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THE LEGACY OF CANADIAN INDUSTRIAL POLICY
THE CASE OF THE APPLIANCE INDUSTRY

by

Richard M. Gill

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A thesis submitted to the faculty of
Graduate Studies and Research in partial
fulfilment of the requirements for the degree of
Master of Arts
in International Affairs

The Norman Paterson School of International Affairs
Carleton University
Ottawa, Ontario
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MAY 20, 1986

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ABSTRACT

Plant closures and large-scale unemployment have brought to public attention weaknesses in many of Canada's manufacturing industries. Increased international competition since the early 1970s has made apparent the vulnerability of these industries to import competition, and their inability to succeed in international markets. The Canadian appliance industry displays such weaknesses, and they can be attributed in large measure to state industrial policies in the industry's early years. Those policies encouraged an inefficient and oligarchical industry structure dominated by foreign-owned subsidiaries. Recent state policies on foreign investment have failed to alleviate the problems associated with foreign control of industry, and trade liberalization policies have exacerbated the already poor competitive position of Canadian manufacturers. Past and present policies have emphasized the development of the resource sector, and the strength of political interests favouring that sector appear to help explain the state's failure to take measures appropriate to the long-term improvement of manufacturing in Canada.

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THE LEGACY OF CANADIAN INDUSTRIAL POLICY

THE CASE OF THE APPLIANCE INDUSTRY

INTRODUCTION

In recent years a great deal of the economic literature in Canada has been devoted to the decline of Canadian manufacturing. Numerous federal and provincial government studies have sought solutions in some form of industrial policy. Improved productivity, expanded innovative capacity and more aggressive international marketing are viewed as requisite changes. Policy makers look to the modern, high-technology industries to provide economic growth.

Concurrent with this debate on Canada's economic future is the continued deterioration of some of the country's older, more established industries such as textiles and clothing, footwear and electrical products. Literature on this deterioration has served several important functions. Firstly, it has established that under current economic conditions and current state policies many of these industries are likely to remain weak. Secondly, it has identified weaknesses in the basic structure of the Canadian manufacturing sector which left these industries vulnerable

and which, if not addressed, will draw other industries in the same direction. Thirdly, it has provided various political interpretations as to why the manufacturing sector developed as it did.

This thesis is intended to contribute to this literature by examining the Canadian appliance industry in the context of the debate on industrial policy making. It is hoped that by identifying links between the weaknesses in that industry and state policy affecting the manufacturing sector, we can gain some insight into appropriate future policies. As well, we will be interested as to whether the experience of the appliance industry points to a particular orientation in state policy, and if so, to what extent this orientation might have its origins in the country's political structure.

In Chapter I, the general case of Canadian state policy regarding manufacturing is examined with a focus on how policies have contributed to the deteriorating competitive position and high unemployment in many industries. An attempt is made to identify a general orientation in economic policy which has helped determine the specific policies we examine. Various models of the political determinants of state economic policy are then examined for

their applicability to the case of Canadian manufacturing.

The second chapter presents an historical view of the development of the Canadian appliance industry. This serves several functions. It identifies the major structural characteristics of the industry and the root causes of its present difficulties. As well, it offers us a long-term perspective of state policies affecting the industry, which allows us to draw links between policy and the industry's development.

In Chapter III we examine the experience of the appliance industry through the 1970s, when new international economic conditions increased the pressure on Canada's manufacturers. We are able to see whether the weaknesses in the industry identified in Chapter II still exist, and to what extent state policy has addressed those weaknesses.

The final chapter reviews the development and recent position of the appliance industry as discussed in Chapters II and III. This includes an assessment of state policy affecting the industry, and an attempt to apply the experience of the appliance industry to the general policy orientation discussed in Chapter I. From this, we hope to learn something about possible industrial policy

alternatives, and some of the implications of those alternatives for the economy as a whole. Finally, we assess what this study tells us about the political determinants of state economic policy, and the political implications of certain policy alternatives.

CHAPTER ONE

CANADIAN STATE POLICY AND THE DETERIORATION OF TRADITIONAL MANUFACTURING INDUSTRIES

It is widely recognized that Canada's competitive position in manufacturing has been deteriorating since the early 1970s. Our share of world exports of manufactured goods has declined steadily and continues to do so, and import penetration of the Canadian market has increased in step.(1)

As a result many companies have gone bankrupt or cut back operations dramatically. Others have invested in new technology and rationalized production (often through intra-industry mergers or take-overs) in an attempt to stave off the competition. In the process, thousands of employees have been laid off and many more have been forced to relocate to avoid unemployment.

New international economic conditions since the early 1970's have contributed greatly to Canada's manufacturing woes. Growth rates in GNP's among OECD countries dropped from over 5% in 1963-73 to 2.6% in 1973-78.(2) The slow growth has resulted in stiffer competition and increased protectionism, especially in the more traditional manufacturing industries. As well, many Canadian manufacturing industries are

dominated by large multinational corporations based in the U.S. and other developed economies. In recent years they have shifted much of their production and sourcing of goods to low-wage countries. This makes it extremely difficult for smaller domestic producers to compete.

Economic policies of the Canadian state, both historically and recently, have also contributed to the high unemployment and poor competitive position now found in many Canadian manufacturing industries. High tariffs combined with an open-door policy toward foreign direct investment have left Canadian manufacturing industries dominated by branch plants of U.S. multinational corporations. In recent years trade and fiscal policies have favoured trade liberalization and encouragement of rationalization and constriction within industries on terms favourable to the large multinational corporations and unfavourable to small producers and labour.

While the new international economic conditions have influenced greatly the policies of the Canadian state and other states, it is fair to say that the reverse is also true. For example, the economic environment in which predominantly large transnational corporations are able to thrive by investing directly or sourcing in the NICs at the

expense of domestic producers and labour in the developed economies has been, and continues to be, shaped by deliberate policy decisions.

At the international level, post-war trade arrangements among developed countries were based on an assumption that trade expansion through reduction of barriers would produce only winners; that increased specialization and converging production costs would provide for greater efficiencies without serious dislocations of labour and firms.(3) While this assumption held through the 1960s, trade expansion and liberalization also provided the conditions for the growth of transnational corporations, and allowed them to take advantage of the low production costs in the NICs which threaten to displace firms and labour in the developed economies.

At the national level, the degree to which individual states embraced trade liberalization and the degree to which they encouraged innovative capacity in their manufacturing sectors have determined in large part the extent of unemployment and dislocation in their domestic manufacturing sectors today.

The purpose of this chapter is to identify the ways in which

policies of the Canadian state have contributed to the high unemployment and deteriorating competitive position in many manufacturing industries. After making the general case, we can then look in detail at the Canadian appliance industry, to see how the experience there reflects the general policy orientation identified in this chapter.

A further purpose is to consider the determinants of state policies affecting the manufacturing sector, in order to attempt to explain the orientation of those policies. Our detailed examination of the appliance industry will offer an indication of the relevance of possible explanations.

The Orientation of Canadian Policies

There is strong evidence that Canadian policies which emphasized growth through staples exports have left Canadian manufacturing in a relatively weak state vis-a-vis its competitors.⁽⁴⁾ The main objective of the set of economic policies associated with the National Policy of 1879 was to promote the export of staples. Public borrowing for the completion of canals and the railway and the immigration measures served this purpose well and reflected the

influential position of the financial community which had built its fortunes on the export of cod, fur and timber.(5)

The National Policy provided for industrial expansion through tariffs, patent laws and the markets it helped create in building up the staples industries. As Glen Williams suggests, however, the manufacturing sector was clearly intended as a supplement to the staples economy, and was designed to serve the relatively protected domestic market using foreign technology and (often) capital.(6)

In the post-war years the emphasis on staples-led growth was supported by government incentives offered to the mining and oil and gas producers, and major state-supported projects such as the St. Lawrence Seaway and the Trans-Canada Pipeline. Here again, manufacturing was encouraged through tariffs and other measures, but the strategy was still one of import substitution, and foreign-owned subsidiaries began to play an increasingly important role in many industries. Manufacturing depended on growth in domestic demand either from the staples industries themselves or from wealth amassed primarily through staples exports.(7)

There is no doubt that the manufacturing sector thrived in the post-war years, providing an important base for

employment, especially in the urban centres of Quebec and Ontario. However, with the emergence of important new competitors and increased competition and protectionism among traditional manufacturing producers, and with tariffs being steadily reduced, many Canadian producers have recently found themselves unable to compete effectively.

One good measure of trends in competitive position is the balance of trade. As the following table shows, Canada's trade balance in manufactured goods worsened steadily through the 1970s.

Balance of Trade in Canada's Manufacturing Sector

(thousands of dollars)

	Imports	Exports	Balance
1980	39.7	21.9	-17.8
1979	38.1	20.9	-17.2
1978	31.1	18.8	-12.3
1977	26.3	15.2	-11.1
1976	22.8	12.7	-10.1
1975	20.7	10.4	-10.3
1974	18.4	9.2	-9.2

1973	14.8	8.4	-6.4
1972	11.9	7.1	-4.8
1971	9.8	6.2	-3.6

Source: Statistics Canada, Series 65-202, 65-203, 1971-1984

Reports from such organizations as the OECD, the Canadian Department of External Affairs and the Canadian Institute for Economic Policy offer little hope of change in this regard under the current structural conditions of the Canadian manufacturing sector.(8) It will be worthwhile here to look at economic factors affecting Canada's deteriorating competitive position to see what those structural conditions are. We can also look at recent policies related to these economic factors, to see how they relate to the policy orientation described above.

Factors Affecting Competitiveness

in Canadian Manufacturing

The deterioration of productivity in Canadian manufacturing relative to that of the competition has been blamed on a range of factors, but no broad consensus has emerged. Debate among economists focuses primarily on three factors: returns to scale; research and development capacity; and capital-to-labour ratios and quality of capital. Other hypotheses, such as changing age/sex structure of the labour force, limited scope for shifting from low- to high-productivity sectors, or quality of labour and management may well have some basis in fact in specific cases, but they have failed to find convincing empirical support as general explanations.(9)

As well, high wage levels are often cited by manufacturers and some other commentators as the root of Canada's competitive decline. However, the evidence available does not sustain this hypothesis. The cost of labour in Canada did increase relative to that of the U.S. during the 1970s, and reached rough equivalence toward the end of that period. It has subsequently fallen below the cost of labour in the U.S. The cost of labour in Canada has increased more slowly

than in Japan and most of Europe, and yet the trade balance in finished goods has worsened.(10) While the effect of labour costs on competitiveness should not be discounted, these effects vary in nature and extent in different periods. Here we are primarily interested in factors which have more consistent, longer term effects.(11)

It will be worthwhile here to look at the three important factors cited above.

Economies of Scale

It is generally held that Canadian manufacturers are unable to take advantage of the economies of scale which are available to producers in larger states, notably the U.S. The most obvious reason is the limited domestic market available to Canadian producers. As well, high tariffs on manufactures in the early years of Canadian manufacturing contributed to a lack of specialization in Canadian plants and an overabundance of producers in many industries. (12)

The open invitation to direct foreign investment in Canadian manufacturing, and the failure of the state to adequately encourage the development of innovative and export capacity,

relate directly to these diseconomies. Many industries are dominated by branch plants of U.S. corporations, which are often "miniature replicas" of American plants. These were designed specifically to serve the small protected Canadian market, leaving export markets to be served by plants based in the U.S. or elsewhere. Thus they often produce at a scale too small to compete in today's economic climate. As well, they lack innovative capacity which would help them to break into export markets.

As we will see in the case of the appliance industry, the response of the state to the dilemma brought on by these conditions has been to encourage the rationalization and constriction of affected industries without protecting small domestic producers and without requiring any compensation to displaced labour.

At the same time, the state has negotiated for the systematic lowering of tariffs on manufactured goods, in order to gain access to foreign markets for (primarily) raw and semi-processed goods. As F.A. Knox aptly pointed out, "To stimulate economic development by enlarging foreign markets for the raw and semi-processed goods which we are particularly fitted to produce at low costs, tariff

2 1
bargaining under procedures of the General Agreement on Tariffs and Trade (GATT)...has been carried on to secure reductions in foreign tariffs in return for decreases in our own." (13)

Another rationale for the lowering of tariffs on manufactures relates to the "infant industry" strategy of industrial development, whereby the state provides protection for an industry in its early stages, and gradually reduces that protection to give it time to become competitive. This scenario, however, can not readily be applied to the case of Canadian manufacturing. For one thing, the interval between the application of high protective tariffs and the decision to lower tariffs on manufactures was so long that most industries developed structures and characteristics appropriate to a permanently protected market. As well, the lowering of Canadian tariffs has coincided with a decline in manufacturing and a weak industrial structure, rather than with the positive indicators appropriate to that stage in the strategy. Finally, it is apparent that the real motivation for tariff reductions has been the benefits it will have for the resource-related industries and certain other chosen industries. Those reductions are sought with the knowledge

of their negative effects on most manufacturing industries.

As well, the state has for the most part continued to invite direct foreign investment without requiring guarantees of benefit to the Canadian economy in the form of employment guarantees, export development or research and development targets.

Research and Development Capacity

Since the early 1970s Canada's merchandise trade deficit has remained large in industries which perform little or no research and development. This is due in part to increased competition from the NICs. While most developed countries have responded by actively encouraging the development of high-technology industries, Canada has failed to do so. (14) Canada has one of the lowest rates of R & D expenditures per capita among Western industrialized countries. What does exist is concentrated mainly in the hands of the government and a few large firms. More than 90 percent of the patents used by firms in Canada are foreign-held. (15)

General agreement exists among economists that technological advancement will be the basis for the emergence of successful new Canadian industries and the revival of

existing ones. Canada's weak R & D base is seen by many as being an important contributor to the country's deteriorating competitive position, with the high degree of foreign ownership in Canadian manufacturing being one cause of this weakness.

In The Weakest Link John Britton and James Gilmour made what is probably the most widely read argument in favour of increasing Canadian ownership of manufacturing, especially in the high-technology sectors, and of government support for an increase in R & D capacity among Canadian firms. Their argument is that subsidiaries of foreign transnational firms tend to be 'truncated'; that is, they tend to perform only part of the range of activities associated with the development, production and marketing of their products. The functions associated with innovation are generally performed by the parent company, so Canadian firms fail to develop innovative capacity. What little R & D is performed by subsidiaries is usually limited to adaptations of existing designs to meet Canadian requirements. (16)

This conclusion has also received support from other bodies such as the Economic Council of Canada and the Ministry of Industry, Trade and Commerce, Canada. The Economic Council

of Canada draws a direct causal link between foreign ownership and the weakness of Canadian manufacturing, noting the "almost inevitable erosion of Canada's capacity for product innovation and other business initiatives...".(17)

A 1979 report from the Ministry of Industry, Trade and Commerce agrees in part with this assessment. It says that Canada imports more manufactured goods per capita than any other advanced country, and in many areas lacks the in-house technology needed to manufacture them at home. Canadian firms should be encouraged to innovate, and export programs should favour those which do. It adds that while foreign technology has been necessary and beneficial for Canada, the effective transfer of it to Canadian-owned firms for downstream exploitation has been lacking.(18)

An additional problem associated with foreign ownership in manufacturing is that foreign subsidiaries in Canada often compete at an advantage over Canadian-owned firms because they have access to their parents' innovations and marketing expertise, often at below full cost.(19) Where applicable, this would disadvantage the very firms with the most to gain from developing export capacity. An aspect of productivity directly related to innovative capacity is the use of

capital inputs.

Capital/Labour Ratios and the Quality of Capital

Productivity figures clearly indicate that since the early 1940s Japanese and Western European producers have made better use of factor inputs other than labour than either U.S. or Canadian producers.(20) Government and private studies have shown that a significant share of this contrast is due to those countries' more effective use of capital as their labour costs increasingly became a competitive liability.

The contrast has magnified since 1973, as increases in capital-to-labour ratios and labour productivity have declined in Canada. A 1980 Canadian Department of Finance report estimates that about 25 percent of Canada's post-1973 productivity decline is due to declines in growth rates of capital-to-labour ratios.(21)

Some economists have suggested that this is a somewhat simplistic view, and that the quality of capital is probably more significant than actual expenditures. The 1983 OECD Economic Survey takes this position, as does Uri Zohar in

his study for the Canadian Institute for Economic Policy. Zohar points out that the capital-to-output ratio in Canadian manufacturing increased after 1973 in all but three industries (22) and that: "...productivity decline can be attributed more to failure of an aspect of capital development; that is, much capital in the manufacturing sector is old and new capital has not always embraced newer and more efficient technology." (23)

Since little technological innovation originates from Canadian producers, they must either make do with less efficient technology or purchase technology from foreign firms. Either way, production costs are higher than for those firms originating the innovation. An additional drawback is that foreign technology is often only available once a still better technology has been developed. The purchaser tends to be left a step behind.

Donald Daly has suggested that technology can be developed more cheaply in large markets, and that in many cases buying technology makes more economic sense than developing it domestically. (24) This may be the case where production is intended for a small, protected market, but as a general solution where export capacity is being sought, or where

trade liberalization and other factors are increasing import competition, this approach would appear to be detrimental in the long-term.

Despite the evidence suggesting that Canadian-based research and development is badly needed, recent governments have shown a reluctance to act. The previous Liberal government in 1980 set a target for R & D spending of 1.5 percent of GNP, and indicated its intention to direct an increasing proportion of that funding to industry and away from government and universities. Critics of this approach, such as the Science Council, suggest that the projected expenditures represent only a small fraction of that necessary to carry an idea through to fruition. Greater government assistance must be made available for design, start-up, actual manufacturing, marketing and distribution if private venture capital is to be attracted.(25)

The present Conservative government has acknowledged the importance of research and development, but its first budget included no serious move to initiate or encourage it, except to provide tax savings which could be used for that purpose, but which are in no way tied to such investment. In its February, 1986 budget, the government promised a maximum 6%

increase in R&D spendings to match any contributions by the private sector to the ~~the~~ government's research funding bodies. No further tax incentives were announced.

So far, we have identified an orientation in Canadian economic policy which appears to have contributed to the deterioration of many of the country's manufacturing industries. We have looked at several policy areas and seen how state decisions can be related to specific problems in Canadian manufacturing. Before examining possible explanations for the direction of state policy, a brief introduction to the main focus of this paper, the Canadian appliance industry, will be of use.

The Canadian Appliance Industry

In the post-war years and until the early 1960s the Canadian electrical products industry was a high-growth industry. The availability of hydro-electric power sources and the support by federal and provincial governments for hydro-electric development led to a strong domestic demand for electrical products. The resource industries and other manufacturing industries came to rely increasingly on

electric power as an energy source. Even in the immediate post-war period the electrical manufacturing industry grew at a record rate despite the decline of military orders and the increased competition from U.S. producers. (26)

The production and increasingly widespread distribution of electric power led to a thriving electrical consumer product industry. In fact, households purchased 40 percent of the industry's output of electrical equipment in 1950, and appliances, together with radio and television equipment constituted the largest market for electrical goods in Canada through the 1950s. (27)

Since the early 1960s, however, the industry's share of the domestic market for appliances has declined steadily, as has the level of employment. Only three large producers of major appliances remain, and the small appliance industry is becoming increasingly an assembly operation for imported components.

The Canadian appliance industry is of interest for this paper because it displays many of the characteristics associated with the general decline in manufacturing. It developed rapidly and produced a full range of goods largely

as a result of tariff protection. Production until recently has been almost entirely to serve the domestic market.(28) A large proportion of the industry is composed of subsidiaries of foreign, predominantly American, corporations. Little of the technology used in the industry was developed by Canadian producers. As with other declining manufacturing industries, investment in the latest technology and consolidation of production into fewer, more specialized plants are viewed as actions necessary to regain competitiveness.

The appliance industry is comprised of two sub-industries: the major appliance industry and the small appliance industry. While both of these share the characteristics described above, each has its own distinguishing features which can provide further insights into the plight of Canadian manufacturing. For example, the market for most major appliances began approaching the saturation point in North America as early as 1950, and life expectancy for most products is as high as 15-20 years.(29) Export potential, thus becomes extremely important for growth, as does the sort of research and development which produces the major innovations, such as the development of microwave ovens, which can bring substantial gains to companies at the

forefront.

For its part, the small appliance industry has an extremely rapid turnover of product styles and frequent entry of new products into the market. Companies producing from subsidiaries in low-wage countries or importing components for assembly from those countries have an advantage here because of the prohibitive costs of re-tooling with expensive technology in such a market. Strong research and development and international marketing capacities are therefore crucial if firms in developed countries are to maximise gains from new products, before low-wage producers enter the market.

As stated above, this paper takes the approach that state policies past and present have contributed in large part to the present deterioration of certain Canadian industries, including the appliance industry. It will be useful here to discuss possible determinants of state policy making, with a view to explaining the policy orientations we have identified.

Determinants of State Policy Making

We have seen that Canadian economic policies have historically emphasized the development and export of resources and semi-processed goods over the development of an innovative, competitive manufacturing sector. We also see the serious effects this orientation is having on large numbers of domestic firms and on that sector's labour force.

It was suggested earlier that the staples orientation was in keeping with the interests of financial and resource-based capital, and that U.S. capital came to be increasingly important in many industrial sectors. Domestic industrial capital and labour appear to have been left vulnerable by this approach, and are suffering now that the international economy has become more competitive.

It was also noted that the Canadian state did encourage industrial development through tariffs and other measures, and that Canadian manufacturing grew and thrived throughout their post-war high-growth years. In recent years the government has negotiated agreements with the U.S. and other trading partners in the interests of the manufacturing sector and the large labour force associated with it. The

Auto Pact and the Defense Production Sharing Agreement are two examples.

It seems plausible, then, to suggest that industrial policy making in Canada, however haphazard, has emerged in part from compromises among competing factions of capital and labour. The role of the state in reaching policy decisions, and the degree and orientation of interest with which the state mediates these compromises, is the subject of much debate.

John Zysman has suggested three broad ways to view the formation of economic policies.⁽³⁰⁾ The first is "explanation by the nature of the economic problem". This view emphasizes the marketplace problems of industry which would set out the tasks for government and determine the interests that different social groups would pursue politically.

The second is "explanation by the interests of political power holders". This emphasizes the relative political power of different segments of business and labour. The third is "explanation by institutional arrangements". This view accepts that institutions themselves are political forces, and emphasizes the importance of the state's

capacity to shape adjustment.

As Zysman points out, these three views are inter-related, and change in relative value as explanations depending on the country being examined and the historical period under consideration. It will be valuable to keep these in mind as we look at the various perspectives on the political determinates of Canadian economic policy making.

Liberal interpretations suggest that Canadian economic policy is determined on an issue by issue basis through state responses to political competition among interest groups. Margaret Biggs refers to the emergence of a protectionist bureaucracy and a shift to increasing protectionist policies, and attributes this to the present economic slump and increased import pressures on industry. Her emphasis on the intimate ties between the bureaucracy and domestic industry suggests that on this particular issue (manufacturing protectionist policy) domestic capital is the most effective lobby group. (31)

Richard Caves tested three models for their ability to predict the political determinates of Canadian tariff policy, and concluded that the 'interest group' model, in which industries weigh the costs and benefits of organizing

to secure protection and that governments attempt to avoid disappointing expectations, was best supported by the evidence. (32)

Gerry Helleiner has suggested, in line with that approach, that the proliferation of multinational enterprise and the increased international competition in recent years has led to a clearly visible division between domestically oriented and internationally oriented capital, and that selective protection can be directly attributed to the interests of international capital in some industries and to those of domestic capital and labour in others. (33)

We can see the value of the liberal approach when we consider that the Canadian government has maintained protective tariffs and instituted non-tariff barriers of a temporary nature for certain goods, while pursuing an overall policy of trade liberalization both bilaterally and multilaterally. It makes sense that an industry in dire straits, having the support of a threatened labour force, would escalate its lobbying efforts enough to influence policy in its favour to some extent.

A drawback to this approach is that it fails to recognize the sort of consistencies in policy orientation which we

identified above. As well, when an entire manufacturing sector appears to be failing and when unemployment is as wide-ranging and substantial as at present, the failure of the state to respond with a long-term strategy for the revitalization of that sector would appear to reflect a broad policy orientation which places limited importance on manufacturing and which can only accommodate limited compromise.

Literature on corporatism has explored the idea of the state as a distinct class in society which has interests independent of capital and labour. It suggests that the state elite works for the preservation of its position of power by instituting consultative processes through which harmony can be maintained among competing interests, and policies can be developed which reflect compromise among those interests. This framework assumes state control over policy making, a consensus among capital and labour as to the appropriate range of policies and directions for the economy, and cooperation among competing factions through institutionalized consultative mechanisms. (34)

As Zysman pointed out, institutional arrangements can have a strong bearing on political agendas and the capacity of

interest groups to influence policy. In this sense the literature on corporatism has much to offer. It would appear difficult, however, to apply the corporatist model too directly to the case of Canadian industrial policy making. First, the consistency of Canada's orientation in favour of certain types of economic activity, and the strong links to be found between the Canadian and North American business elites and their ties to those economic activities (35), belie the kind of state neutrality and control implied by the model. Second, if there is a consensus among interests in Canadian society as to the desired structure of the country's political economy, it is on such general terms as to be of little use in forming the basis for agreement on industrial policy making. Finally, as Leo Panitch has pointed out, and as the current industrial crisis illustrates, cooperation and agreement among competing industrial sectors and between labour and capital does not describe the Canadian reality, past or present. (36)

Peter Katzenstein suggests that most advanced capitalist states have been committed to trade-led growth, and thus to overall liberal trade policies, in the interests of a ruling coalition. While power is concentrated in the hands of this ruling coalition, crisis conditions can force the state to

adopt measures in the interests of competing groups. In the present circumstances, states are being forced by alliances of domestic capital and labour to adopt protective measures. In countries with a liberal tradition such as Canada, these take the form of short-term measures such as tariffs and quotas rather than structural adjustments which might force a redistribution of power. (37)

This framework has been refined by Rianne Mahon to allow for cases where the state is forced to support long-term adjustment programs to satisfy the demands of subordinate groups. (38) Mahon develops Nicos Poulantzas' concept of hegemonic domination (39) to include the notion of 'unequal structure of representation':

"...the ruling coalition is able to establish its position if it is able to win the effective consent of other domestic forces by offering the latter a chance to satisfy certain of its interests. Such concessions are not offered simply because the 'elite' knows that it is in its long-run interest to do so but because of the capacity of subordinate social forces to extract concessions through political activity." (40)

Mahon's framework differs from that of Katzenstein in that it assumes a measure of power in the hands of subordinate groups through their representation in the

decision making institutions. Unlike pluralist models, however, it suggests that representation is unequal, not as a reflection of a balance of power at a given time on a given issue, but in accordance with the overall social power structure. The role of the state is to establish mechanisms through which to satisfy certain demands of the subordinate groups while maintaining the dominant position of the ruling coalition.

The experience of the appliance industry would appear to support much of this latter approach. State policy affecting the appliance industry began by inducing large firms from the U.S. to establish themselves in Canada, and they thereby came to dominate the industry. Through the 1970s, as competition in the industry worldwide greatly increased and economic growth in general slackened, trade and fiscal policies favoured reductions of tariffs and encouragement of rationalization and constriction within the industry on terms favourable to large multinational producers and decidedly unfavourable to small producers and labour.

At the same time some concessions have been made to

subordinate interests. The short-lived tightening of restrictions on foreign take-overs and direct investment through FIRA, and the attempts by the state to encourage the granting of world product mandates to Canadian branch plants of foreign multinationals represented an acknowledgement of concerns as to the potential limitations of a branch plant-dominated manufacturing sector.

The one-industry focus of this study limits its strength in providing conclusive evidence as to whether the policy orientation discussed above is based on the dominance of an identifiable ruling coalition. Such a conclusion would require similar evidence from a broad range of industries over time. Studies of the textile and clothing, footwear and automobile industries have already contributed to this evidence, and it is the goal of this paper to discern whether the experience of the appliance industry can be used to support it as well.

To do this, two important areas of state action affecting the appliance industry are examined, both historically and as to developments through the 1970s.

One focus is commercial policy, where we would expect tariff rates and policies regarding non-tariff barriers to reflect an emphasis on trade liberalization to an extent favourable to large (mainly foreign) producers and detrimental to smaller domestic producers and the labour force in the industry.

The second focus is on policies related to the structure of manufacturing industries. Here we would expect a set of policies which would encourage rationalization and increased concentration in the appliance industry to improve efficiency and productivity, without requiring adequate compensation from beneficiaries in the form of employment guarantees or compensation to labour and longer-term commitments to try to increase exports, Canadian sourcing and employment in the industry. The state's approach to consolidation and rationalization of the industry, foreign ownership, world product mandates, research and development, and assistance and compensation to labour will be examined.

This study focuses primarily on developments up to 1980, and concentrates on Canada-U.S. trade and

corporate ties and related state policies. There is evidence that in the 1980s it has become important to view the appliance industry in relation to the global Appliance industry. Increasing imports from the NICs, both directly and indirectly through the sourcing practices of U.S. exporters, have had effects which need to be studied to determine their importance. It could be, for example, that in the 1980s the decline of the appliance industry in Canada is part of a continent-wide decline in the industry, and that the impact of foreign control on the Canadian industry must be assessed in this light. This, of course, does not negate the value of evidence as to the primary role played by foreign domination of the industry through the 1970s, and its limiting effect on the ability of the Canadian industry to adjust independently to new economic conditions. Rather, it means that in examining the development of the appliance in the 1980s, a shift in focus might be appropriate. Such an examination is outside the scope of this study. Data on the 1980s is included here to provide a preliminary view of recent developments, but it is not sufficient to allow conclusions as to the relative importance of the

various factors affecting the most recent developments in the industry.

In the next chapter we look at the development of the Canadian appliance industry up until the early 1970s. The intention here is to try to identify trends and orientations in the industry which form the roots of the problems now existing, and to link them where possible to state policies affecting the industry.

Chapter III focuses on recent developments in the industry, in particular characterizing the deteriorating competitive position of the Canadian industry in the world market, and industry moves to rectify this situation. It examines recent state policies in the areas delineated above to determine where possible their effect on the industry and their relationship to the general policy orientation suggested earlier.

ENQUIRIES--CHAPTER I

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25. Science Council of Canada, 1981, op. cit., p.45 and Department of Industry, Trade and Commerce, Canada, 1979.

26. Knox, op. cit., p.4.

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28. In 1937-38, exports of washing machines and stoves accounted for about 25 percent and 40 percent respectively of total production, but these were anomalous years for those products and even in those years had almost no effect on the total major appliance export figures. In the late 1920s exports of small appliances were close to 50 percent of production, but this plummeted in the 1930s to about five percent and to less than one percent by 1949. (Dominion Bureau of Statistics)

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CHAPTER II

HISTORICAL DEVELOPMENT OF THE CANADIAN APPLIANCE INDUSTRY

In Chapter I we found evidence of deterioration in Canada's manufacturing sector. We also discussed some of the causes of that deterioration, and identified an orientation in state economic policy which appears to have contributed to it. In the next two chapters we will see to what extent, and in what ways, the case of the appliance industry exemplifies the general situation described in Chapter I.

In this chapter, we focus on the development of the appliance industry up until the early 1970s, when international economic conditions changed substantially, in a sense acting as catalysts for the deterioration of Canadian manufacturing. We show how the industry took on certain characteristics, partly as a result of state policies, which made it vulnerable to the new economic conditions. In the first section, we characterize the major features of the appliance industry and the environment in which it developed, and we identify some weaknesses in the structure of the industry. In the second section we focus on tariffs and foreign ownership and control, to see how

they contributed to those weaknesses.

Major Features of the Appliance Industry

As we examine the development of the Canadian appliance industry, we see that it took on an inefficient and fragmented structure, and that it failed to develop substantial innovative capacity. As a consequence, the industry has been increasingly vulnerable to import competition and unable to develop export markets. We also see that two factors, tariffs and foreign ownership and control, have been dominant influences in these developments.

The first electrical manufacturing companies in Canada began production in the 1880s, and by 1903 both Canadian General Electric Company and Westinghouse Electric--Canada's largest producers throughout the existence of the electrical products industry--were in operation. In the 1920s the production of home appliances began in Canada.(1)

From the outset the tariff was a primary factor in the development of the industry. The protective tariff established in the 1879 National Policy reached a peak in

1891 at 32 percent, and was still above 24 percent for most manufactured goods by 1929. Between 1930 and 1933 duties on appliances, as for most other⁸⁷ manufactured products, rose to almost 30 percent, and at the same time Canada gained a short-lived increase in preference in British Empire markets.(2)

As a result of the Canada-U.S. Trade Treaties of 1936 and 1938, which gave reduced rates to the U.S. on most electrical products, the level of protection on appliances began a downward trend which has continued until the present. Table I provides figures on nominal and effective tariff rates. The first widespread tariff reductions under the General Agreement on Tariffs and Trade (GATT) came in 1947, and subsequent Rounds have led to steadily decreased protection of most manufacturing. The high tariffs on appliances introduced with the National Policy in 1879, and raised again in the early 1930s, resulted in an influx of subsidiaries of American firms into Canada, and established foreign ownership as a permanent and predominant feature of the appliance industry.(3) While figures fluctuate on an annual basis, foreign producers have accounted for about 70 percent of appliance sales, capital and employment since

TABLE III

Imports, Imports as a Percentage of Apparent Domestic Market(1), Major and Small Appliance Industries, 1937-1970

	MAJOR		SMALL	
	Imports (\$ millions)	% of ADM (%)	Imports (\$ millions)	% of ADM (%)
1937*	2.7	17.8	N/A	8.5
1947*	26.4	33.2	N/A	29.2
1949*	19.0	15.3	N/A	12.0
1950*	30.2	17.2	N/A	11.6
1952*	58.7	33.0	7.1	20.9
1953*	79.1	36.1	10.9	22.2
1954	62.4	N/A**	26.3	N/A**
1955	72.5	N/A**	30.9	N/A**
1956	79.2	N/A**	38.6	N/A**
1957	67.7	25.9	33.0	39.3
1958	64.5	24.5	38.9	39.1
1959	69.5	32.4	44.5	40.4
1960	59.2	22.8	39.2	38.9
1961	55.1	21.8	38.9	37.1
1962	50.4	19.7	40.1	34.5
1963	46.3	17.1	36.6	29.9
1964	67.9***	21.4	35.4***	27.1
1965	69.8	21.1	40.2	28.3
1966	75.8	21.6	47.3	28.6
1967	81.5	21.7	49.3	28.5
1968	91.8	25.2	52.1	27.7
1969	105.3	26.8	62.8	31.4
1970	90.8	26.0	60.3	31.1

SOURCES: Statistics Canada, Series 65-007, 43-203, 43-204.

(1) ADM = Apparent Domestic Market (shipments of goods of own manufacture plus imports less exports).

* - Figures for these years taken from Knox, op. cit., p.19. Comparability with the later figures may not be exact.

** - Figures for shipments disaggregated into major and small appliances were not available.

*** - Changes to Canadian industrial trade classification.

Canada raised its tariffs in the early 1930s. Table II shows the degree of foreign control in the electrical products industry as a whole, as expressed by the percentage of capital employed in the industry which is foreign-controlled. For appliances, the U.S. component of total foreign control tends to be higher than for the industry as a whole. The total foreign component for major appliances is reported to be slightly lower than for the electrical products industry as a whole, while the small appliance figure is higher.(4) We will see later in this chapter that most of the large firms in the Canadian industry are foreign-owned.

Most of the subsidiaries of foreign firms have been, and still are, so-called "miniature replicas" of the parent firms. This has meant that the larger firms in the industry have set up plants to produce a range of products in limited quantity, and thus usually at less than optimum scale of production.(5) While this has been profitable for these firms within the protected Canadian market, the inefficiencies have been too great to allow for effective competition in export markets. The small Canadian-owned firms, on the other hand, recognized their inability to

TABLE II

Foreign Control of the Electrical Products Industry
by Percentage of Capital Employed, 1954-1970

	United States	Other Foreign	Total Foreign
1954	65	12	77
1955	68	14	82
1956	63	14	77
1957	64	13	77
1958	65	14	79
1959	67	14	81
1960	66	14	80
1961	66	12	78
1962	66	11	77
1963	66	10	76
1964	67	10	77
1965	68	10	78
1966	67	10	77
1967	67	10	77
1968	68	10	78
1969	65	10	75
1970	63	10	73

SOURCE: Canada's International Investment Position,
Statistics Canada, Series 67-202.

compete with the foreign transnationals and their subsidiaries, and proliferated by filling small gaps in the market, concentrating on one or two products and producing on a small, relatively inefficient scale.

Despite the considerable protection afforded the appliance industry in its high-growth years, imports have always been substantial. Through the 1950s, while the size of the domestic market stagnated, imports as a proportion of the domestic market rose as high as 36% for major appliances and 40% for small appliances. This improved somewhat in the 1960s, but by 1968 imports in both industries were on an upswing as a proportion of the domestic market which carried on through the 1970s. The rise in imports since 1950 has been of some concern to the industry, especially as the domestic market for major appliances became relatively saturated compared to the early high-growth years. As well, it was after the GATT Round in 1947 that tariffs on appliances started to be systematically lowered. For the appliance industry, as for many manufacturing industries, the timing of these reductions was less than ideal. Table III shows import figures for the major and small appliance industries until 1970.

TABLE III

Imports, Imports as a Percentage of Apparent Domestic Market(1), Major and Small Appliance Industries, 1937-1970

	MAJOR		SMALL	
	Imports (\$ millions)	% of ADM (%)	Imports (\$ millions)	% of ADM (%)
1937*	2.7	17.8	N/A	8.5
1947*	26.4	33.2	N/A	29.2
1949*	19.0	45.3	N/A	12.0
1950*	30.2	17.2	N/A	11.6
1952*	58.7	33.0	7.1	20.9
1953*	79.1	36.1	10.9	22.2
1954	62.4	N/A**	26.3	N/A**
1955	72.5	N/A**	30.9	N/A**
1956	79.2	N/A**	38.6	N/A**
1957	67.7	25.9	33.0	39.3
1958	64.5	24.5	38.9	39.1
1959	69.5	32.4	44.5	40.4
1960	59.2	22.8	39.2	38.9
1961	55.1	21.8	38.9	37.1
1962	50.4	19.7	40.1	34.5
1963	46.3	17.1	36.6	29.9
1964	67.9***	21.4	35.4***	27.1
1965	69.8	21.1	40.2	28.3
1966	75.8	21.6	47.3	28.6
1967	81.5	21.7	49.3	28.5
1968	91.8	25.2	52.1	27.7
1969	105.3	26.8	62.8	31.4
1970	90.8	26.0	60.3	31.1

SOURCES: Statistics Canada, Series 65-007, 43-203, 43-204.

(1) ADM = Apparent Domestic Market (shipments of goods of own manufacture plus imports less exports).

* - Figures for these years taken from Knox, op. cit., p.19. Comparability with the later figures may not be exact.

** - Figures for shipments disaggregated into major and small appliances were not available.

*** - Changes to Canadian industrial trade classification.

TABLE IV

Imports of Appliances by Country of Origin
(percentages)

	UNITED STATES	OECD (EUROPE)*
1961	90.1	9.7
1962	88.7	11.1
1963	86.6	13.4
1964	90.9	8.6
1965	90.5	8.9
1966	89.9	9.1
1967	87.3	11.6
1968	85.4	12.1
1969	80.2	15.9
1970	80.7	15.0

SOURCE: OECD Statistics of Foreign Trade, Series C, Commodity Trade.

* Includes the United Kingdom.

NOTE: Aggregate figures on appliance imports for earlier years are unavailable, but Knox, op. cit., p.11, shows figures for the small and major appliance industries in selected years. These indicate that major appliances are almost entirely from the U.S., at least until 1954 (an average of 98.2% in the six years indicated), with smaller appliances less concentrated in origin.

Almost all imports of appliances originated from the United States during the period under consideration here (See Table IV). Many of them are attributable to the tendency of foreign-owned subsidiaries to import a high proportion of appliance parts, a large number of which are included in appliance import statistics. Between 1964 and 1970, imports of foreign-owned producers of electrical products averaged 31.2% of their total purchases. No comparable figures are available for Canadian-owned producers, but studies on the topic (for example those of Safarian and the Privy Council) indicate that that level of imports for sourcing among foreign-owned producers is significantly higher than is the case for domestic producers.(6) It is worth noting as well that of that 31.2% of purchases, 69.7% was purchased from parents or affiliates of the subsidiaries in question.(7) This lends credence to the view that the high import propensity of subsidiaries is directly related to their foreign ownership, and that it is part of the corporate strategies of their parent corporations, rather than necessarily a move designed to best serve the subsidiaries themselves.

Another concern of the appliance industry is its failure to

establish a substantial export market. In fact, exports have never been a sizeable proportion of industry production. In the 1930s some firms, most of them foreign-owned, took advantage of the preferential tariff rates within the British Empire, and Canadian exports rose somewhat. Soon thereafter foreign restrictions on the use of the dollar took hold, and exports fell back to previous levels relative to production.

From the 1950s until the late 1970s exports of major appliances remained at less than ten percent of shipments, while exports of small appliances were below five percent for most of that period. Table V shows export figures for both industries. Besides being unable to produce as cost-efficiently as their competitors, few Canadian producers have had the facilities to develop new products and production processes. The domestic-owned firms have been simply too small to afford the expenditures involved in research and development except for minor innovations, and the foreign-owned subsidiaries had access to innovations and technology of their parent companies, and so either had no need or were not authorized to develop these themselves.(8) Often subsidiaries have been denied export marketing rights altogether.(9)

TABLE V

Exports, Exports as a Percentage of Shipments, Major and Small Appliance Industries, 1937-1970

	MAJOR		SMALL	
	Exports (\$ millions)	Exports % shipments	Exports (\$ millions)	Exports % shipments
1937*	3.4	21.4	0.3	5.4
1947*	4.9	8.4	0.4	2.5
1949*	3.5	3.2	0.1	0.4
1950*	2.6	1.8	0.1	0.3
1952*	2.3	1.9	0.4	1.5
1953*	1.6	1.1	0.4	1.0
1954	1.9	N/A**	0.3	N/A**
1955	2.8	N/A**	0.1	N/A**
1956	3.3	N/A**	0.1	N/A**
1957	2.8	1.4	0.1	0.2
1958	2.6	1.3	0.1	0.2
1959	3.4	1.6	0.1	0.2
1960	4.1	2.0	0.1	0.2
1961	8.7***	4.2	0.4***	0.6
1962	10.4	4.8	0.4	0.5
1963	15.5	6.5	1.5	1.7
1964	20.4	7.6	2.1	2.2
1965	22.7	8.0	2.1	2.0
1966	20.4	6.9	3.2	2.6
1967*	17.1	5.5	4.0	3.1
1968	20.3	6.9	6.6	4.6
1969	23.0	7.4	9.2	6.3
1970	28.5	9.9	8.7	6.1

SOURCES: Statistics Canada, Series 65-004, 43-203, 43-204.

* - Figures for these years taken from Knox, op. cit., p.19.
Comparability with the later figures may not be exact.

** - Figures for shipments disaggregated into major and small appliances were not available.

*** - Changes to Canadian industrial trade classification.

Another major difficulty in developing export markets is that exports to our closest and largest foreign market, the U.S., are prohibited to a large extent by the ownership structure of the Canadian industry. The firms best able to compete internationally are owned by U.S. parents who have no interest in allowing their Canadian subsidiaries to compete with them.

The inefficiencies, fragmentation, and limited innovative capacity of the appliance industry were recognized as a problem as early as the 1950s, and by the early 1960s those weaknesses had begun to force some consolidation. In 1960 the major appliance industry maintained 44 production establishments. By 1970 this was reduced to 31, even though the value of shipments in constant 1961 dollars rose from \$213.1 million to \$282.7 million in that period. This reduction was due both to small companies ceasing to manufacture appliances and to takeovers and mergers among the larger producers which led to plant closings and consolidation of operations.(10)

In 1968, for example, White Consolidated Industries (WCI), an American firm, bought out Kelvinator of Canada Ltd., which had a large plant in London, Ontario. In 1969 WCI

The Effects of Tariffs and Foreign Ownership

After an extended period of high growth through the early 1950s, the Canadian appliance industry began to find it increasingly difficult to compete with foreign producers. The symptoms, as outlined above, were increasing imports in a relatively stagnant domestic market, and an inability to compensate through the development of export markets. The result of these, in the form of company closures, industry constriction and employment losses, came as early as the 1960s.

While the causes of difficulties in the industry are numerous, two factors emerge which appear to have had an overriding influence on the way the industry developed. These are tariff levels on appliances and foreign domination of the industry.

The imposition of high protective tariffs in the early years of the industry had two direct results. It encouraged U.S. producers to establish plants in Canada to serve the growing market, and it allowed producers, foreign-owned and domestic, to succeed in the Canadian market with less cost-efficient operations than would otherwise have been

TABLE A-1

Shipments, Number of Production Employees, Person-Hours Paid, Major and Small Appliance Industries, 1960-1970

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Shipments in millions 1961=100	213.1	206.2	216.4	242.2	272.2	295.0	306.0	316.5	306.6	310.8	282.1
% Change	N/A	-3	+4	+12	+15	+4	+3	+3	-6	+2	-9
Prod. Emp.	8027	8017	8684	8503	9233	9600	9701	9369	8264	8462	7377
% Change	N/A	0	+8	-2	+8	+4	+1	-3	-12	+2	-13
P-H Paid (mil.)	N/A	16.7	16.9	17.7	19.3	19.8	20.5	19.6	17.3	17.6	15.1
% Change	N/A	N/A	+2	+5	+8	+3	+3	-4	-12	+2	-14

(Continued)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Shipments \$ million 1961=100	58.3	66.4	78.0	91.1	101.7	108.3	126.2	137.8	148.1	151.5	143.5
% Change	N/A	+14	+17	+17	+12	+6	+16	+9	+11	+2	-5
Prod. Exp. \$ million	2833	2755	3002	3371	3472	3769	4236	4122	4640	4189	3572
% Change	N/A	-3	+9	+11	+3	+8	+11	-3	+11	-13	-15
P-H Ratio (1961=100)	N/A	5.5	6.2	7.0	7.1	7.9	8.8	8.6	8.5	8.6	7.3
% Change	N/A	N/A	+11	+11	+1	+5	+11	-3	-1	+1	-15

Sources: Statistics Canada, Series 43-203, 43-204.

1 Shipments are expressed in 1961 dollars, as calculated using selling price indexes for the small and major appliance industries. (Statistics Canada, Series 62-549.)

accounted for by the application of labour-replacing technology and production processes and the mergers and consolidations resulting from the deteriorating competitiveness of the industry, as well as by a shift among some Canadian firms away from manufacturing entire products to assembly of imported components and sales of imported appliances. The latter is exemplified by the increasing difference between manufacturing value-added and total value-added in appliances. Table VII shows those differences. While the five percent decrease in manufacturing value-added as a proportion of total value-added from 1961 to 1970 represents only a small shift, we will see in Chapter III that it is the beginning of a significant trend, especially in the small appliance industry, and that this trend has translated into a loss of potential jobs associated with the deteriorating competitive position of the Canadian industry which we discussed above.

We have identified the major features of the development of the Canadian appliance industry, and seen how the industry has moved to a weakened competitive position in the international appliance market. In the next section, we look in more depth at the way tariffs and foreign ownership and control have influenced the development of the industry.

TABLE VII

Manufacturing Value-Added as a Percentage of Total Value-Added (1),
Major and Small Appliance Industries and Total Appliances, 1961-1970

(percentages)

	Major	Small	Total
1961	98	97	98
1962	97	98	97
1963	96	99	97
1964	97	96	97
1965	96	98	96
1966	95	97	95
1967	95	96	95
1968	95	95	95
1969	95	95	95
1970	93	93	93

SOURCES: Calculated from Statistics Canada, Series 43-203, 43-204

(1) Manufacturing value-added plus value-added from non-manufacturing activity. The primary component of the latter is value-added from goods purchased for resale.

The Effects of Tariffs and Foreign Ownership

After an extended period of high growth through the early 1950s, the Canadian appliance industry began to find it increasingly difficult to compete with foreign producers. The symptoms, as outlined above, were increasing imports in a relatively stagnant domestic market, and an inability to compensate through the development of export markets. The result of these, in the form of company closures, industry constriction and employment losses, came as early as the 1960s.

While the causes of difficulties in the industry are numerous, two factors emerge which appear to have had an overriding influence on the way the industry developed. These are tariff levels on appliances and foreign domination of the industry.

The imposition of high protective tariffs in the early years of the industry had two direct results. It encouraged U.S. producers to establish plants in Canada to serve the growing market, and it allowed producers, foreign-owned and domestic, to succeed in the Canadian market with less cost-efficient operations than would otherwise have been

possible.

While the Canadian market for appliances was growing, and while the tariff rates remained high, these two results had little negative impact on industry performance. In the longer term, however, they combined to ensure that the industry would be ill-prepared to accommodate increased import competition and to take advantage of expanding potential export markets.

The argument that protective tariffs resulted in diseconomies of scale being built into many Canadian industries is widely documented. English, Eastman and Stykolt, Gorecki and others have offered evidence that the tariffs encouraged entry into industries at less than efficient scale, and that plants were designed to produce a wider range of product lines than would have been optimal under more competitive conditions. Part of this argument is that a weak competition policy contributed to the inefficiency by allowing oligarchical conditions to arise in many industries.(14).

Diseconomies of scale and industry fragmentation most certainly apply to the Canadian appliance industry. Pierre Bourgault, in his study of innovation and the structure of

Canadian industry, cites the major appliance industry as a perfect example of inefficiency due to an overabundance of producers. By estimating the optimum scale of production of an appliance and factoring in amortization of development costs for a new product, he suggests that room exists for only a few producers of major appliances in Canada. (15) In 1972, the year the report was published, fully 53 establishments were producing major appliances in Canada. Eight of those employed more than 500 production workers and produced a range of finished appliance products. These figures are lower than in earlier years. In 1961, forty-three establishments produced major appliances, with nine of them employing more than 500 production workers. The figures for 1966 were 34 and 10 respectively.

Fragmentation and diseconomies of scale have been even more apparent in the small appliance industry, where large numbers of firms have competed in a relatively small market. In 1972 50 firms competed for a total value-added of less than \$100 million. Out of these, three establishments accounted for more than 43% of the total value-added. In 1966, 64 firms competed for \$64 million in value-added, with five firms accounting for 57%. In 1962, 57 firms competed for less than \$40 million, with five firms accounting for

57%. In each of those years, the dominant firms were all foreign-owned firms serving almost exclusively the protected Canadian market.(16)

The oligarchical structure of the appliance industry arose because of the clear advantages these major producers had in access to the capital, technology, and management and marketing expertise of their parent corporations. With prices in the Canadian market buoyed up by the tariff and by the oligarchical competitive conditions, the numerous small producers were able to survive. However, their weaknesses rapidly began to show as competition intensified and the tariff rates decreased, particularly since 1970. We will see in Chapter III that many of these small firms have been driven out of the industry altogether or forced to stop full-scale production in favour of assembling and marketing foreign-produced appliances.

Arguments as to the negative effects of foreign domination of manufacturing are often juxtaposed to the tariff argument, the two being presented as conflicting seemingly because supporters of the former tend to take a more nationalistic perspective, and supporters of the latter a more continentalist, classically economic one. The truth

would appear to be that the two factors are interdependent and both of significant importance. High tariffs attracted foreign direct investment, and because the Canadian government placed no limitations on foreign ownership and control of most industries, the structure of the appliance industry came to reflect the oligarchical nature of the U.S. industry. As well, most of the American corporations intended their Canadian subsidiaries to serve only the Canadian market. The conduct of the foreign-owned subsidiaries generally reflects reasonable corporate policy in an environment influenced greatly by the tariff. That conduct has had a significant impact on the Canadian industry, however, and is therefore worthy of critical examination.

To do this, we consider first the effects of foreign ownership on exports of appliances from Canada. These include limitations to exports from foreign subsidiaries as a result of direct export blocking by parent companies, and as a result of weak research and development performance and the resulting lack of innovative capacity. As well, the negative consequences of foreign ownership for the export abilities of domestic firms is examined. Finally, we look at how foreign ownership and tariffs, in combination with a

few other factors, contributed to increasing import penetration into the Canadian appliance market.

Export blocking

Export blocking by parents of Canadian subsidiaries is a corporate strategy which quite clearly runs counter to the interests of the Canadian economy and contributes to the deterioration of the industry. As far back as the late 1950s analysts such as Aitken, Dehem and Huson were documenting the limitations placed on manufacturing in Canada by its branch-plant structure. In the 1960s and 1970s in particular, foreign domination came to be viewed by many as the principal cause of stagnation in many industries.(17) Successive governments from the 1950s onward, as well as the civil service members which were privy to such information, were well aware that U.S. parents restricted exports from many Canadian subsidiaries. Glen Williams collected internal government documents which show clearly that bureaucrats under both Liberal and Conservative ministers, such as C.D. Howe, G. Churchill and G. Hees considered export blocking by parent companies as a major problem.(18)

It is true that those same governments and succeeding ones failed to address the problem in their policies, but this was not because they were unaware that export blocking was widespread, but rather because the prevailing attitude was that as long as the Canadian market held opportunities for growth in manufacturing and Canada could sell raw and semi-processed goods to balance its trade, then exports of manufactures need not be a priority. As well, foreign investment was viewed, as it is by many today, as a crucial element of economic growth in Canada, and discouragement of it by restrictive policies was viewed as ill-advised. Certainly a powerful faction of the business community, including, not coincidentally, the resource industries and U.S. and affiliated capitals, took this position. When Finance Minister Walter Gordon included in his 1963 budget speech a call for increased Canadian ownership of industry, and in particular controls on export blocking, he raised such a storm of protest in the business community and in his own Liberal Party that he was ousted along with his reforms.

Data on export blocking in specific industries are difficult to obtain. Studies done by government departments and private researchers report only aggregate results for reasons of confidentiality. As well, it is reasonable to

expect that neither the parent companies nor their Canadian subsidiaries would be anxious to include export blocking in a description of their corporate strategies. We are therefore left to rely to a large extent on the general documentary evidence provided by the older studies mentioned above, as well as the results of more recent surveys of subsidiaries reported by the Privy Council, the Department of Industry, Trade and Commerce, the Science Council of Canada, the National Industrial Conference Board and others. These all report a large percentage of subsidiaries as being subject to at least some restrictions on their exports by virtue of their branch-plant status, either indirectly through the limited scope of their activity or through more direct corporate strategy. (19)

In 1957 the Department of Industry, Trade and Commerce commissioned A.G. Huson to do a study on export blocking. With his sample of 50 foreign-owned subsidiaries, he found that,

less than half have appointed Canadian export managers, less than one in four can be said to be developing Canadian export organizations, and one in ten have their own independent foreign representative. Only one in three claim freedom to compete with their parent; only one in four, a voice in their company's export policy; and three-quarters

declare that their exports are strictly controlled by the parent.(20)

In 1970 the American-based National Industrial Conference Board conducted a study which involved interviews with 117 senior executives of multinational corporations. One of their findings was that the activities of subsidiaries were governed by the overall interests of the parent corporation, and that where conflicts of interest arose, such as export goals of subsidiaries conflicting with global corporate goals, the subsidiary would come out the loser.(21)

In interviews with 50 Canadian firms and 10 more parents of Canadian subsidiaries in the early 1970's, the Science Council of Canada found that few subsidiaries had complete autonomy in decision-making.(22) They noted that,

Since close to two thirds of Canadian high-tech industry is foreign-owned, and since in the great majority of cases the products manufactured by the Canadian subsidiaries are also produced by the parent, most of the companies concerned were in the position of having to compare themselves with a parent who had access to the same technology and whose production level was greater than their own by a factor of ten. They quite obviously could not export into the parents' market, for economic reasons,

even if permission had been granted. Third markets will be considered usually only if the Canadian plant has had the lowest costs within the corporation, an unlikely prospect in the light of the probable scale of operation in Canada. The condition that must be met under normal circumstances in order to decide if one should export is simply 'is it profitable?' for most products, in most subsidiaries, the condition that must be met is the much harder one, 'is the Canadian plant the most profitable one from which to export?' (23)

The Privy Council Study--the so-called "Gray Report" (1972)--found that 58% of manufacturing subsidiaries of foreign corporations experienced restrictions on exports. The sample was taken from only those subsidiaries which indicated an interest in exports. That is, it did not account for those subsidiaries which were designed only to serve the domestic market, and had not subsequently developed export potential.

The report also raises concern as to the vulnerability of a foreign-controlled industry to the laws, regulations and policies of other governments. In the U.S., the invocation of the Trading With the Enemy Act, the Export Administration Act and the balance of payments programme (which included an appeal to U.S. parents to export more to subsidiaries and to import

less) may all have had some impact. The British balance of payments programme also probably had some effect on exports from British subsidiaries, according to the report. None of these would likely have had serious consequences for Canadian industry, it says, but they do represent a potential for negative impacts resulting from foreign control of industry. Of greater consequence than the above were the Buy America Act and the Domestic International Sales Corporations (DISC), which, the report says, could reduce or slow growth of exports by subsidiaries in Canada both to the U.S. and to third markets, since parents would find it advantageous to handle more export business through their own DISCs. As well, the DISC could lead to more exports into Canada and reduced production in Canada. (24)

Specific information on the appliance industry is generally not available due to the confidentiality of data used in the above reports, but a 1945 report of the Commissioner to the Combines Investigation Act cited specific cases of export blocking in Canada by General Electric Company and Westinghouse. While these are clearly outdated examples and far from conclusive

as to current activities, they do provide us with a sense of the corporate strategies employed by the parent corporations of what have been by far the two largest companies in the Canadian appliance industry through most of its existence. (25)

It is difficult to assess to what degree export blocking as a result of corporate strategy has affected exports by Canadian subsidiaries. Earlier in this chapter we saw that the export record of the appliance industry as a whole is weak. For a comparison of the export records of foreign-owned subsidiaries and domestic firms, no data are available for the appliance industry for the period under consideration in this chapter. Figures for the electrical products industry as a whole (Table VIII) show that the export orientation of the total Canadian industry, as measured by exports as a percentage of shipments, was marginally below that of foreign-owned subsidiaries in the mid to late 1960's, and exceeded it thereafter through the 1970's. This is not as one should expect, given the fact that the large subsidiaries generally produce on a larger scale than the small Canadian producers, and that they have access to all the technological,

TABLE VIII

Exports as a percentage of Shipments, Foreign-Owned and Total Industry, Electrical Products Industry, 1965-1977

(percentages)

	Total	Foreign-Owned
1965	7.9	9.4
1966	8.0	9.7
1967	9.9	12.5
1968	14.1	13.4
1969	14.1	11.7
1970	15.7	14.0
1971	13.2	11.3
1972	12.8	9.8
1973	13.9	9.2
1974	14.1	9.9
1975	13.2	10.7
1976	13.2	10.0
1977	13.7	12.5

SOURCES: Department of Industry, Trade and Commerce, Foreign-Owned Subsidiaries in Canada, various years, and Canada's Trade Performance, 1960-1977, Volume I, 1978.

managerial and marketing resources of their multinational parents. While it is true, as A.E. Safarian has pointed out, that this advantage would be mitigated by the economic environment in which the subsidiaries operate, one would still expect the subsidiaries to fare better than their domestic counterparts, the economic environment and other factors being equal. (26)

Limits to innovative capacity

The kind of export blocking described above arises from the corporate strategies of individual firms. Exports of manufactures from Canadian firms, foreign and domestically owned, are also "blocked" by other factors relating to foreign ownership. One such barrier to exports from subsidiaries is their tendency to rely on technology from their parent companies. Since the subsidiaries are generally designed to serve only the Canadian market, and since it is usually more economical to centralize costly procedures such as research and development, it makes sense from the point of view of the parent corporations to transfer technology to their subsidiaries. In some cases

subsidiaries conduct 'small-scale' development in adapting products for the Canadian market, but the overall effect of this technological dependence is to limit the potential for export development within Canadian subsidiaries.

In 1967 the Canadian electrical products industry spent about \$36 on R&D per \$1,000 sales, compared to more than \$63 per \$1,000 sales in the U.S. industry. In industries where foreign ownership in Canada is low, Canadian and U.S. R&D expenditures as a proportion of sales were about equal to, and in some case in favour of, the Canadian industry. This helps substantiate the link between 'subsidiary status' and weak R&D performance. (27)

Little information is available for R&D expenditures in the appliance industry, but we do know that in 1982 only six establishments performed any degree of R&D in both the small and major appliance industries. (28) This is out of a total of more than 60 producing establishments in each of those industries that year. It is also significant that the 1978 Task Force on the Canadian Electrical Industry (essentially an industry

self-analysis) specified the appliance industry as being particularly weak on indigenous technology development, and noted the limiting effect of foreign ownership on R&D performance.(29)

In a 1956 report for the Royal Commission on Canada's Economic Prospects, C.L. Barber reported that the Canadian electrical manufacturing industry relied primarily on its relations with large firms in the U.S. and Britain for its supply of technical information. He cited the three largest appliance manufacturers in Canada at the time, Canadian General Electric, Canadian Westinghouse and Kelvinator of Canada ("and many others") as being granted a prior right to manufacture for the Canadian market under the parent companies' patents and trade marks.(30)

Limitations on "Canadian-owned" exports

Tariffs and foreign domination have also acted to limit the export potential of domestically-owned firms. We referred above to the inefficiencies resulting from high tariffs. One such inefficiency is the excess number of manufacturing establishments in many

industries relative to the size of the market they serve. The influx of U.S.-owned corporations associated with the tariff placed growth limits on existing and potential domestic-based operations, which would tend to be smaller to begin with, and work at a disadvantage in competing with the foreign-owned subsidiaries because of the latter's access to technology, capital and often cheaper inputs.

We know that in 1970 the average Canadian company in the small appliance industry was only one third the size of the average American-owned subsidiary, as measured by number of employees, and that by 1981 that had dropped to 15%. In the major appliance industry the Canadian average was 42% of the subsidiary average, and this had dropped to 12% by 1981. In addition, value-added by subsidiaries comprised well over 70% of total value-added in the small appliance industry and over 60% in the major appliance industry throughout the 1970s. (31)

While available industry statistics are not disaggregated to country of ownership for the earlier years of the appliance industry, we know that the major

producers as far back as the 1950s, GGE, Canadian Westinghouse, Franklin Manufacturing, John Inglis, Kelvinator of Canada, Coleman Lamp and Stove and Singer Manufacturing in the major appliance industry, and Electrolux [Canada], GGE, Canadian Westinghouse, Hoover, McGraw-Edison [Canada], Proctor-Silex, Schick [Canada], Sunbeam [Canada] and White Products [Canada] in the small appliance industry were all foreign-owned.

Faced with competing against subsidiaries of major U.S. corporations, the smaller domestic firms have tended to find gaps in industry markets and carve out small niches for themselves. These have often been profitable ventures, but they have not allowed the degree of growth which would be required to finance any significant research and product development to compete on a global scale.

Thus, even Canadian-owned firms generally rely on foreign technology, either by copying it or by purchasing it through licensing arrangements. This is adequate (though increasingly less so) for producing for the domestic market, but is no help in developing export markets. For one thing, the technology is

already old by the time these firms apply it. If the original owner of the technology (and very likely other second-hand users) are making use of it, there is little chance for the smaller Canadian firm to compete internationally. As well, licenses for technology very often stipulate limitations to their use, including export restrictions.

John Killing's study for the Department of Industry, Trade and Commerce focuses on licensing arrangements between foreign-based and Canadian-controlled firms. His examination of export restrictions on manufactures under license arrangements of various types showed that 60% of such licenses prevented the licensee from exporting from Canada. This percentage increased to more than 80% when the sample was restricted to continuous, rather than one-time, licensing agreements. (32)

Barber noted in 1956 that, "Access to technical information and new model design is so important in electrical manufacturing that most independent Canadian firms find it necessary to obtain agreements with firms in the U.S. or the United Kingdom which give them the

right to manufacture the latter firms' product in the Canadian market." (33) He said that Canadian-owned firms were under a considerable handicap in developing their own models and new products because of the high cost of such activity, but he pointed to two appliance manufacturers which had succeeded to a limited extent in doing so. Moffats Limited had a stove licensed for manufacture in a number of foreign countries, and Beatty Bros. Ltd. manufactured and distributed a washing machine in Australia. (34) Interestingly, both of these firms have since been bought out by U.S. corporations.

We have discussed above some of the effects of protective tariffs and foreign domination on the appliance industry as it developed up until the early 1970s. We have seen that these two factors combined to stifle the development of an innovative and efficient industry capable of succeeding in export markets. These two factors also had an impact on the industry's ability to compete against imports.

Import competition

As was the case with export development, tariffs on appliances and foreign domination combined in an interdependent way to leave the industry vulnerable to import competition, particularly under the new economic conditions of the 1970s and 1980s. The high protective tariff in the early years of the industry discouraged imports successfully, as indicated by the rapid growth of the Canadian industry and the influx of U.S. firms setting up subsidiaries to by-pass the tariffs. As discussed above, the existence of the tariff wall and the nature and extent of foreign ownership led to inefficiencies, overcrowding of the Canadian market, and a dearth of innovative capability.

During the 1950s other factors came into play as well. An important one was the state of the domestic U.S. market for appliances. By 1950 the market in the northeastern United States, where the bulk of appliances were produced, was saturated. Manufacturers began looking to more distant markets in the U.S., and also to nearby markets in Canada. Pressure from these producers increased through the 1960s. (35)

The post-war economic boom in Canada was a significant factor itself in promoting imports. War savings and the lack of availability of goods during the war provided the impetus for consumer spending in the 1950s. This was prolonged by the wealth created through government and private investment in resource development, defence spending in the U.S. which brought work to some manufacturing industries, and Canada's export credit policy regarding loans for European and British reconstruction. During this period near-full employment induced higher wages and prices for industrial materials, making imports more competitive, and with the high level of consumer spending, certain foreign-produced goods were popular even though they were more expensive than the domestic models. This period of prolonged market growth and inflation provided the perfect conditions for foreign competitors to move into the market, since it was feasible to invest the necessary time and money to create effective marketing facilities. Currency fluctuations between the Canadian and U.S. dollar have played a part as well. During the 1950s and again periodically in the 1970s the Canadian dollar exceeded

the value of the U.S. dollar. Such a high relative valuation of the Canadian dollar tended to increase import pressure and discourage exports. As we can see from Table IX below, however, exchange rates have not been a dominant factor where appliances are concerned. In only one short period (1960-1963) did imports diminish and exports rise as the Canadian dollar devalued. In the 1950s the major fluctuations in imports and exports appear to have little correlation to the minor currency changes. With the Canadian dollar pegged to the U.S. dollar between 1964 and 1970, substantial change occurred in both imports and exports.

These additional factors, combined with the structural weaknesses in the industry identified above, contributed to a high level of imports as a proportion of the domestic market from the mid-1950s onward (see Table III). In Chapter III we see that imports steadily increased as a proportion of the domestic market from 1970 onward.

Besides the effect that foreign ownership has had on import competition through the limitations it places on

TABLE IX

Percentage Changes From Previous Year, Value of Canadian Dollar (\$ Canadian per \$ U.S.), Imports, and Exports, Major and Small Appliance Industries, 1952-1970

	\$ VALUE	MAJOR		SMALL	
		Imports	Exports	Imports	Exports
1952	+7	+30	-44	+ 8	even
1953	even	+24	-25	+35	-33
1954	-1	-26	- 7	+ 1	+50
1955	+2	+14	+26	+13	+11
1956	-1	+11	+14	+20	+18
1957	-2	-14	-23	- 1	even
1958	+1	- 4	+ 6	- 9	-10
1959	-1	+10	+22	+20	+25
1960	+1	-13	+18	-12	+14
1961	+4	- 7	+43*	- 1	+12*
1962	+6	- 8	- 6	+ 2	+41
1963	+1	- 8	+52	- 7	+46
1964	even	+24*	+28	even*	+24
1965	even	+ 2	+15	+10	+ 3
1966	even	+ 5	-10	+14	- 9
1967	even	+ 2	-23	+ 6	- 5
1968	even	+14	+39	+ 2	-54
1969	even	+11	+13	+14	+23
1970	-4	-15	+21	- 4	+20
Correlation With \$ Value		(.2736)	(-.1825)	(-.0677)	(.0605)
Significance		.129	.227	.391	.403

SOURCES: Calculated from Bank of Canada Review, Foreign Exchange Rates (average noon spot rates) and Statistics Canada, Series 65-004, 65-007.

* - Change in Canadian industrial trade classification.

innovation, it has also contributed through the high import propensity of the subsidiaries themselves. As was noted earlier in this chapter, the subsidiaries tend to import a higher proportion of their inputs than do domestic-owned firms. To the extent that these inputs are parts of appliances classified as imports for the appliance industry, they contribute to the negative trade balance in appliances. As Table X indicates, the import propensity of foreign-owned subsidiaries increased steadily from 1964-1970. It also shows the high percentage of their imports which are purchased from their parents or affiliates. This suggests that these purchases may at times not be made in the best interests of the subsidiaries, but rather in the interests of the corporation as a whole.

At the same time as imports were increasing, the policy of the federal government was to steadily reduce tariff levels on appliances in the interests of increasing exports of raw materials and semi-processed goods. These reductions further contributed to the increases in imports through the 1960s, and made the appliance industry still more vulnerable to the more competitive conditions which arose in the 1970s. As early as 1955,

TABLE X

Imports of Foreign-Owned Subsidiaries as a Percentage
of Their Total Purchases, and Percentage of Their
Imports Purchased From Parents or Affiliates,
Electrical Products Industry, 1964-1970

(percentages)

	Imports as % of Total Purchases	% of Imports Tied to Parent or Affiliate
1964	29.8	69.3
1965	30.3	72.7
1966	30.8	71.0
1967	29.5	70.1
1968	32.5	64.1
1969	32.1	72.4
1970	33.2	68.0

SOURCE: Industry Trade and Commerce, Foreign-Owned
Subsidiaries in Canada, various years.

analysts were concerned about the level of import competition, and were predicting some contraction in the industry.(36) It is interesting to note that a 1956 Royal Commission on the electrical manufacturing industry and a 1978 Task Force on that industry both recommended a moratorium on tariff reductions until such time as competing countries stopped using non-tariff barriers to restrict imports, and until the Canadian industry had a chance to adjust to increased competition and technological change.(37) Although it is possible that tariff reductions in these time periods might have been even greater than they were without the influence of such reports, it is fair to say that in neither case did the commissions' recommendations deter the state from pursuing a policy of trade liberalization to the end of gaining access to foreign markets for raw and semi-processed materials.

F.A. Knox pointed out in his study of the electrical products industry that while the National Policy sought to promote Canada's development by raising tariffs to encourage domestic manufacturing, the Canadian government's post-war commercial policy has sought the same end by agreeing to tariff reductions in order to

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secure access to foreign markets for raw and semi-processed goods. (38) It would appear that Canada's commercial policy in this period was to promote resource industries at a cost to manufacturing. We will see, in Chapter III, that this trend has continued since the early 1970s.

Conclusion

From the above examination of the development of the Canadian appliance industry, we can see that state tariff policy has had ironic and unfortunate effects. Its original intention was to substitute indigenous industrial production for foreign imports of manufactured goods. In the short term it succeeded in the appliance industry, but the inefficiencies and fragmentation it encouraged contributed directly to making the industry extremely vulnerable to import competition. The policy of the government in the post-war years has been to systematically reduce tariff protection, even as international competition intensified and the insufficiencies of the Canadian

industry became apparent.

Similarly, state policy on foreign direct investment has had serious repercussions for the appliance industry, even though it brought immediate benefits in the early years of industrial development. In the period before 1970, state policy toward foreign ownership and control of Canadian industry was essentially one of no restrictions. No legal limitations on the extent of foreign ownership or the access of foreign-controlled companies to state assistance and tax benefits were in place, except in areas designated as "key sectors": financial institutions, oil and gas industries, nuclear power and uranium-related industries, telecommunications and certain media and cultural organizations. In 1966 the Liberal government issued a set of voluntary "Guidelines of Good Corporate Citizenship" to foreign-controlled firms, but these were not binding and had no apparent effect on corporate performance.¹¹(39)

The result of this "open-door" policy for the appliance industry was in the early years a more rapid growth

than would have been possible without foreign direct investment. Unfortunately, it also allowed for the domination of the Canadian industry by subsidiaries of large U.S. corporations, with the deleterious results we have identified above.

State policies are always easy prey for critics with the benefit of hindsight, and it is understandable that policy makers in the early years of Canadian industry might not have recognized all the potential drawbacks of foreign ownership of industry. It also seems clear, however, that the priority of the state has been to develop and expand resource industries. Where the interests of the resource sector have differed from those of the manufacturing sector, the resource sector has generally held sway. We have seen this in the early years of the appliance industry with regard to tariff policy and policy on foreign direct investment. High tariffs were acceptable to the resource sector as long as export markets for its products were easily accessible. Once the import barriers of other countries started limiting Canadian exports, however, it was in the interests of the resource sector to seek trade liberalization. The state clearly saw it that

way as well.

The failure of the state to place restrictions on foreign ownership and control of industry is understandable in this context as well. American resource companies such as those in the mining, forestry, pulp and paper and oil and gas industries, were financing a large proportion of Canadian resource development. As well, the Canadian financial sector was channeling available domestic capital into the resource industries. To restrict foreign investment would have meant acting against those powerful interests, and may well have stalled what was becoming a lucrative source of revenue for both capital and the state. Instead, as discussed in Chapter I, the state put its resources behind the development of these industries, helping to finance major transportation, mining, and oil and gas ventures and offering tax concessions without restrictions as to country of ownership of those firms involved. While it is safe to assume that the state's intention was not to develop a weak, inward-looking manufacturing sector, it is clear from our examination of the appliance industry up until 1970 that this has been the outcome of the policies

discussed above. We will see in the next chapter that those policies have remained intact through the 1970s and early 1980s, with minor (and largely ineffectual) modifications, despite the available evidence of their repercussions for manufacturing industries.

EQUINOXIES--CHAPTER II

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14. H.E. English, Industrial Structure in Canada's Competitive Position, 1967, H.C. Eastman and S. Stykolt, The Tariff and Competition in Canada, 1967, and Paul K. Gorecki, Economics of Scale and Efficient Plant Size in Canadian Manufacturing Industries, (no date).

15. Science Council of Canada, Pierre Bourdault, Innovation and the Structure of Canadian Industry,

1972, p.112.

16. Calculated from Statistics Canada, Series 43-204 and 43-203.

17. In his book *Not For Export*, Glen Williams offers numerous examples of writings taking this "nationalist" approach.

18. *ibid.*, pp.103-128.

19. Privy Council, Canada, *op. cit.*, pp.160-181, Department of Industry, Trade and Commerce, Canada, *Manufacturing Under License in Canada*, John Peter Killing, 1975, pp.113-130, Science Council of Canada, Pierre Bourgault, *op. cit.*, p.95 and Arthur Cordell, *The Multinational Firm, Foreign Direct Investment, and Canadian Science Policy*, 1971, pp.33-39, and the National Industrial Conference Board, *Integrating Foreign Subsidiaries Into Host Countries*, 1970, pp.38-48.

20. Taken from Williams, *op. cit.*, p.116.

21. National Industrial Conference Board, *op. cit.*, pp. 38-48.

22. Cordell, op. cit., p.35.
23. Bourgault, op. cit., p. 96.
24. Privy Council, op. cit., pp.164-165.
25. Commissioner, Combines Investigation Act, Canada and International Cartels, 1945, pp.22-23.
26. A.E. Safarian, op. cit.
27. Cordell, op. cit., pp.82-83.
28. Statistics Canada, Industrial Research and Development Statistics, 1982, Table 25, p.101.
29. Department of Industry, Trade and Commerce, Canada, Sector Task Force, op. cit., pp.A-8 to A-10.
30. Barber, op. cit., p.24.
31. Calculated from Statistics Canada, Domestic and Foreign Control of Manufacturing, Mining and Logging Establishments in Canada, 1981, Series 31-401. More details on foreign control are given in Chapter III.
32. Department of Industry, Trade and Commerce, Killings, op. cit., pp.113,128.

33. Barber, op. cit., p.24.

34. ibid., p.25.

35. Knox, op. cit., pp.6-8.

36. Barber and Knox, p.4.

37. Barber, p.63 and the Canadian Department of Industry, Trade and Commerce, Sector Task Force, op. cit., pp.8-12.

38. Knox, op. cit., p.54.

39. Privy Council, op. cit., pp.319-325.

CHAPTER THREE

CURRENT TRENDS IN THE CANADIAN APPLIANCE INDUSTRY.

The early 1970s brought changes to the international economy which intensified the pressure already being felt by many manufacturing industries in Canada. In this chapter we first identify those changes and discuss briefly their impact on the appliance industry. Then we examine in detail the performance of the industry through the 1970s and state policy relating to that performance. Included in this is a discussion of industry and labour positions on state policy alternatives. Finally, we review the extent to which state policy in this period has maintained or diverged from the orientation we identified in Chapter II.

Beginning in the early 1970s several developments in the international economy began to have a serious impact on Canadian manufacturing industries. First, Japan had emerged as a major economic force and a highly successful exporter of end products, some appliances among them. More importantly for the Canadian appliance industry, other less developed countries such as South Korea, Hong Kong, Singapore and Taiwan were becoming major exporters of a

limited range of products, and showed signs of widening that range rapidly.

Table I shows some examples of the rapid and strong entry of the NICs into the Canadian appliance market. As is indicated, this is usually the case for smaller appliances which can be transported relatively cheaply and which can be produced using cheap labour rather than expensive capital equipment.

In addition to direct imports from the NICs, some imports from the U.S., Japan and Europe can be attributed to their containing cheap parts produced in the NICs. As well, a wide range of appliance parts are imported from the U.S., a large proportion of them through sourcing from parents of Canadian subsidiaries. It is reasonable to expect that many of these parts have originated in the NICs and been distributed to North American branch plants by the U.S. parent. In a recent report, for the Royal Commission on the Economic Union and Development Prospects for Canada, Harold Crookell noted that this was the case for some of the standard appliances. He cited the example of refrigerator compressors.(1)

These transactions are difficult to trace at a commodity or

TABLE I

Imports By Country or Group of Countries of Origin As a Percentage of Total Imports By Value and Total Imports By Value, Selected Commodities, Canada, 1970-1985

Commodity	Year	U.S. (%)	Japan (%)	NICs* (%)	Total Imports (\$ millions)
Fans; Air	1970	66.6	33.3	--	.6
Circulators	1975	65.7	34.3	--	3.5
and Parts	1980	68.8	16.1	8.6	9.3
	1985	31.6	8.8	45.6	13.6
Fans;	1970	87.5	--	--	4.8
Ventilators	1975	90.8	1.3	2.6	7.6
and Parts	1980	64.5	2.0	27.9	19.7
	1985	52.3	.6	38.7	35.4
Electric	1970	62.1	6.9	--	2.9
Hair-Styling	1975	30.6	33.3	9.3	10.8
Equipment	1980	5.5	6.7	78.8	16.5
and Parts	1985	4.8	1.5	69.1	27.2
Electric	1970	90.0	--	--	1.0
Clocks	1975	58.6	10.3	6.9	2.9
	1980	42.9	25.7	22.9	3.5
	1985	13.1	24.6	43.1	13.0
Sewing Mach.	1970	25.6	33.7	1.2	8.6
Attachments	1975	22.0	19.3	7.6	22.3
and Parts	1980	15.9	14.1	18.3	32.7
	1985	15.9	17.7	44.8	23.2
Microwave	1970	N/A	N/A	N/A	N/A
Ovens**	1976	63.0	36.5	--	20.0
	1980	44.8	53.4	1.8	33.5
	1985	23.8	64.6	11.5	130.2
Heating Stoves,	1970	89.0	--	--	.9
Space Heaters,	1975	83.0	--	10.6	4.7
Non-Oil	1980	42.3	8.7	22.1	10.4
	1985	40.8	6.1	8.2	9.8

(Continued)

(Table I Continued)

Air Heaters	1970	100.0	--	--	.2
Electric,	1975	100.0	--	--	.1
Portable	1980	62.5	--	--	.8
	1985	33.3	15.2	27.3	3.3
Air	1970	100.0	--	--	5.3
Conditioners,	1975	100.0	--	--	6.9
Room Size	1980	100.0	--	--	3.2
	1985	42.9	--	55.8	7.7
Humidifiers &	1970	94.4	--	--	1.8
Dehumidifiers	1975	100.0	--	--	4.1
and Parts	1980	91.1	--	--	4.5
	1985	51.4	.7	34.3	14.0

Source: Statistics Canada, Series 65-007.

* The newly industrializing countries for these commodities include Taiwan, Hong Kong, Singapore, South Korea and Brazil.

** Microwaves were first reported as a distinct import item in 1976.

-- This denotes either no imports or insufficient to be of significance to one decimal point.

even an industry level, especially since much of the purchasing of such inputs by U.S. producers is conducted either directly through their own subsidiaries based in the NICs or through firms they have licensed to produce for them. Gyorgy Adams, Lars Ahell and Gerry Helleiner, among others, have noted the increasing importance of intra-firm and other non-arms length trade between large multinational corporations and the NICs.(2) Helleiner found that in 1977, about 48% of all U.S. imports originated with a partly related ownership to the buyer. This did not include imports associated with sub-contracting arrangements, licensing agreements, management or marketing contracts with ostensibly independent foreign firms.(3)

The success of transnational corporations in taking advantage of the benefits of internationalization of production and worldwide sourcing was another significant factor in the international economy of the 1970s. Through direct investment and the other methods mentioned above, MNCs have been able to reduce production costs and take advantage of transfer pricing, tax and other incentives offered by host countries. In many cases they have improved their competitive position sufficiently to pose a serious threat to smaller domestic producers. We will see that

subsidiaries of American MNCs have greatly increased their share of the Canadian appliance market in the 1970s and 1980s.

Finally, the general slowdown in worldwide economic growth which followed the oil crisis in 1974 left manufacturing industries in all the developed countries at overcapacity, and increased the intensity of competition among companies seeking shares of stagnating markets. The rate of growth of GNP among OECD countries fell from an average of more than 5% from 1963-1973 to an average of 2.6% from 1973-1978.(4) Between 1978 and 1984, average OECD growth was 1.7%.(4)

Unpredictable periods of recession, uncertainty and instability in interest rates, exchange rates and energy prices, high unemployment and (until recently) high inflation have all contributed to the slow growth, and these conditions are expected to persist in the medium term.(5)

We saw in Chapter II that the Canadian appliance industry developed with certain structural weaknesses which left it vulnerable to import competition and incapable of competing for export markets in most products. We will see in the next section that the new economic conditions described above made increasingly apparent the weaknesses in the

industry.

Industry Performance

In Chapter II we noted that both the major and small appliance industries carried substantial trade deficits throughout the 1950s and 1960s. In the 1970s this deficit skyrocketed. In 1970 the deficit for major appliances was \$61.6 million, and for small appliances \$51.8 million. By 1980 these figures had risen to \$202.9 million and \$313.7 million respectively. Even in constant dollars this represents an increase of almost 100% for major appliances and about 400% for small appliances.

For the major appliance industry the great increase in imports was accompanied by a moderate growth rate of the domestic market--an average of 4.0% per year between 1971 and 1980. Imports as a percentage of the market grew from 26% in 1971 to 31.2% in 1980. This was counteracted to a small degree by an increase in exports as a percentage of shipments from 9.9% in 1971 to 15.0% in 1980.

The Canadian market for small appliances grew much more rapidly--an average of 10.5% per year from 1971 to 1980.

Unfortunately, Canadian producers have been unable to take advantage of the growing market. Imports of small appliances increased dramatically over the period, rising from 31.1% of the market in 1971 to 55.4% in 1980. Shipments rose an average of 4.3% during the period, largely due to exports, which increased from 4.4% of shipments in 1971 to 9.8% in 1980. The bulk of this increase in exports was attributable to a sharp increase in exports of one type of product, space and water heaters, which are produced by only a few firms. Tables II and III show various performance figures for the two sub-industries.

Part of the problem in the small appliance industry is that production is extremely fragmented and small scale, with most establishments primarily involved in assembling imported components.(6) It was noted in Chapter II that this was increasingly the case through the 1960s. The manufacture of complete products has decreased so much since 1970 that some appliance industry insiders consider Canada to have almost no small appliance manufacturing industry to speak of.(7) Figures on manufacturing value-added as a percentage of total value-added in the small appliance

TABLE II

Imports, Imports as a Percentage of Apparent Domestic Market, (1)
Major and Small Appliance Industries, 1970-1985.

	MAJOR		SMALL	
	Imports (\$ millions)	% of ADM (%)	Imports (\$ millions)	% of ADM (%)
1970	90.8	26.0	60.3	31.1
1971	105.9	24.7	69.4	33.5
1972	137.1	27.2	91.8	36.2
1973	158.9	27.2	114.3	37.3
1974	227.8	33.1	156.0	39.5
1975	200.0	30.0	169.2	42.9
1976	255.7	33.9	212.5	47.4
1977	265.8	33.9	229.9	48.9
1978	304.6	33.1	273.2	53.0
1979	335.8	33.3	310.2	53.7
1980	332.7	31.2	343.9	55.4
1981	365.4	33.3	420.0	60.2
1982	296.7	31.4	389.9	56.2
1983	358.2	29.5	438.1	58.1
1984	468.2	36.4	512.4	59.7
1985	529.9	39.6	564.3	60.7

SOURCES: Statistics Canada, Series 65-007, 43-203, 43-204.

(1) ADM = Apparent Domestic Market (shipments of goods of own manufacture plus imports less exports).

TABLE III

Exports, Exports as a Percentage of Shipments, Major and Small Appliance Industries, 1970-1985

	MAJOR		SMALL	
	Exports (\$ millions)	Exports % shipments	Exports (\$ millions)	Exports % shipments
1970	28.5	9.9	8.8	6.1
1971	26.1	7.5	6.3	4.4
1972	30.2	7.6	8.0	4.7
1973	37.3	8.1	13.5	6.6
1974	50.6	9.9	24.6	9.9
1975	37.4	5.6	22.5	9.1
1976	47.6	8.7	16.8	6.6
1977	57.3	9.9	17.3	6.7
1978	82.3	11.8	17.1	6.6
1979	119.1	15.0	30.3	10.7
1980	129.8	15.0	30.2	9.8
1981	145.7	16.6	44.1	13.7
1982	133.1	17.0	47.9	13.6
1983	163.8	16.0	57.7	15.5
1984	181.6	18.2	70.4	16.9
1985	211.3	20.7	85.7	19.0

SOURCES: Statistics Canada, Series 65-004, 43-203, 43-204,

TABLE IV

Manufacturing Value-Added as a Percentage of Total Value-Added(1)
Major and Small Appliance Industries and Total Appliances
1970-1983

(percentages)

	Major	Small	Total
1970	93	93	93
1971	94	83	91
1972	90	80	86
1973	86	78	83
1974	89	79	85
1975	82	68	79
1976	83	71	79
1977	87	57	74
1978	92	57	79
1979	93	63	83
1980	95	64	84
1981	95	61	82
1982	91	61	78
1983	93	62	81

SOURCES: Calculated from Statistics Canada, Series 43-203,204.

(1) Manufacturing value-added plus value-added from non-manufacturing activity. The primary component of the latter is value-added from goods purchased for resale.

industry are an indicator of this trend. In 1970 manufacturing value-added comprised 93% of total value-added. By 1980 this had dropped to 64%. (See Table IV)

In recognition of its deteriorating competitive position, the appliance industry has undertaken considerable restructuring since the mid-1960s. Many firms have been bought out or simply ceased production. Others have been involved in mergers, and the major producers have taken measures to rationalize production.

It is important to view the most recent restructuring efforts in the context of the continental industry as a whole. Since the Canadian industry is predominantly U.S.-owned and controlled, its restructuring is part of the overall corporate strategies of the parent companies, and is a response in part to increased competition from low-wage producers and in part to increased opportunities to take advantage of cheap production in the NICs for the U.S. firms' own sourcing. This study does not address these latest developments in detail, and therefore cannot reach conclusions as to the degree to which foreign control of the Canadian industry is responsible for its continued decline, as opposed to its being a symptom of the decline of the

continental industry as a whole. We have provided considerable evidence that foreign ownership was a direct cause of industry decline in Canada through the 1970s. The discussion of restructuring which follows shows the effects of this decline and the attempts by producers to adjust. The references to events in the 1980s should be viewed as only partial evidence of the most developments in the industry.

Restructuring in the industry has been quite dramatic. Where in 1970 nine companies were producing full lines of major appliances, only three full-line firms remain in operation today. Statistics Canada reports that 26 establishments were in operation in 1983, as compared to 39 in 1965.(8) This figure is somewhat misleading, since it includes small businesses which often employ fewer than ten people. The official in charge of the appliance industry at the federal government Department of Regional Industrial Expansion (DRIE) said that 15 years ago 28 plants were producing major appliances in Canada in significant quantity, whereas today there are only ten.(9)

The bulk of that consolidation is the result of mergers and buy-outs involving the three major firms in the industry.

As recently as 1975, 14 different companies contributed significantly to industry shipments, all of them employing more than 200 people.(10) In 1983 WCI Manufacturing, Inglis Limited and Camco Inc. accounted for almost 85 percent of industry shipments. Only two other firms, W C Wood Co. Ltd. and G.S.W. Inc. employed more than 200 people, and G.S.W. owns 40 percent of Camco. We will see as we look at the consolidation in detail that while it has helped to strengthen the surviving major firms, it has left a large number of employees jobless and further entrenched foreign domination of the industry.

WCI, owned by White Consolidated Industries Inc. of Cleveland, Ohio, began its acquisition of Canadian appliance companies in 1968 with the purchase of Kelvinator of Canada, which had a large plant in London, Ontario. The new owner made an immediate reduction of 94 production workers and 47 office staff. In 1969 the plant was closed, with almost 500 people being layed-off.(11)

WCI had meanwhile bought shares of a number of other appliance producers in Canada, and in 1980 brought Hupp Canada Ltd., Franklin Manufacturing Company (Canada) Ltd., and several other firms together as WCI Manufacturing Ltd.,

controlled by the WCI parent in the U.S. (12)

Inglis Limited has been operating a plant in Toronto since the early days of the appliance industry. It was bought in the 1950s by a British firm, and was subsequently taken over by Whirlpool Corp. (43.1 percent of shares) and Simpsons-Sears (20.3 percent), both American firms. Inglis opened a second plant in Stoney Creek, Ontario, in 1966-67. In 1982 it firmly established itself as a major producer with the purchase of the failing Canadian Admiral Corp. Ltd. After a series of temporary lay-offs affecting about 1,300 workers, Admiral went into receivership in 1981, leaving 2,400 people out of work. When Inglis bought the company, it permanently shut down one of Admiral's plants near Toronto, reduced its other Toronto plant to fewer than half the number of employees, left closed an Admiral plant near Montreal, which had layed off more than 200 workers, and reduced employment at all its own operations. The net loss in jobs was close to 2,000. (13)

Camco was formed in 1977 as a merger of the appliance businesses of Canadian General Electric Co. Ltd. and G.S.W. Appliances Ltd., and included the acquisition of the appliance operations of Westinghouse Canada Ltd. In the

first few years of the merger the only major change was a reduction in the labour force of several hundred at the old Westinghouse plant in Hamilton. In 1982, however, Camco undertook a major rationalization program, closing down a plant in Weston, Ontario, which had employed about 800 people, and bringing in product specialization at its other four factories. In 1983 CGE gained controlling interest in Camco, and announced plans to begin a major program of capital expenditure to increase its competitiveness against imports. CGE's control of Camco meant that American firms had effective control over more than 80 percent of the major appliance industry as measured by share of shipments.(14)

The consolidations described above may help the industry to slow the increase in import penetration, allowing producers to become more cost-competitive through application of labour-replacing processes and plant specialization. To some extent, for some products, this has already been the case. For most appliances, however, imports still have a substantial share of the market. Table V offers import figures for selected major appliances.

The effect on labour of restructuring in the industry has been decidedly negative, and there are no indications that

TABLE V

Imports of Selected Appliances, Major Appliance Industry,
1970, 1975, 1980, 1985.

(millions, constant \$1971)

Appliance	1970	1975	1980	1985
Air conditioners	5.4	5.1	1.8	3.0
Freezers	1.3	0.9	0.2	0.2
Electric stoves	0.4	1.9	6.1	6.1
Dishwashers	3.7	17.2	13.4	5.5
Dishwasher parts	3.8	5.6	9.5	8.0
Refrigerators	6.1	9.7	6.8	8.8
Washing machine parts	10.9	10.5	14.2	10.7
Clothes dryers	2.3	5.3	3.2	3.6
Clothes dryer parts	1.1	2.5	2.4	2.1
Microwaves	-	-	18.3	50.9
Washing machines	4.7	9.2	7.1	8.9

SOURCES: Calculated from Statistics Canada, Series 65-007,
43-203, 43-204.

employment will increase substantially in the near future. Production employment in the major appliance industry was at 7,377 in 1970. It reached 10,044 in 1974 and then dropped to below 8,000 in 1977. In 1982, the year of substantial consolidation and a downturn in sales, employment dropped to 6,255. It reached just over 7,000 in 1983, but was expected to drop again in 1984. (15)

Another measure of the effect on labour is the diminishing number of person-hours paid in the industry. Appliance producers have often layed-off both full- and part-time workers temporarily when inventories were too high or sales were down. For example, in 1981 Admiral shut down its two plants for six weeks, laying off 1,155 full-time workers. Camco indefinitely layed off 300 workers at its Montreal plant the same year, and shut down for the month of December at its Montreal and Hamilton plants. In late 1981 and early 1982 both Inglis and WCI layed off workers temporarily. (16) Another factor affecting person-hours is that whereas in the early years of the industry most employment was full-time, part-time work is now more common. Since part-time workers are often either not covered by collective agreements or are disentitled to the full benefits of labour contracts, the employer can save in wages and benefits costs. As well,

part-time labour often allows more flexibility in terms of temporary (and permanent) lay-offs.

For this reason, numbers of employees can be a deceiving statistic. A better measure of job security in the industry is person-hours paid. In 1970 the industry paid for 15,105 hours of production work. This rose to 20,398 hours in 1973 and dropped to 16,430 in 1977. In 1982 hours paid dropped to 11,836, the lowest number since the 1940s. Table VI shows employment and person-hours paid (where available) from 1971 until the present, and shipments figures for the same years. That shipments have increased and employment decreased is a clear indication of the effect of the consolidation described above.

Consolidation and rationalization have also taken place in the small appliance industry in recent years, but this has for the most part meant plant closings and companies ceasing manufacturing. In 1973 there were 51 establishments producing small appliances. In 1983, there were 62 establishments listed in the industry, but only 36 of them were producing. In 1973 there were 13 plants employing more than 200 people in production, and four of them employed more than 500. In 1983 only seven plants had 200 or more

TABLE VI

Shipments, Number of Production Employees, Person-Hours Paid, Major and Small Appliance Industries, 1971-1983

Major Appliance Industry

	Shipments (\$ mil.)*	% Change	Prod Emp (#)	% Change	P-H Paid (millions)	%
1971	349.2	+23.5	8,566	+16.1	17.4	
1972	391.4	+12.1	9,504	+11.0	19.2	
1973	452.9	+15.7	9,884	+ 4.0	20.4	
1974	435.6	- 3.8	10,044	+ 1.6	20.3	
1975	406.2	- 6.7	8,677	-13.6	17.9	
1976	386.4	- 4.9	8,813	+ 1.6	18.0	
1977	390.0	+ 0.9	7,969	- 9.6	16.4	
1978	443.9	+13.8	8,245	+ 3.5	16.9	
1979	476.4	+ 7.3	8,906	+ 8.0	18.4	
1980	472.3	- 0.9	8,740	- 1.9	17.6	
1981	427.4	- 9.5	8,005	- 8.4	15.9	
1982	345.1	-19.3	6,491	-18.9	12.3	
1983	423.2	+22.6	7,011	+ 8.0	13.8	

(Continued)

(TABLE VI Continued)

Small Appliance Industry

	Shipments (\$ mil.)*	% Change	Prod Emp (#)	% Change	P-H Paid (millions)	%
1971	144.1	+ 0.4	3,647	+ 2.1	7.5	
1972	169.0	+17.3	4,267	+17.0	8.7	
1973	202.6	+19.9	4,848	+13.6	9.8	
1974	226.2	+11.6	6,040	+24.6	12.4	
1975	199.4	-11.8	5,012	-17.0	10.2	
1976	193.3	- 3.1	4,291	- 14.4	8.6	
1977	191.2	- 1.1	3,891	- 9.3	7.8	
1978	185.5	- 3.0	3,462	-11.0	7.0	
1979	206.3	+11.2	3,363	- 2.9	6.8	
1980	199.4	- 3.3	3,176	- 5.6	6.4	
1981	192.4	- 3.5	3,241	+ 2.0	6.6	
1982	192.5	+ 0.1	3,079	- 5.0	6.0	
1983	198.4	+ 3.1	3,100	+ 0.7	6.2	

Sources: Statistics Canada, Series 43-203, 43-204.

* Shipments are expressed in 1971 dollars, as calculated using price indexes for the small and major appliance industries. (Statistics Canada, Series 62-543)

production workers, and only one of them employed more than 500. (17) That plant is now closed. In 1984 Black and Decker, an American company specializing in consumer tools, bought the housewares operations of General Electric Co. At the time, General Electric's subsidiary CGE operated Canada's largest small appliance plant in Barrie, Ontario. Within a year of the purchase, Black and Decker shut down that plant and shifted production of appliances to its already established tool plant in Brockville, Ontario, leaving more than 400 people out of work. (18)

Employment figures for this sub-industry also provide a bleak picture. In 1970 the industry employed 3,572 production workers. This rose to more than 6,000 in 1974, but dropped steadily since then, to 3,100 in 1983. Person-hours paid figures show a more serious decline. In 1970 the industry paid for 7.3 million hours. This rose to 12.4 million in 1974, and dropped steadily thereafter to 6.2 million hours in 1983. Both these figures dropped further in 1984, although final statistics are not yet available. The closing of the Barrie plant is expected to reduce the employment figures significantly in 1985. (19)

We have examined the main indicators of industry competitiveness since the early 1970s, and found the position of the industry to have deteriorated substantially. We have also seen the cost to labour of this deterioration, and of some of the measures being taken to turn the fortunes of firms in the industry around. In the next section, we will look at state policy related to the appliance industry, as well as certain other factors affecting performance, to see whether the policy orientation identified in Chapter II has applied since 1970.

Factors Affecting Performance

We discussed at the beginning of this chapter certain changes in the international economy which had increased pressure on Canadian manufacturing industries since the early 1970s. We saw that a world-wide slowdown in economic growth, the entry of new strong competitors into the global appliance market, and the success of large multinational enterprises in making use of internationalization of production, had tightened the screws on an already troubled Canadian appliance industry.

We noted in Chapter II that fluctuations in the relative

value of the Canadian dollar had consequences for the industry, although these were seen to be minimal through the 1950s and 1960s. As a general rule the correlation between fluctuations in the value of the Canadian dollar and changes in imports and exports of appliances was not high through the 1970s either. As with the earlier period, a correlation does appear to exist for limited time periods. For example, imports of major appliances changed in keeping with currency fluctuations from 1972 to 1976, as did exports of major appliances from 1977 to 1980. (See Table VII) The correlation between currency fluctuations and trade in small appliances appears to be very weak.

It appears clear that currency fluctuations are of limited value in explaining the performance of the appliance industry. Furthermore, since the value of the Canadian dollar has lowered almost every year since 1973, any influence it has had on changes in import and export figures would have been positive. It is true that since 1980 the value of the Canadian dollar has appreciated against the values of most major currencies besides the U.S. dollar. This may explain in part the rise in imports from the NICs since that time. However, we have noted that the trend toward increased imports from the NICs began in the 1970s

and had become substantial by 1980. This suggests that the other factors we have discussed have also been important. As well, imports coming directly from the NICs still only account for a small percentage of total appliance imports. Imports from the U.S., with its strong dollar, still dominate Canadian imports. Thus exchange rates are of limited use in explaining the deteriorating competitive position of the industry. Rather, we have to look to the structural factors identified in Chapter II, and to recent state policies which have had effects on the industry.

In the following sections we will look at three major areas of state policy: commercial policy, policy regarding foreign ownership, and policy regarding industry restructuring and labour. From this we can identify some of the conflicting political pressures influencing policy and the ordering of priorities which has determined the nature of the policies.

TABLE VII

Percentage Changes From Previous Year, Value of Canadian Dollar (\$ Canadian per \$ U.S.), Imports, and Exports, Major and Small Appliance Industries, 1970-1985

		MAJOR		SMALL	
	\$ Value	Imports	Exports	Imports	Exports
1970	-3.7	-13.8	+23.9	- 4.0	- 5.4
1971	-2.9	+16.6	- 8.4	+15.7	-27.6
1972	-2.0	+29.5	+15.7	+32.3	+27.0
1973	+1.0	+15.9	+23.5	+24.5	+68.8
1974	-2.0	+43.4	+35.7	+36.5	+82.2
1975	+4.1	-12.2	-26.1	+ 8.5	- 8.5
1976	-2.9	+27.9	+27.3	+25.6	-25.3
1977	+7.1	+ 3.9	+20.4	+ 8.2	+ 3.0
1978	+7.5	+14.6	+43.6	+18.8	- 1.2
1979	+2.6	+10.2	+44.7	+13.5	+77.2
1980	even	- 0.9	+ 9.0	+10.9	- 0.3
1981	+2.6	+ 9.8	+12.2	+22.1	+46.0
1982	+2.5	-18.8	- 8.6	- 7.2	+ 8.6
1983	even	+20.7	+23.1	+12.4	+20.5
1984	+4.9	+30.7	+10.9	+17.0	+22.0
1985	+6.2	+13.2	+16.4	+10.1	+21.7
Correlation With \$ Value		(-.1893)	(.0118)	(-.2222)	(.0546)
Significance		.241	.483	.204	.420

SOURCES: Calculated from Bank of Canada Review, Foreign Exchange Rates (average noon spot rates) and Statistics Canada, Series 65-004, 65-007.

Commercial Policy

The lowering of Canadian tariff rates on most manufactured goods and the extensive use of non-tariff barriers by other countries have been major concerns of the appliance industry in recent years. Imports were increasing substantially before the latest round of the Multilateral Trade Negotiations (MTN), and the Canadian Manufacturers Association (CMA), the Electrical and Electronic Manufacturers Association of Canada (EEMAC) and the Canadian Appliance Manufacturers Association (CAMA) all expressed fears that a substantial tariff reduction would have serious negative consequences. The 1978 Sector Task Force on the Canadian Electrical Industry recommended that tariff reductions negotiated in the GATT should only take effect when non-tariff barriers in other countries were reduced to the same degree. Even so, it said, the tariff reductions should be phased in over a five to ten-year period, and should not exceed 20 percent of current rates. (20)

In fact, the Canadian negotiators agreed to lower rates on appliances by close to 40 percent, with only loose conditions relating to non-tariff barriers. Signed in 1979, the reductions came into effect in full in 1985 for most

appliances, and will be in effect for all others by 1988. Tariffs on appliances have been reduced to between 10 and 12 1/2 percent, down from a range between 15 and 20 percent.(21)

In his study of the political process of commercial policy making, David Protheroe noted that in the Canadian government a broad consensus had existed among departments and ministers before the agreement as to the importance of Canada's export objectives, especially the upgrading of the resource industries. Despite considerable opposition from the CMA and the Canadian Labour Congress, and despite some pressure from the then Department of Industry, Trade and Commerce, the gains negotiated for Canada were primarily in reduced duties for resource-related sectors.(22)

The new GATT does include agreements on subsidies and countervailing duties, technical barriers to trade, government procurement, import licensing procedures, customs valuation and anti-dumping duties. These are acknowledged by the government to represent only a start in controlling non-tariff protectionist measures, especially since transparency, that is, the visibility and identifiability of non-tariff barriers, is very low.(23) The CMA has expressed

its skepticism about the effectiveness of these measures.(24)

Besides the obvious gains to the export-oriented resource industries, the rationale for exchanging access to Canadian markets for manufactured goods for access to foreign resource and processed good markets is, and has been since the GATT began in the 1940s, that increased competition would help the manufacturing sector to become more efficient and ultimately more internationally competitive itself.(25) Thus far this result has not come about, in large part because of the structural factors discussed in Chapter II. Without policies to deal with these other factors, the effect of Canada's commercial policies has been to increase reliance on the resource-related industries and to contribute to the increasing deterioration of manufacturing.

Foreign ownership

In Chapter II we identified several ways in which the high degree of foreign ownership of the appliance industry appears to have adversely affected performance. We noted that a small number of foreign-owned firms have dominated the industry since the 1930s, and that Canadian-owned firms, with few exceptions, have been small operations, filling small gaps in the appliance market. While Canadian-owned firms, with a few exceptions, were unable in the early years of the industry to develop innovative capacity due to limited resources, foreign-owned subsidiaries were similarly limited by the policies employed by their parents in the interests of the corporations as a whole. In large part as a result of these realities, the record of exports by Canadian producers was weak, and imports became increasingly successful in entering the Canadian market. In addition, we saw that foreign-owned producers had a high propensity to import appliance parts and other production inputs, in many cases from their parents. This had adverse effects on the trade balance in appliances and in other industries which served the appliance producers.

When we look at the development of the industry since the

early 1970s we see that foreign domination has become further entrenched, and that its effects are still very much in evidence.

It was noted earlier that the number of firms producing major appliances in Canada dropped by about two thirds between 1970 and 1983, and that the number of small appliance producers employing 20 workers or more had dropped by half from 1973 to 1983. In almost every case the reduction reflected either a buy-out or merger involving a Canadian-owned firm, or a Canadian-owned firm going out of business. (26) In Chapter II we found that the average Canadian-owned producer in the small appliance industry was only one third the size of the average U.S.-owned subsidiary in 1970, and for major appliances the figure was 42%. By 1981 these had dropped to 15% and 12% respectively. Table VIII follows this downward trend. Table IX gives a breakdown of the number of U.S.- and Canadian-owned firms in various size categories for 1983 and 1985. The share of industry value-added accounted for by U.S.-owned producers steadily climbed during the 1970s and into the 1980s as well. Table X shows the value-added trend through that period.

TABLE VIII

Sizes of Canadian Establishments by Average Number of
Employees, Canadian and U.S.-owned, Major and Small
Appliance Industries, 1970-1981

	MAJOR				SMALL			
	Can.	U.S.	Can. %	U.S.	Can.	U.S.	Can. %	U.S.
1970	233	551	42		53	159	33	
1972	225	672	33		70	189	37	
1974	237	648	37		109	233	47	
1976	208	516	40		89	163	55	
1978	101	719	14		41	147	28	
1980	109	725	15		32	191	17	
1981	81	698	12		31	204	15	

SOURCE: Statistics Canada, Series 31-401.

TABLE IX

Number of U.S.-owned and Domestic Establishments in Various Size Categories By Number of Employees, Major and Small Appliance Industries, 1983 and 1985

	500+	200+	100+	< 100
Major - 1983				
Canada	0	1	2	1
U.S.	7	4	3	1
Small - 1983				
Canada	0	2	4	11
U.S.	1	4	2	3
Major - 1985				
Canada	0	1	1	1
U.S.	7	4	3	0
Small - 1985				
Canada	0	1	4	12
U.S.	1	4	2	2

SOURCES: Calculated from Statistics Canada, Series 43-203, 204, Dun and Bradstreet, Guide to Canadian Manufacturers, 1985, and Who Owns Whom, North America, 1985, and Canadian Manufacturers Association, Canadian Trade Index, 1985.

TABLE X

Percentage of Total Value-added, Foreign-owned Establishments, Major and Small Appliance Industries and Total Manufacturing, 1970-1981

(percentages)

	Major	Small	Total
1970	60.0	71.2	52.7
1972	72.6	74.0	51.5
1974	73.6	71.6	51.1
1976	77.1	73.0	49.3
1978	86.7	79.0	47.8
1980	64.0*	83.1	45.2
1981	68.6	82.7	44.2

SOURCE: Calculated from Statistics Canada, Series 31-401.

* The large reduction in the foreign-owned share of value-added in 1980 is due to the increase in the number of Canadian firms included in the sample starting in that year. In 1978, 24 firms were included; in 1980, 47 and in 1981, 56. In 1980, Statistics Canada began including a large number of small firms which conducted a small amount of manufacturing but which primarily sold Canadian and imported appliances produced elsewhere.

We have already seen the weak trade balance in appliances to which foreign domination has contributed. Several elements of that weakness which were discussed in Chapter II have remained in effect since the early 1970s. As we saw in Table VIII of Chapter II, the export record of foreign subsidiaries has remained equal to or poorer than the levels of exports of domestic producers as a proportion of sales through 1977, despite the fact that their market power and access to the technology, capital and management and marketing expertise of their parents could offer them a great advantage in developing export markets. No figures are available past that date, but there is little reason to expect a significant divergence from the previous trend. The domination of the industry by large American firms has increased, but primarily through the buy-outs, mergers and acquisitions of the three major producers discussed above. All three of these are owned by corporations which produce in the U.S. the same products as the Canadian subsidiaries produce. They produce those products more efficiently than do their Canadian subsidiaries and already have sophisticated international marketing networks. As well, the parent firms have other subsidiaries from which to serve other foreign markets. Hence it is unlikely that their

exports as a proportion of sales have increased to any significant degree.

Foreign-owned subsidiaries have also continued to import a large proportion of appliance parts and other inputs, many of them from parents or affiliates. This reflects two factors; firstly, the fact that the subsidiaries produce fewer of their own parts because of their corporate affiliation, and secondly that their purchasing strategies are often determined by the parent company. From 1964 to 1969, subsidiaries' imports rose from 29.8% to 32.1% of total purchases in the electrical products industry. This fluctuated through the 1970s and reached 38.1% in 1981. The average for the 1970-1981 period was 33.1% up from 30.8% in the 1964-1969 period. Data are scarce on the import propensity of Canadian-owned producers using this measure, but some studies suggest that the figure in high-technology industries such as electrical products would likely be in the 25% range. (27) As noted above, the high import propensity of foreign-owned firms and their reliance on affiliates for inputs results in less production in Canada, a weaker trade balance in appliances and less work for companies serving the appliance industry.

Another measure of import propensity is that of imports as a proportion of sales. In 1978 foreign-owned producers in the Canadian electrical products industry had a propensity of 24.4% using this measure, while the figure for domestic producers was 9.9%. In 1980 the figures were 27.2% and 13.5% respectively. Almost all of those imports were in end products rather than raw or processed goods. (28) Little information is available at the sub-industry level, but one Statistics Canada study measured the proportion of imports of particular goods attributable to foreign-owned and domestic importers. The commodities being imported were assigned to the industry which would have produced them had they been produced in Canada. Thus, for appliances, the figures showed the proportion of appliances and appliance parts which were imported by foreign-owned and domestic firms in Canada. In 1978 U.S.-owned firms accounted for 61.6%, other foreign-owned firms for 15.8% and domestic firms for 22.7% of small appliance imports which were possible to allocate to a country of control (81.6% of total imports). For 1980 the figures were 56.0%, 18.7% and 25.3% respectively (for 87.1% of total imports). For major appliances, the 1978 figures were 70.1%, 6.1% and 23.8% (87% of total imports), and for 1980 they were 62.9%, 4.9% and

32.3% (88.6% of imports). (29) Since the number and size of domestic manufacturers of appliances was dropping consistently and substantially during this period, it is reasonable to suggest that the increase in the share of imports attributable to domestic firms in 1980 is due to the move by many of them toward importing and resale of appliances (with minor assembly activity) and away from actual manufacturing.

We saw in Chapter II that Canadian producers of electrical products spent about 57% as much on research and development as U.S. producers, as a proportion of sales in 1967. We also noted that there was a direct positive link across all Canadian manufacturing industries between degree of foreign ownership and poor relative R&D performance. Few figures are available on recent R&D expenditures at the industry level, but we know that Canadian expenditures on R&D were the lowest among OECD countries, having dropped from 1.2% of GNP in 1968 to less than 0.9% in 1980. The electrical products industry saw its share of total Canadian R&D drop from 30% to 23% in the same period, and within that industry the major appliance producers are among the lowest R&D spenders. Virtually no R&D is conducted in the small appliance industry. (30) The poor Canadian R&D record is

understandable when it is considered that the only companies large enough to afford significant R&D expenditures are owned by large U.S. corporations with extensive research and development facilities designed to produce the same types of product and process innovations desired by the Canadian subsidiaries. While a centralized R&D strategy may benefit the corporation as a whole, it has placed debilitating limits on the Canadian subsidiaries, and contributed to the deterioration of the industry.

State policy regarding foreign ownership of industry through the 1960s was essentially one of non-intervention. We noted earlier that some concerns were raised by policy makers in the late 1960s, and that foreign-owned subsidiaries were given voluntary guidelines by which the Canadian state hoped they would conduct their operations. As well, in a few cases the state encouraged increased manufacturing activity by subsidiaries by negotiating with parent corporations for government procurement contracts. Since the early 1970s, increasing pressure from economic nationalists, labour and some factions of capital, combined with the increasingly compelling evidence of the negative effects of foreign domination of certain industries, has forced the state to take more overt steps to address the issue. Here we will

look at two approaches the state has taken: the systematic review and control of foreign investment through the Foreign Investment Review Agency (FIRA) and the promotion of world product mandates.

Review and control of foreign investments

In 1974 the federal government implemented the Foreign Investment Review Act by establishing FIRA. The purpose was to screen takeovers of Canadian businesses by non-Canadians in order to assess the likelihood that such a takeover would have economic benefits for Canada. It applied where the business to be taken over had gross assets of \$250,000 or more, or gross revenues of \$3 million or more. In 1975 a second phase was implemented, entailing a review of the establishment of any new Canadian businesses by non-Canadians. This included new businesses of non-eligible persons who did not already have an existing business in Canada, or of those whose proposed new business was not related to businesses they already carried on in Canada. It had no direct application to established businesses.(31)

This review mechanism was both administrative and political in nature. FIRA had broad guidelines by which to assess

potential economic benefits, and its agents were empowered to negotiate with investment applicants to try to enhance those benefits. The federal cabinet maintained control over the final decision whether or not to approve an investment application. From its inception, FIRA came under fire on economic and political grounds from interested investors, foreign governments (particularly the U.S. government), many in the Canadian business community, some provinces, and the Conservative opposition party. The added costs to investors associated with the review process itself and the concessions demanded by FIRA in terms of economic benefits to Canada were seen as unfair, unnecessary and detrimental to the Canadian economy by discouraging foreign investment. Steven Globerman reviewed the effects of FIRA on foreign investment in Canada and on the Canadian economy, and concluded that supporters and critics of FIRA tend to make simplistic judgements, and that an economic assessment required consideration of a complex set of factors.(32) The fact that FIRA was in operation despite the limited study of its potential economic impact is testimony to the important political aspect of the foreign investment policy.

Indeed, a strong component of this review process, and one which has inevitably drawn fire, is its susceptibility to

short-term political goals. The vagueness of the guidelines used to measure benefits to the Canadian economy, and the ultimate authority of the cabinet on a case by case basis, clearly establish this. In the case of the Canadian appliance industry two FIRA decisions have had major consequences, and can be seen to have been influenced greatly by political considerations.

The first FIRA action involved the purchase of Westinghouse Canada, which was until the mid-1970s a major producer of appliances. The parent company in the U.S. had decided to divest itself of its appliance operations, and those in the U.S. were bought in 1976 by White Consolidated Industries (WCI). However, when WCI Canada applied to FIRA to purchase the Westinghouse Canada assets, the takeover was rejected. The prime motivation appears to have been the maintenance of a Canadian presence in the industry. GSW, the only Canadian-owned major producer in the industry, had expressed interest in the Westinghouse operations, and in fact had received a loan guarantee from the Department of Industry, Trade and Commerce (IT&C) (which administered FIRA) to help with the purchase.(33)

Even with this assistance it turned out to be unfeasible for

GSW to buy the operations, because Westinghouse Canada could not offer as part of the package access to the technology, parts, and trade names of the parent company. FIRA then prompted WCI Canada to reapply, with assurances of a speedy decision.(34) In the meantime, GSW had formed Camco in a joint venture with Canadian General Electric (CGE). The second WCI bid was rejected by FIRA, and Camco bought Westinghouse Canada, establishing itself as by far the largest major appliance producer in the country.(35) FIRA appeared in this case to have deliberately helped to secure a strong position in the industry for a firm which was 50% Canadian controlled, at the expense of a more evenly competitive industry. As we will see, subsequent events negated this move.

The second FIRA action involved the acquisition of the Admiral operations in Canada by Inglis. The Admiral parent company in the U.S. was bought by Rockwell International, which in 1979 decided to sell its appliance operations. Canadian Admiral Corp. was bought by a Montreal conglomerate which drained it of many of its financial assets. It was forced into bankruptcy in 1981.(36) At stake was a plant in Montmagny, Quebec. Another Quebec plant had closed down the previous year. It appears that political considerations in

Quebec influenced FIRA to approve the acquisition of Admiral by Inglis. In exchange for approval and about \$3 million in federal assistance, Inglis agreed not to shut down the Montmagny plant.(37) The result for the industry was that Camco now had a competitor equal in strength to itself and fully American-owned. Camco was furious because the government had assisted in creating this competitor using public funds, and WCI was furious because it had been rejected by FIRA twice in a similar takeover bid. The results for labour were mixed. The workers in Montmagny kept their jobs, but many workers in Inglis plants in Ontario lost theirs in the company's reorganization. In particular, workers at the Stoney Creek plant, about half of whom were laid off, felt betrayed by the government for its part in the reorganization.

The last twist in this reshuffling of assets came when CGE gained control of Camco in 1983. CGE and GSW, as partners, had not been able to agree on a financial strategy for the development of Camco. In 1982 CGE offered to buy out GSW, but this was disallowed by FIRA, presumably in an attempt to preserve a Canadian presence in the industry. Soon after, the two firms reached a settlement which accomplished the takeover, and which was approved by FIRA in July, 1983. In

announcing the approval the Minister responsible for the administration of FIRA, Ed Lumley, pointed to the difficulties facing the appliance industry and the intentions of Camco to modernize and rationalize its operations. It would seem that, with CGE having applied in court for the dissolution of the partnership, the government was forced to accept extensive Canadian participation in Camco without Canadian control rather than be left with no Canadian participation. The industry was thus left with two strong full-line producers--Camco and Inglis--and one weaker producer--WCI. No full-line Canadian-owned producer remained.

It is difficult to draw firm conclusions from these or most other FIRA actions, since FIRA procedures are not made public and Cabinet dealings regarding FIRA actions and recommendations are confidential. In the case of these dealings with the appliance industry, the government appears to have been juggling a number of priorities: Canadian control in the industry, regional political considerations, and to some extent competitiveness in the industry. Of these three, Canadian control came out the loser, although this was probably due less to a lack of commitment on the part of FIRA than to a lack of overall commitment by the

state, to increasing Canadian control of industry in the face of other political and economic pressures. It could well be that U.S. domination of the industry was too entrenched by the 1980s for the state to intervene except in a radical way. That is, the advantage to U.S.-owned producers in having access to the technology and marketing of their parents may be too much for a domestic firm to overcome now that these subsidiaries have come to dominate the market so thoroughly. State intervention might require a major, long-term financing scheme aimed specifically at one or more Canadian-owned producers. Even then, success would hardly be guaranteed. For a government, which has as a priority to let the market decide winners and losers, and which is under strong pressure from domestic and foreign capital and foreign governments to reduce government presence in industry, this would be an unlikely scenario.

The Conservative government of Brian Mulroney in 1985 changed the name of FIRA to a much more inviting one--Investment Canada--and announced the doors open to foreign investors. Prospective investors, rather than having to show significant benefit to the economy from their proposed businesses, now have only to show net benefit. As one Investment Canada agent noted, the investor essentially

has to convince the government that the investment will not be detrimental to the Canadian economy. If it creates any employment at all, or has any other positive impact, that will be considered adequate evidence of net benefit.(38)

World product mandates

As we have seen, the establishment of FIBA was a recognition of problems inherent in foreign domination of Canadian industry, and an attempt to control in a limited way the degree of foreign ownership. The government in the 1960s had also begun encouraging foreign firms to increase certain types of activity in their Canadian subsidiaries. Especially in the 1970s, firms were encouraged to give their subsidiaries mandates to manufacture specific products for world markets. Such a development, it was suggested, would not only increase exports from Canada, but also encourage the development of innovative capacity and international marketing expertise in the subsidiaries, leading to further long-term benefits.

The mechanism through which the government has encouraged world product mandates has been primarily grants and loans through ITRC and subsequently the Departments of Regional

Economic Expansion and Regional Industrial Expansion. FIRA has also promoted world product mandating as a way for prospective investors to establish significant benefit to the Canadian economy in their businesses. As well, some government procurement has been used as a bargaining tool. Several studies have been conducted on specific world product mandates obtained by Canadian subsidiaries. The Science Council of Canada examined Canadian government involvement in the acquisition of mandates by Westinghouse Canada, Black and Decker Canada, Garrett Manufacturing and Litton Systems Canada. Its conclusions were that the mandates had succeeded greatly in expanding production and exports in the subsidiaries, as well as spawning research and development facilities and the domestic development of new products. The Council also concluded that the initiatives taken by the government had been instrumental in the subsidiaries' success in acquiring the mandates.(39) The Export Promotion Review Committee of ITC produced a report in 1979 (The Hatch Report) which recommended that the government more actively promote world product mandates while loosening its controls on foreign direct investment.(40)

Some commentators have been less enthusiastic. Hamid Etemad

studied some cases of world product mandating in Canada, and concluded that insufficient evidence existed that world product mandates lead necessarily to increased R&D performance.(41) Alan Rugman, Jocelyn Bennett and Patricia Johnston all caution against undue expectations from mandates, suggesting that parent companies in most cases are unlikely to find them economical.(42)

World product mandates are almost non-existent in the Canadian appliance industry. Dart and Kraft Inc. granted a mandate to its subsidiary, West Bend Canada, in 1982 to design, manufacture and market electric kettles and gas barbecues. This was granted in conjunction with FIRA's review and subsequent approval of Dart and Kraft's purchase of Dart Industries Canada Ltd. and three other firms in Canada. As well, CGE's small appliance operations had a limited production mandate for several appliances. As noted earlier, however, Black and Decker bought the CGE operations and subsequently shut down that plant, moving its small appliance production in with its small tools operation. It is unclear as yet whether any form of production mandate will be maintained.

There appears to be general agreement as to the potential

benefits of world product mandates to the economy, albeit with some reservations as to whether they necessarily lead to substantial research and development.

Despite this, the liberal attitude toward foreign investment taken by the new Conservative government has diluted greatly the state's role in promoting world product mandates. Investment Canada no longer promotes mandates, since it no longer requires any significant benefits from investors. In almost all cases in the past, mandates have been acquired by subsidiaries only when government pressure and/or incentives convinced the parent companies of the wisdom of such a move. Such motivations have been severely diminished.

Thus, while some measures were taken in the 1970s and early 1980s to address the problem of foreign domination, it appears that they were for the most part ineffective with regard to the appliance industry. Now even those limited efforts have been abandoned. Our discussion of policy on foreign ownership has addressed in some aspects the subject of industry restructuring. The next section discusses some other elements of policy in this area.

Industry Restructuring and Labour

There is a broad consensus among industry, labour and government as to the need for rationalization of most Canadian manufacturing industries. The form which this should take, the timing of the rationalization, and the distribution of costs associated with it, have been very much under dispute, however. Industry, through the CMA and its member associations such as the CAMA, and through the Sector Task Forces, has sought government support for investment in labour-replacing technology, tax breaks to allow for such investment, incentives for research and development investment, a hands-off approach by government to consolidations, mergers and plant closings associated with rationalization and tighter fiscal and monetary policies. (63)

Labour, primarily through the Canadian Labour Congress (CLC) but also through briefs presented by specific unions, has recognized the need for restructuring, but has put forward an alternative approach which starts with the goal of full employment. It includes an emphasis on further processing of resources before export, the improvement of social programs, the implementation of public tribunals to

investigate major layoffs or plant closings and compel firms to reach agreements with workers regarding retraining, relocation and severance pay, changes in collective bargaining legislation to improve labour input into the direction of technology change, and a strengthened FIRA to promote investment in research and development and world product mandates for branch plants of foreign firms.(44)

Labour in the appliance industry is highly unionized, being represented primarily by two unions, the International Brotherhood of Electrical Workers and the United Electrical Workers. Neither has made specific submissions to government regarding the appliance industry, but they have both endorsed the program outlined above. As well, the United Electrical Workers made a submission to the Department of Industry, Trade and Commerce in 1975 outlining the threats to labour inherent in the weakening of the electrical manufacturing industries.(45)

We have seen that government policy regarding industrial restructuring has been piecemeal, reflecting to a certain extent the political pressures from labour, the regions and economic nationalists, but in general supporting the consolidation and rationalization of industry such as we have seen in the appliance industry, without any serious

commitment to removing the preponderance of burden off labour.

Programs such as the Industrial and Labour Adjustment Program (ILAP) (no longer in existence) and the more recent Industrial and Regional Development Program (IRDP) offer grants and loans for industrial projects, the funding available being dependent on the economic circumstances in the community where the project is (or would be) located. The major goal of these programs has been to foster industrial development, especially in communities where unemployment is high. Ironically, much of the available funding is used to finance investment in labour-replacing technology and labour-saving rationalization of production.(46)

In 1982 the Department of IT&C announced that \$15 million was being made available to the major appliance industry under the ILAP to assist with restructuring and rationalization. At the time the appliance industry was just one of numerous industries experiencing persistent decline and in need of improvements in productivity. That the appliance industry was singled out has its explanation in the complexities of the other state interventions

discussed above. Inglis had been promised about \$3 million in loans and grants as part of its agreement to purchase Admiral and maintain the plant in Montmagny, Quebec. The Department found that the only mechanism through which the assistance could be directed to Inglis was through such a program. Thus, the assistance package was created, with additional funds made available for other firms in the industry. Only a few small firms benefited from the fund, however, because recipients were required to use the assistance to expand operations or increase employment, and all the major firms were contracting and rationalizing operations.(47)

Job retraining is another area in which broad agreement exists but little has been accomplished. A 1958 Department of Labour report identifies the need for training of skilled manpower in the appliance industry.(48) The 1978 Task Force on the electrical products industry identifies the same need. A 1980 CMA position paper refers to a growing consensus that the supply of skilled labour in Canada is inadequate.(49)

In the late 1970s and early 1980s, the federal government upgraded its job training programs partly in response to the

need for skilled labour, but primarily as a reaction to the rapidly mounting rate of unemployment. The National Training Programs offered companies funds for up to two years to develop courses and build training facilities, particularly in occupations with critical skill shortages. The National Industrial Training Program paid employers for most of training costs and part of the trainee's wages for up to one year. It also provided funds for community colleges and other training courses. This program was only available to small employers who could not afford to pay for training themselves; most companies requiring skilled labour in the appliance industry, as in many industries, were too large to qualify. The major problem with these programs as a way to deal with layoffs and workers with skills that are no longer required by industry, is that industry's labour requirements are not only different as a result of technological innovations and rationalization, but are also substantially lower. The tendency in the more traditionally labour-intensive industries has been to invest in modern capital equipment, automating many of the functions that labour previously performed. While a few jobs requiring job training are created, the remaining jobs tend to be unskilled, and many positions are lost altogether.

The new Conservative government has announced its intention to phase out federal retraining programs, leaving it up to the private sector to train according to its needs. The May 1985 budget included a \$200 million cut in job creation and training programs, and the February 1986 budget cut another \$100 million. As well, several of the programs planned previously were never implemented, and the funds for these were subsequently appropriated for other purposes. The record of private sector retraining has not been very positive; it would seem, considering the consistency since the 1950s with which a shortage of skilled labour has been raised by industry as a problem. From labour's point of view, there is little reason for optimism concerning industry retraining of displaced employees. A study in 1980 showed that only one-third of major collective agreements (covering 500 or more employees) in manufacturing contain provisions for retraining. The study suggests that in the context of high unemployment and the expectation of technological change in the next few decades, the limited commitment by industry to retrain can be interpreted to mean limited commitment to retain into employment displaced workers. (50)

Conclusion

In this Chapter we have seen that emerging international economic conditions have presented a major challenge to the Canadian appliance industry. We have shown that the country's trade balance in appliances has worsened steadily since the 1950s, and quite dramatically in recent years. Many appliance producers have gone out of business, and many others have moved away from substantial manufacturing activity and into assembly operations. As well, the large firms in the industry have pared down their operations, so that employment has fallen considerably.

We have also looked at the factors affecting industry performance, and noted that some important weaknesses in the industry are still apparent. In particular, a lack of innovative capacity and international marketing expertise, in large part resulting from the domination of the industry by foreign-owned companies, have continued to forestall competitive production.

In examining government policy affecting the appliance industry we noted some areas in which policy appeared to be unproductive or even counterproductive, and others where

policies successfully addressed certain problems. On the whole, however, government policy appears to have failed to alleviate the long-standing weaknesses in the industry. The lowering of tariffs on appliances is understandable in terms of the government's commitment to trade liberalization, a commitment associated with the priority placed on the development of the resource sector. It can also be viewed in the context of attempts to force industries into becoming more competitive by weeding out weak companies and encouraging the more successful firms to rationalize. Unfortunately, the effect on some industries, including the appliance industry, has been to contribute to its deterioration. It has been shown that the structure of the industry is not one which will permit its development into a "lean and mean", internationally competitive one, unless one would be satisfied with an industry comprised of a few large foreign-owned firms serving the domestic market and employing considerably fewer people than has been the case in the past.

Policy regarding foreign ownership has been mixed but largely ineffective with regard to the appliance industry. Steps taken by the government to control foreign investment and encourage more beneficial production within subsidiaries

clearly reflect a recognition of the limits of Canadian manufacturing under current conditions. They also reflect a political response to nationalist sentiment and to pressure from labour and small business to promote Canadian industry in a way beneficial to the domestic economy. The limited success of these ventures is a reflection itself of the limits of the strength of that pressure in the face of a backlash from U.S. and Canadian business interests and from foreign governments.

Policy on restructuring of industry has also reflected diverse interests. In the case of the appliance industry it has appeared as piecemeal and reactive, perhaps necessarily so since the government has no clearly defined industrial policy. In any case, the government appears on the one hand to be prepared to support specific enterprises where concern over unemployment coincides with other political considerations, and to offer assistance for research and development, export promotion and other industrial expansion avenues. At the same time, its policies have contributed to the entrenchment of foreign domination of the industry and to unemployment through the encouragement of consolidation and rationalization.

In the next chapter we will attempt to place what we have learned about the appliance industry into the context of the economic orientation identified in Chapter 1.

FOOTNOTES--CHAPTER III

1. Harold Crookell, "The Impact of Government Intervention on the Major Appliance Industry in Canada", in D.G. McFetridge, Canadian Industrial Policy: 10 Actions, Royal Commission on the Economic Union and Development Prospects for Canada, Toronto, 1985.

2. Gyorgy Adam, "Multinational Corporations and Worldwide Sourcing" in H. Radice (ed.), International Firms and Modern Imperialism, 1975; Lars Anell, Recession: the Western Economics and the Changing World Order, 1981, and Gerald K. Helleiner, Intra-Firm Trade and the Developing Countries, 1981.

3. Helleiner, 1981, op. cit., pp.10-11.

4. OECD, Industry in Transition, 1983, op. cit., p.16, and OECD, Economic Outlook, 1978-1984.

5. Michael C Webb and Mark W. Zacher, "Canadian Export Trade in a Changing International Environment", in Denis Stairs and Gilbert R. Winham (eds.), Canada and the International Political/Economic Environment, 1985, p.89.

6. Department of Industry, Trade and Commerce, Canada, Sector Task Force, op. cit., Sector Profile Section, p.14, and interview with an industry official in the Department of Regional Industrial Expansion, July 6, 1985.

7. An indication of the depressed state of the industry is a comment by the President of Black and Decker Canada Inc. that the CGE small appliance operations which his company bought (see below) had been in such bad shape that if his company had not consolidated its operations, it may well have meant the end of the small appliance industry in Canada. (Globe and Mail, June 18, 1985, p. B1) While such a view may be considered self-serving in this instance, the DRIE official in charge of appliances corroborated this assessment.

8. Stats Can, series 43-204, 1970, and The Canadian Appliance Industry: Report, Department of Industry, Trade and Commerce, 1970, Vol. I.

9. Interview with DRIE official op. cit.

10. Stats Can, series 43-204, 1983 (unpublished) and 1973.

11. Portis and Suys, op. cit.

12. Stats Can. op. cit. and Annual Reports of the companies mentioned.

13. Stats Can. op. cit., Annual Reports, op. cit., Globe and Mail, Apr. 23, 1983, p. B6, Oct. 30, 1981, p. B1, Nov. 6, 1981, p. B7.

14. Stats Can. op. cit., Annual Reports, op. cit., Globe and Mail, July 23, 1983, p. B16, Apr. 9, 1984, p. B1.

15. Stats Can. op. cit.

16. Globe and Mail, Oct. 30, 1981, p. B1, Dec. 8, 1981, p. B2.

17. Stats Can. series 43-203.

18. Globe and Mail, June 18, 1985, p. B1, Jan. 25, 1984, p. B18.

19. see the Electronics and Household Electrical Appliances Statistical Review, Fourth Quarter, 1984, Department of Regional Industrial Expansion, Ottawa, 1985.

20. Sector Task Force, op. cit.

21. Towards the Electrical Economy, op. cit.

22. Protheroe, David R., Imports and Politics, Institute for

- Research on Public Policy, Montreal, 1980, pp.155-160.
23. Department of External Affairs, op. cit.
24. Canadian Manufacturers Association, op. cit.
25. Department of External Affairs, op. cit., and Knox, p. 54.
26. Statistics Canada, Series 43-203, 43-204.
27. See John N.H. Britton, "The influence of Corporate Organization and Ownership in the Linkages of Industrial Plants: A Canadian Enquiry", Economic Geography, Vol.52, 1976, A.E. Safarian, op. cit., and Privy Council, op. cit.
28. Statistics Canada, Series 67-509, Canadian Imports By Domestic and Foreign-Controlled Enterprises, 1978 and 1980, Table 2.
29. *ibid.*, Table 9 for 1978, Table 10 for 1980.
30. Towards the Electrical Economy, op. cit., pp. 363-39 and Sector Task Force, op. cit., p. 22.
31. J. A. Langford, Canadian Foreign Investment Controls, 1983. Don Mills.

32. Stephen Globberman, "Canada's Foreign Investment Review Agency and the Direct Investment Process in Canada," in Canadian Public Administration, Fall, 1984, Vol 27, No. 3.

33. Harold Crookell, op. cit., "The Impact of Government on the Major Appliance Industry in Canada", in D. G. McFetridge, Canadian Industrial Policy In Action, Royal Commission on the Economic and Development Prospects for Canada, Toronto, 1985. (University of Toronto Press), p. 61.

34. ibid., p. 61.

35. Foreign Investment Review Agency, Internal document provided by an Investment Canada official during an interview, April, 1980.

36. Crookell, op. cit., p. 63.

37. ibid., p. 64.

38. Interview with an official at Investment Canada.

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40. Department of Industry Trade and Commerce, op. cit.

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44. Canadian Labour Congress, An Economic Political and Industrial Strategy for Labour, Ottawa, 1978 and "Labour's battle to protect our economic rights", Document 21, CLC annual convention, 1982.
45. International Union of Electrical, Radio and Machine Workers (United Electrical Workers), Submission to the Minister of IT&C: Present and Future of the Electrical Manufacturing Industry, Ottawa, 1975.
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CHAPTER IV

CONCLUSION

We have seen in the course of this study that the Canadian appliance industry has not fulfilled the promise it showed in the early years of its development. Through the first half of the century the industry grew rapidly, employed large numbers of production and office workers, and served an extensive and growing consumer market. Since then, however, the industry has faltered, giving way to more efficient and innovative foreign producers in the domestic market, and failing to find a place in the growing world market for appliances.

As a result, Canada's trade balance in both major and small appliances has deteriorated consistently and dramatically. A more immediate concern is the fact that many firms have stopped producing appliances and many others have merged with or been bought out by large foreign subsidiaries. The result is that employment in the industry has diminished steadily, and there is little reason to believe that the industry under its current structure will have a place for its unemployed labour in the near future.

In Chapter I we identified a general orientation in state economic policy which we suggested was a contributing factor in the weakness of many of Canada's manufacturing industries. This orientation involved placing a priority on the development of resource-based industries, to the detriment of the country's secondary manufacturing sector. We noted that the state allocated huge quantities of public funds through grants, loans and its own direct investment into major resource and transportation projects, in cooperation with Canadian and foreign financial capital. With the bulk of available Canadian investment capital being directed toward those projects, investment in manufacturing required foreign sources of capital. The protective tariffs implemented in 1879 and maintained at high levels until after the Second World War invited that influx of foreign capital, and since no limits were placed on foreign ownership, Canadian manufacturing came to be dominated by foreign interests. We suggested in Chapter I that the lack of commitment by the state to the development of an indigenous manufacturing sector has much to do with that sector's present weakness.

In our study of the appliance industry we found much to corroborate this general theme. We identified numerous

factors which have contributed to the industry's difficulties over the years, some of which can be directly linked to the state's choices as to which sectors of the economy to emphasize.

Not all the difficulties can be linked directly to Canadian industrial policies, of course. During the 1950s and again in the early 1970s the strength of the Canadian dollar against that of the United States may have inhibited some exports and encouraged imports. Particularly in the 1950s consumer spending in Canada was at a high, and foreign producers took advantage of this to secure market shares and establish a strong presence in Canada. In the 1970s the downturn in the world economy associated with the OPEC oil shocks and stagflation put pressure on all manufacturers, and Canadian appliance producers were no exception. Competition for shares of stagnating consumer markets stiffened considerably at this time, partly as a result of the recession, but in the case of appliances and many other products also due to the entry of a number of newly industrializing countries into the fray.

These were all significant influences at certain times in the industry's development, but the evidence we found

pointed to another set of factors as having more important, long-term effects. These were Canadian tariff levels on appliances and the domination of the industry by foreign-owned subsidiaries.

The high tariffs on appliances and other manufactured goods arising with the National Policy were designed to substitute domestic production for imports of these goods. This import substitution policy succeeded to a large extent, primarily due to the influx of foreign producers which had previously been exporting to Canada. The increase in domestic production brought substantial growth to the economy, and helped raise the standard of living in Canada. This in turn attracted new producers, domestic and foreign-owned, into manufacturing in Canada. By the 1950s Canadians had among the highest standards of living in the world.

Unfortunately, the success of the import substitution policy was qualified. We noted in Chapter II that under the tariff shelter the appliance industry developed an inefficient structure, with large numbers of firms producing broad ranges of goods in amounts too small to take full advantage of economies of scale. As well, tariffs kept the Canadian prices for appliances artificially high, so that impetus to

improve efficiency was lacking. These conditions also applied to many other Canadian manufacturing industries.

By the early 1950s these inefficiencies had begun to manifest themselves in industry performance against international competition. Imports began to claim an increasing share of the Canadian market, and growth in the domestic industry slowed considerably. In the mean time, the state had agreed to a policy of tariff reductions in exchange for similar tariff reductions among Canada's trading partners. The intention was to open up foreign markets for raw materials and semi-processed goods associated with the resource industries. The effect on the already weak manufacturing sector was predictable, and we have seen in the case of the appliance industry that tariff reductions contributed to a further weakening of its ability to compete, and thus to decreasing employment in the industry.

Another qualification to the success of the import substitution policy was that it led to the domination of most manufacturing industries by foreign-owned producers. It is often argued that Canada should not concern itself with who controls firms or industries, but should focus

instead on their performance. The benefits of foreign direct investment outweigh any limitations which it imposes. It is true, for example, that the large number of foreign-owned subsidiaries in Canada have employed many people and brought tax revenues and other benefits to the Canadian economy. The rapid growth of Canadian manufacturing in its early years, and the standard of living attained by Canadians by the 1960s, must be attributed in part to the presence of foreign direct investment in the country.

From the experience of the appliance industry, however, we have found there to be a direct link between foreign ownership and poor long-term performance. We noted that the global strategies of the parent corporations prevented Canadian subsidiaries from conducting research and development, and thus from developing the innovative capacity necessary to compete successfully in world markets. As well, we found evidence that those corporate strategies in many cases effectively block exports from subsidiaries for products in which they might be able to compete.

The high degree of foreign domination in appliances means that a high proportion of the industry's firms are thus

limited in their potential to compete in world markets. The size and power of these subsidiaries has also placed severe limits on the activities of Canadian-owned producers. They are for the most part unable to compete with the large subsidiaries because of the latter's access to the technology and management and marketing expertise of their parents. Most Canadian-owned firms serve small gaps in the market, employ few people, and have insufficient resources to develop any substantial innovative capacity or international marketing networks.

We have seen that the state for the most part maintained its open-door policy on foreign direct investment until the early 1970s. We noted above that the early benefits of this investment were substantial. In Chapters II and III, however, we found that the problems associated with foreign domination were well recognized by the 1950s, and that the state began in the 1960s to promote voluntary guidelines on corporate behaviour to increase the benefits to the Canadian economy of foreign investment. On a few occasions, it tied procurement contracts with foreign producers to increased production by their Canadian subsidiaries. The only substantial attempt to negate the limiting effects of foreign domination, however, came in 1974 with the

establishment of FIRA. By this time manufacturing industries such as the appliance industry were faltering badly, and pressure on the state to find a solution to the stagnating economy and to the high unemployment heightened the appeal among policy makers of the view, long held by many analysts, that foreign domination of industry was a problem.

Through the mid to late 1970s the Liberal government attempted, with limited success, to extract benefits for the Canadian economy from foreign investors. As well, the state promoted the acquisition of world product mandates by foreign-owned subsidiaries. Unfortunately, the value of these actions was undermined by political interests which favoured the status quo. Intense lobbying from the American government, foreign capital and some elements of the Canadian business community led to the gradual dilution of FIRA controls. As well, FIRA recommendations were subject to cabinet approval, and this left the process vulnerable to political considerations remote from FIRA's mandate. We have seen that this was the case in regard to the appliance industry. The present Conservative government has all but abandoned the monitoring of foreign direct investment and the active promotion of world product mandates. Thus the

lack of innovative capacity and limited export potential of many Canadian manufacturing industries associated with foreign ownership appear likely to remain.

In summary, the findings of this study suggest that the early tariff policies of the state and its open-door policy toward foreign direct investment are in large measure responsible for the weak structure of the Canadian appliance industry. As international competition intensified in the 1970s, that weak structure has led to contraction of the industry and loss of jobs for its labour force. The evidence further suggests that the state's policy of tariff reductions in the post-war years has been inappropriate to the appliance industry because its weak structure has rendered it unable to respond to the increased competitive pressure which those reductions have brought. Despite recognition of this problem, the state has not shown itself willing to initiate long-term, politically sensitive policies to strengthen Canadian control of manufacturing industries and protect the interests of a labour force which is becoming increasingly disenfranchised.

This is not to suggest that the state has not had an interest in promoting a stronger manufacturing sector.

Rather, the evidence suggests that the state's overriding concern with the resource sector and its commitment to the interests of certain segments of Canadian and American capital have prevented it from dealing effectively with problems in manufacturing.

Faced with a badly deteriorating appliance industry, the state has taken some active steps to promote its regeneration. Unfortunately, these steps have been greatly limited in their possible scope by the depth of the industry's weaknesses and by the political limitations noted above. As a result, state actions have been primarily to support and encourage industry rationalization and consolidation. In the appliance industry this has meant a large reduction in numbers of producers, an increase in industry concentration in favour of a few large U.S.-owned firms, and a considerable reduction in employment.

Government commitment to reduce unemployment and assist the unemployed through this period of adjustment has been evident more in rhetoric than in positive action. The Liberal governments of the 1970s and early 1980s made some attempts through FIRA to minimize lay-offs associated with mergers and buy-outs, but we have seen that these were of

questionable effect in the case of the appliance industry. The present Conservative government, buoyed with the news that the unemployment rate had dropped to below 10 percent in early 1986, promptly cut back on job creation programs and reiterated its previously stated intention to phase out government job training programs. The demands of the marketplace are left to oversee these functions, despite the fact that no growth is expected in most of the older, more labour-intensive industries, and that capital has decried the dearth of trained labour in Canada since the 1950s, but shown no interest in taking responsibility for its development. Such policy decisions would appear to put in doubt the priority placed by the state on assisting labour to adjust to changes which are being brought into play in part by the policies of the state itself.

In Chapter I we discussed various models which helped to explain the political determinants of state economic policy. We noted that one in particular appeared best suited for application to the general case of Canadian industrial policy. It was based on the idea that while the state acts to satisfy the interests of competing groups in society, the preponderance of power lies with an identifiable elite, or ruling coalition. Subordinate groups have a measure of

power through their representation in decision making institutions, but where their interests conflict with a fundamental interest of the dominant group (that is, where a change would appear to threaten the dominant status of that group), they will be rejected in favour of the status quo.

Much of what we have found in the experience of the appliance industry would appear to be compatible with this description. The state's overriding emphasis on the resource-based industries has led it to adopt policies which have had detrimental effects on the appliance industry. In some cases, these effects may have been difficult to predict. For example, the long-term effects of foreign ownership were not a serious consideration among policy makers in the early years of Canadian manufacturing. In other cases such as tariff policy, evidence of the possible ill effects of policy decisions was abundant, and opposition from appliance producers and labour was unequivocal and had a clear voice in some departments of the bureaucracy. Yet the interests of the resource sector prevailed. The state's recognition of the negative effects of foreign ownership of Canadian manufacturing and its half-hearted attempts to deal with the problem reflect its unwillingness to take necessary long-term measures in the face of opposition from powerful

interests which support the status quo.

The evidence presented here helps explain the state's role in certain developments in Canadian manufacturing. We must be cautious, however, in trying to extrapolate from the experience of one industry. The conclusions presented here require support from studies of other manufacturing industries, some of which have been referred to here, but many of which have yet to be undertaken. As well, study of the resource sector in the context of the questions considered here would help illuminate further the nature of state decision making. As noted earlier, an examination of the global appliance industry in the 1980s would be a useful update to the present study. From these studies we might hope to find a way to stem the flow of jobs away from such industries as the appliance industry, and to better ensure that the deterioration we found in that industry will not carry over to others.

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