more efficient in terms of gross margins than the independents. Declining sales had caused the average department store margin to increase from 25.8 percent in 1930 to 29.1 percent in 1932, but they were still slightly lower or on a par with the margins of independents in the clothing, furniture, and shoe trades. The margins of these latter firms had remained fairly constant; it might therefore be assumed that their volumes of trade had remained steady. The obvious conclusion is that attrition in the independent retail field had allowed those who survived to carry on profitably.

One argument advanced by the Conservative members in the final report dealt with the inefficient position of the department stores in face of declining sales. It was argued that the large structures needed to service a buoyant economy would still require maintenance in a period of contraction, and that this resulted in higher gross margins. However, that the previous economies of scale had become liabilities in a period of contraction was a feature of inde-

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158 Ibid.
dependent business as well. An American economist writing on the re-
tail trade had pointed out that too many retail stores in a given area
resulted in price increases as retailers tried to make profits with
diminished volumes.\textsuperscript{159} The effect may have been more apparent in a
large concern such as Eaton's, but this increased inefficiency was
pervasive; independent retailers did not increase their margins; if
they could not operate efficiently, they quickly went out of business.

The report condemned "unfair" mass merchandising practices
such as "loss leaders" but offered no concrete proposals for regulation
beyond suggesting that a government body should be created to further
examine the problem and establish a means of control.\textsuperscript{160} There seemed
to be a rather hazy opinion that government regulation was somehow re-
quired, and they called for the "socialisation of monopoly and the
civilisation of competition".\textsuperscript{161} The Conservatives were far less equi-
vocal on one point; a stiffening of minimum wage regulations was seen
as the most effective solution to the problems of competition.\textsuperscript{162}

Effective protection of the wage earner from cutthroat
wage levels and the compulsory maintenance of certain minimum
standards of working conditions will go far to protect the pro-
gressive and responsible employer of labour from unfair com-
petition.

In the Memorandum of Reservations, the three Liberal
members came out against the report's acceptance in principle of
price regulation, stressing that the fixing of prices was unrealistic

\textsuperscript{159} Reynolds, p. 113.
\textsuperscript{160} Price Spreads Report, p. 274.
\textsuperscript{161} Ibid., p. 275.
\textsuperscript{162} Ibid., p. 269.
and that the consumer would bear the brunt of price maintenance controls. In a seeming partisan comment, they condemned the traditional Conservative Party plank of tariff protection for domestic industry which had been recommended, claiming that outside goods should be allowed to compete with and thus control Canadian monopolies.

Concerning the mass merchandisers, the Liberal Minority Report found their activities to be self-limiting and foresaw no growing domination of retail trade by them. They condemned, however, "unfair" practices but stressed that too much emphasis had been placed on the "lose leader" issue. It was, perhaps, distasteful, they implied, but certainly not illegal and it had been blown out of proportion by the witnesses at the inquiry. This opinion has been supported by other studies, and as far as the consumer is concerned, he neither gains nor loses. Their final statement was, in effect, a complete rejection of the report so far as government regulation was concerned. They feared that increased government control would promote a drift towards the fascism of Italy and Germany.

In his Dissenting Report, H. B. Young supported the objections in the memorandum of reservations but expressed himself more forcefully. He saw the pressure to lower prices emanating from the consumer; people simply did not have the money to purchase necessary

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164Ibid.
165Ibid. p. 285.
166Reynolds. p. 113.
167*Price Spreads Report* p. 287.
goods. Profits were the first to go; the evidence from the Commission showed that wages were cut only after profits disappeared. Wage cuts, however, were only a minor portion of the costs of production. Young saw the sweatshop conditions resulting from a system wherein the "loss of wages was not borne equally by all classes of labour". He conceded that the mass merchandisers had acted without regard for their suppliers or competitors, but that was completely normal; he dismissed the concept of the retailer as a benefactor of producers and wholesalers as fatuous nonsense. 169

Young's fundamental argument was philosophical. He saw the majority committee as a group dedicated to class interests. If the Conservatives had their way, they would use government powers to constantly regulate trade for the protection of various interests; the tariff and internal controls would be used to protect the small business class from the "unfair" competition of the giants. This concept he rejected, opting instead for a system which recognised no class structure. Young's classical Liberalism was demonstrated succinctly in his closing comment. 170

In seeking the remedy for our economic ills, we should always keep the consumer's interest uppermost in our minds, for the consumer's interest is the interest of the human race.

The final report of the Stevens Commission thus did not com-

169 Ibid. p. 292.
170 Ibid. p. 307.
damn the department stores for their pre-eminence in retail trade. The Conservative members expressed apprehension at what they perceived as potential for power abuses by the giants, but they stopped well short of recommending comprehensive trade regulations to tip the balance of competition in favour of the independent retailers. The Liberals, particularly Young, did not entertain this concept of "classes" within the industry at all. The department stores had developed within the retail industry with no direct help from the government and with no advantages unavailable to the rest of the trade. That they had grown so big and had acquired such domination was simply a reflection of their ability to out-perform their competitors. It was clear that the independent retailer, if he were to survive and prosper, would have to do so by his own wits and initiative. As the independent retailers had collectively increased their market share towards the end of the twenties, it was obvious that some small merchants were coping without government intervention on their behalf.
CHAPTER IV

By 1920, the Canadian department stores, led by Eaton’s and Simpsons, had developed the strategy and tactics which allowed them to dominate retail trade competition for the next decade. The Stevens Inquiry revealed neither disruption of trade nor an “unfair” competitive situation caused by the Depression, but brought to public attention the activities of the dynamic leaders of retailing, the department stores.

The salient characteristics of Canadian society in the first third of the Twentieth century were growth and urbanisation. The business of the nation was shifting from agriculture towards industrial manufacturing. Industry required greater concentrations of population to supply labour demands and industry in turn produced a proliferation of goods for consumption. The trend towards urbanisation by itself would have resulted in an increase in retail products; city dwellers would have to purchase virtually all of their consumer needs. Whereas the farmer was traditionally self-sufficient as to not only food but many household and work items as well, the urbanite had to trade wages for virtually all of his needs. The nature of consumer goods underwent a profound shift as well. Increasingly, the Canadian consumer found himself surrounded with and was anxious to acquire such Twentieth century innovations as electrical appliances and automobiles. A considerable number of people became aware of the possibility to have more than basic food, clothing and shelter. Faced with such changes, the Nineteenth century distribution system
which had not undergone any revolutionary development for decades could not cope. Not only were movements of goods through the producer-wholesale-retail chain inefficient in handling the growing demands, its inadequacies made it vulnerable for anyone offering alternatives.

In Canada, this process began with Timothy Eaton who made two crucial contributions to the new retail methodology. He established a norm which simplified the consumer-retailer interface by selling goods for cash and at a fixed price, and he gradually subsumed the functions of the wholesaler, and to a large degree, the manufacturer. The implications are profound; by becoming his own wholesaler he had the choice of either taking profits from two areas, retailing and wholesaling, or passing the savings on to his customers. Eaton, the retailer could either sell a given item for the same price as a competitor working out of the traditional system and make a double profit, or he could reduce the selling price and remain in the same or better profit position as his competitor. As well, this extra profit could and did provide financing for expansion and for complete financial control. All of the department stores studied during the 1920's were self-financing; none used borrowed capital.

By 1920, the department stores had developed the formula for business which would carry them to great success. Eaton's had been the pioneer and was undisputed pace-maker in the industry, but Impson's and other smaller operations would successfully pursue the department store method. That Eaton's did not totally dominate the
trade to the exclusion of all competitors is significant. If Eaton's had had advantages strictly relating to size, Simpson's and the other department stores would not have flourished. The department store formula obviously had advantages not directly related to economies of scale. As well as an efficient producer-retailer system, they offered attractions to the consumer, perhaps the most important being the concentration and variety of goods offered. They made shopping easier and more efficient for the consumer who could either purchase goods from his home through the mail order catalogue or make a one-stop trip to one of the urban stores. Obviously, the consumer reacted favourably to the department stores' combination of price and service.

Another critical feature was the development by the department stores, particularly Eaton's and Simpson's, of a professional group of merchandisers. They raised retailing from an inherited or low skilled endeavour to a complex art. The department stores were controlled and managed by the same type of highly trained, intelligent executives common to other large industries, and they were able to organise efficiently; and perhaps most important, to stay at the leading edge of development of the retail industry. The bewilderment of the small retailer and wholesaler during the Twenties was not shared by the department store owners.

One striking feature of the independent retailer's complaints is that they were invariably directed towards situations which were not in fact current; they did not appear to have been far-
sighted or even up to date in their analysis of their problems. The
desperate cries for relief from the pressures of the mail order trade
came several years after the mail order business had peaked and was
becoming less of a factor in total retail trade. Similarly, the com-
plaints by the retailers just before and during the Stevens Commission
that the department stores were becoming monopolistic and were de-
stroying independent retail trade came at a time when the department
stores were actually declining in terms of market control. Despite
the apocalyptic attitude posed by the vocal part of the independent
retail trade, the small merchant was not in danger of extinction.
There had obviously been changes in the traditional distribution
chain, for the wholesale trade had been greatly reduced, some re-
tailers were organizing amongst themselves to agree on practices,
and they were gaining more respect with the banking community. Some
independents were adapting by the beginning of the Thirties; whether
their their spokesmen were aware of it or not, they had increased
their market share from the mid-Twenties low point and had assumed a
portion of the total retail trade market which has remained relatively
constant.

The Stevens inquiry was unsuccessful in either demonstrating
that the department stores contributed to the Depression or that they
had become monopolistic to the detriment of the public. What did e-
merge was a picture of a successful and innovative marketing machine
which had adversely affected its less able and inefficient competitors,
a classic example of free market competition. Judging by the final
report, the pleas that the mail order and department store activities
were destroying community life in small rural towns was never ser-
iously entertained, by any members of the Commission. The trend to-
wards urbanisation was not caused by department stores; they were merely more perceptive of changing population patterns and more able to adapt to new situations.

Costs and prices were the major themes of the testimony presented by the small retailers to the Stevens inquiry. Department stores were underselling the independents, and evidence was presented that the lower costs of goods to the mass buyers was the cause. The independents contended that manufacturers and wholesalers acted "unfairly" by giving the department stores greater discounts. Seen from another perspective, one which was not challenged by the Commission, this was yet another indication of efficiency on the part of the giants; they were able to procure goods cheaper and more efficiently than their competitors and thus provide the public with merchandise at low prices.

The department stores were also accused of causing sweated labour and wage law abuses through their vigorous pressure on their suppliers. However, as H. B. Young, the dissenting member, pointed out, the department stores' first responsibility was to the consumer; by obtaining goods at the lowest possible prices, they were benefitting their customers. To hold them responsible for the welfare of the production labour force or for any other segment of the distribution chain was, in Young's view, clearly ridiculous. He argued that the responsibility for labour conditions lay with the manufacturers who employed the workers; if they would not provide minimum standards to their working conditions then wage laws and labour conditions would have to be controlled. This was not, however, an argument for govern-
ment regulation of trade, but for the protection of a particular group (the workers) who, in the absence of meaningful collective bargaining power, were defenceless. The independent retailers were not in this category. They chose, instead, to compete in the market place with the giants. Certainly, all evidence supports the claim that the department stores in general treated their own employees at least as well and perhaps better than other retailers.

The most significant aspect of the Stevens Commission was that it was the first time that serious accusations had been leveled by authorities at the department stores concerning their operating methods. The Depression had highlighted their activities but they had been doing business in the same fashion for years without any charges of improper conduct by the authorities. They were certainly not above the effects of the Depression; the enormous expansion of Eaton's and to a degree, Simpson's, during the Twenties was countered by the precipitous loss of business when the economy collapsed. They had wounds to nurse, in company with every other economic sector.

For the retail industry, the Stevens inquiry made its most important contribution by clearly delineating the "rules of the game". The department stores had prospered by their own initiative and their relative success or failure was of their own doing. The situation was identical for the independent retailers; they would stand or fall on their own abilities. The government would move to correct abuses accompanying the retail trade by attending to minimum wage laws and deceptive marketing procedures, but these measures would not affect the balance of competition within the industry. One thing was clear;
neither the independents nor the giants would be able to control the conditions of the retail trade industry to their own particular advantage through government intervention. The independents and the giants would have to learn to co-exist; the consumer was the ultimate arbiter of their competition.
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Texts:


