INDUSTRIAL CONCENTRATION AND CROWN CORPORATIONS

IN

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Part Three: Conclusions and Policy Recommendations

Summary

This document analyzes industrial concentration, market structure, and policy options for regulating crown corporations and large firms in British Columbia as of 1982.

Industry Concentration and Market Structure Overview

This section discusses the causes, effects, and measurement of industrial concentration, highlighting its ambiguous impact on efficiency, competition, and economic performance.

Industry Concentration and Its Implications

Concentration refers to market organization, with economists divided on its effects.

- Critics argue concentration damages small firms, raises inflation and unemployment, and skews resource allocation.
- Supporters claim it promotes high capital investment and efficiency.
- Concentration data alone is limited; it does not reveal market interactions, competitiveness, or technological levels.
- Useful for understanding manufacturing activity share, trends, and employment relations.
- Even at the 2-digit level, industries like primary metals, paper, and petroleum are concentrated.
- Industry classifications (S.I.C.) may not reflect direct competition due to product differences.

- Appendix provides 4-firm, 8-firm, and 12-firm ratios at the 4-digit level.
- Industries with over 45% four-firm concentration include slaughtering, fish products, dairy, food processing, plastics, pulp and paper, and petroleum refining.
- Economies of scale and foreign competition influence concentration levels.
- Minimum efficient firm size varies; industries like breweries, petroleum refining, and paint have plants below the minimum efficient size.
- Firms surviving with capacities less than 3% of industry size suggest scale economies are barriers to entry.
- Regional data indicates some industries (e.g., poultry, fruit canning, concrete) might be too concentrated considering regional factors.
- Industries with high concentration ratios often have substantial export activity; some also import significant products.
- Export data (e.g., fish, grain, wood, metals, chemicals) shows B.C. industries are active internationally.
- Critical concentration ratio threshold is around 45-50%; above this, industries tend toward collusion.
- Many industries, such as pulp, paper, chemicals, and petroleum, are highly concentrated with over 50% four-firm ratios.

Crown Corporations and Local Market Concentration

Focuses on public enterprises' role in provincial economic structure and potential impacts on local interests.

- Federal crown corporations operate in key sectors; their activities may conflict with B.C.'s economic goals.
- Concerns include control over production, investment, and ownership, especially with directors outside B.C.
- The report does not evaluate efficiency or political objectives of public enterprises.
- The federal government’s approach to railways (Crow Rate) involves compensation and capacity guarantees.
- B.C. government supports eliminating the Crow Rate.

- Key federal crown entities include National Harbours, Canadian National Railways, Petro-Canda, and others.
- Provincial crown corporations mainly provide decreasing-cost services; some, like B.C. Petroleum and Liquor Distribution, operate as fiscal monopolies.
- Crown corporations contribute significantly to revenue and industry development, with some involved in wood processing and insurance.

Policy Alternatives for Managing Concentration

Discusses government options to regulate or influence industrial concentration.

- Policies include merger regulation, tenure rights, tax/subsidy incentives, moral suasion, price controls, regulation, structural rationalization, and public ownership.
- No single policy fits all; context-specific approaches are necessary.
- Public ownership or direct regulation is suitable when economies of scale lead to natural monopolies.
- Antitrust policies aim to prevent collusion and excessive concentration but may be limited in oligopolistic markets.
- Price and quantity controls can distort market efficiency and are less effective than market-based solutions.
- Federal policies shape industry structure; provincial policies must consider federal influence.
- Merger policies limit concentration by setting caps (e.g., no firm controlling more than 25% capacity).
- Mergers are motivated by economies of scale, risk pooling, and resource sharing.
- Legislation like Canada's Combines Investigation Act enforces competition laws.
- The Royal Commission concluded no major legal reforms are needed but emphasized monitoring anti-competitive conduct.
- Merger policy enforcement focuses on price fixing, monopolization, and conspiracies.

Tenure Policy and Resource Rights

Addresses rights over public resources and their transfer mechanisms.

- Rights include mineral leasing, forest rights, fishing rights, and exploration rights.

- Managed through laws like the Forest Act, Mineral Act, Petroleum and Natural Gas Act, and Coal Act.
- Rights can be transferred via bidding, leasing, work commitments, or government exploration involvement.
- Effective resource management is crucial for sustainable industry development and economic planning.

Impact of Tenure Policy on Industry Concentration

Tenure policies significantly influence rights distribution and industry structure, especially in resource sectors like forestry.

- In 1980, the top ten forest companies held about 44.3% of the allowable annual cut in Public Sustained Yield Units.
- The ten largest firms controlled 89% of the committed annual cut in Tree-Farm Licences.
- Lumber industry concentration ratios are 52% for Coast and 28% for Interior regions.
- Control of cutting rights drives industry integration and hampers balanced processing sector development.
- Resource tenure policies can lead to high concentration, affecting industry competitiveness and structure.

Government Tax-Subsidy Policies and Their Effects

Tax and subsidy tools are used to influence industry output and concentration, but their effectiveness depends on demand and supply elasticities.

- Governments often subsidize desirable activities, e.g., accelerated depreciation allowances in mining and oil sectors.
- Federal resource allowances include a 25% profit tax on iron ore extraction and processing.
- Subsidies are blunt instruments; precise impact requires demand and supply elasticity knowledge.
- Tariff barriers protect sectors; lowering tariffs can reduce protection, lower prices, and shift profits to consumers.
- Reduced tariffs may harm protected workers and affect Canada's balance of payments due to increased imports.

Role of Moral Suasion in Industry Regulation

Moral suasion, or jawboning, is used to influence industry behavior without legislation, often backed by government threats.

- Politicians use moral suasion when legislation is slow or unavailable.
- Threats include denial of contracts, publicity, consumer boycotts, and regulatory threats.
- Price controllers often set prices at long-term average costs, limiting capacity expansion.
- This can negatively impact employment, output, prices, and cause shortages over time.

Public Regulation and Industry Oversight

Regulatory agencies aim to oversee industries, often representing producer interests, with some consumer and environmental input.

- The B.C. Utilities Commission is a key regulator for utilities, with debated industry bias.
- Other bodies include marketing boards, environmental groups, and watchdog organizations.
- Marketing boards control producers through inventory, pricing, and entry barriers, aiming for fair returns.
- Regulatory influence can shape industry structure and market competition.

Structural Rationalization of Industries

Industry restructuring involves changing the number of producers, specialization, and vertical/horizontal integration based on market incentives.

- Rationalization may involve increasing or decreasing producer numbers, forming alliances, or relocating plants.
- Industry structure should align with market incentives; regulation should not promote excessive concentration.
- Resource tenure policies that favor concentration can hinder rationalization.
- Divestiture (divesture) can be used to break up integrated firms into exploration, transportation, and refining units.
- Key questions include market dominance and efficiency gains from integration.
- Over-concentrated resource tenure may warrant industry divestment to promote competition.

Public Ownership of Industries

Public enterprises are government-controlled entities producing goods/services, often for revenue or natural monopoly regulation.

- Some industries operate as fiscal monopolies, e.g., liquor control, generating government revenue.
- Others, like utilities, may be natural monopolies, potentially incurring losses but providing essential services.
- Profits from public enterprises can be transferred via dividends or taxes; losses may require subsidies.
- Federal policies impact Crown corporations' profits and cross-subsidization, affecting regional and provincial interests.
- Equal taxation of private and public firms influences industry growth and market entry.
- Proper pricing is essential to prevent waste and inefficiency, ensuring resource use aligns with true costs.