



The State and Strategic Management of an Enterprise: A Life Cycle Analysis of a Symbiotic Relationship, 1873- 1997

Barbara Austin

In this paper, I develop and analyze a life cycle model of Canada's first major manufacturing industry, primary textiles, to discover some factors underlying the industry's rise and decline. The patterns uncovered may forecast the future of other Canadian manufacturing industries.

Canada's early economic development was grounded in staples: first, fish, fur, and timber; later, minerals and paper; and later still, petroleum. The manufacturing sector was created and nourished by protective tariffs to provide stable employment in an otherwise highly cyclical staples-based national economy. In the twenty-first century, staples continue to dominate while manufacturing declines. In this research, I examine the rise and decline of primary textiles, Canada's first—and for the period from 1880 to 1937, largest—manufacturing industry.

In the mid-nineteenth century, firms in the infant Canadian primary textile industry were small entrepreneurial operations. The industry showed the same characteristics in 2000. In the intervening 150 years, however, the industry changed into a tight oligopoly of firms, each with a wide product range, sold exclusively in Canada, and operating in mutually agreed upon market segments. In this study, I examine the industry's structural changes over the years from 1845 to 2000.

For most of this time (between 1879 and 1989), there was some tariff support for Canadian textiles. Did tariffs first foster this industry, and then later abandon it? Were high tariffs on textiles responsible for creating an industry that for fifty years (from 1885 to 1935) employed the largest number of workers in the country's manufacturing sector? Did government tariffs on imported textiles, and later the absence of such tariffs, influence the structure of the industry? I consider these questions by first tracking the industry structure and then the tariff changes, in order to examine the correlation between the two. In addition, to evaluate the consequences of the structure/

Barbara Austin <baustin@brocku.ca> is professor of strategic management at Brock University, St Catherines, Ontario, Canada.

tariff relationship, I discuss two further indices: the division of the Canadian textiles market between foreign and domestic producers, and the overall financial performance of the industry.

I base my research on a series of corporate histories that I have developed of major firms in the Canadian textile industry from my examination of extensive company materials, and, for the later periods, from interviews with participants. The materials the companies allowed me to examine include the Minute Books and other documents of Dominion Textile, Wabasso, and Hamilton Cotton and the many firms they acquired.¹ I integrated the findings of the individual studies to examine patterns of change in the industry. These patterns form the Canadian primary textile industry's life cycle, the phases of which are specific to this case.

I have used the technique of Henry Mintzberg and James Waters, developing chronological lists of actions and environmental trends to track changes.² From these lists, periods of strategies are inferred to develop theoretical interpretations of each phase. I charted these periods separately and then compared the charts to infer connections and draw conclusions.

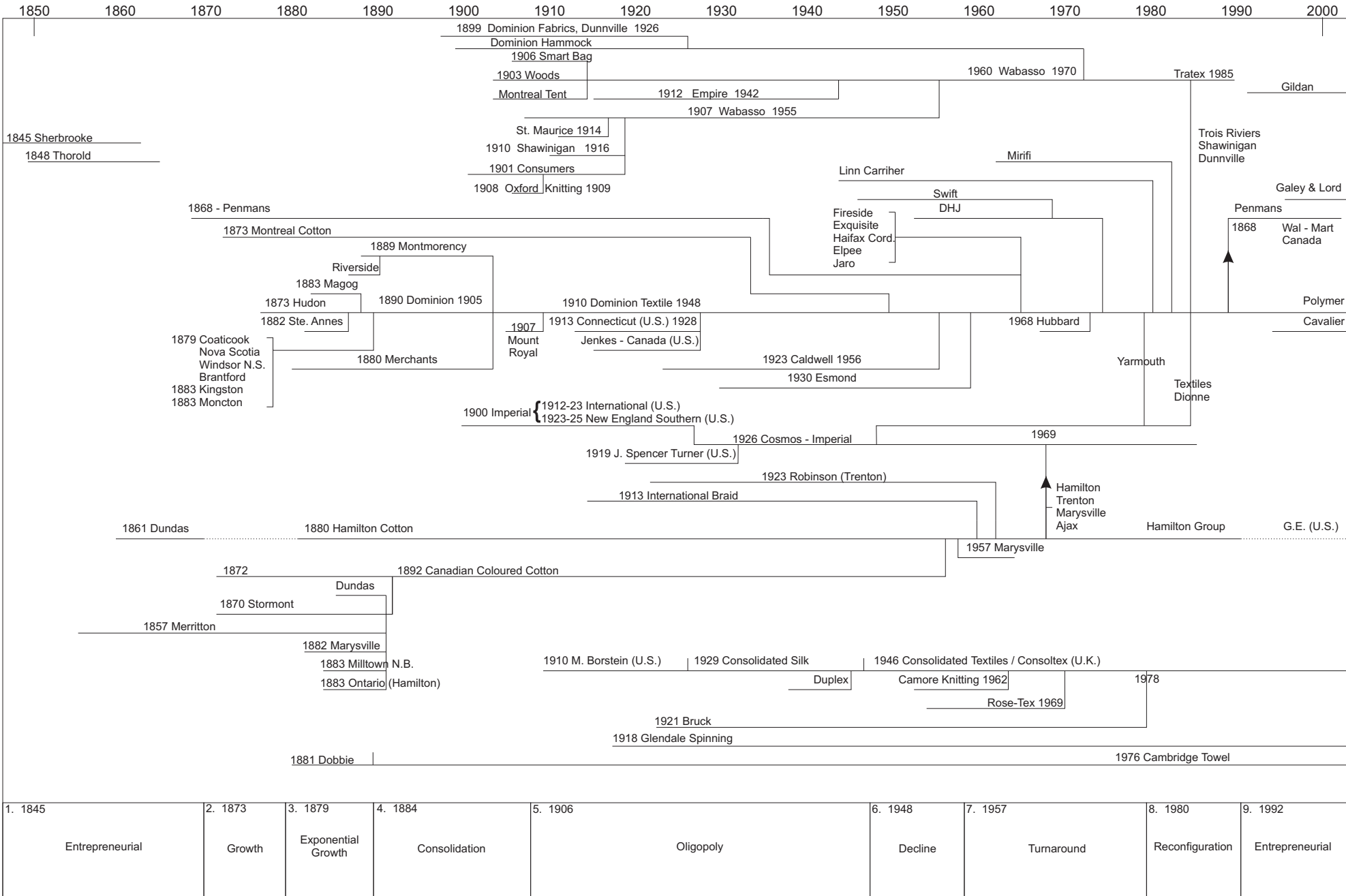
Phases in the Industry Structure

In Figure 1, I chart the formation and exit of the major companies in the Canadian primary cotton textile industry, to illustrate the industry's life cycle. The industry was traditionally defined as encompassing those firms that converted raw cotton to woven cloth (grey cloth) that might be further processed by bleaching or printing. The evolving structure was a labyrinth of mergers and acquisitions. Analysis of the chart shows the phases of: Entrepreneurial (1845-1872), Growth (1873-1878), Exponential Growth (1879-1883), and Consolidation (1884-1905). Then, for a fifty-year period, an Oligopoly (1906-1947) negotiated protected niches and controlled output in

¹ I examined the corporate documents of Dominion Textile (1905-1997) at its headquarters in Montreal before the company takeover. Many of the Minute Books are held by the National Archives of Canada, Ottawa. The Wabasso documents were examined in 1987 at the firm's Montreal headquarters after its bankruptcy, during the period when the assets were being disposed. When I examined the documents of Hamilton Cotton and its acquisitions they were in boxes in the basement of a rope factory now demolished. Publications include: Barbara Austin and Henry Mintzberg, "Mirroring Canadian Industrial Policy: Strategy Formation at Dominion Textile from 1873 to 1990," *Canadian Journal of Administrative Sciences* 13 (March 1996): 46-65, at 46-48; Barbara Austin, "Structural Adaptation in a Family Firm: Hamilton Cotton/Hamilton Group 1832-1991," in *Canadian Papers in Business History*, vol. 2, ed. Peter Baskerville (Victoria, British Columbia, 1993), 25-45; Barbara Austin, "In the Kingdom of Wabasso, 1907-1985," *Proceedings of the Administrative Sciences Association of Canada, Business History* 20 (1999): 24-35.

² Henry Mintzberg and James A. Waters, "Tracking Strategy in an Entrepreneurial Firm," *Academy of Management Journal* 25 (Sept. 1982): 465-499.

Figure 1. Canadian Textile Industry Phases



an industry environment stabilized by tariffs. The withdrawal of government tariff support after 1947 was followed by firm failures and a general Decline (1948-1956). The surviving firms managed a Turnaround (1957-1979). The recession of the early 1980s started a period of accelerating Reconfiguration (1980-1991), as the duopoly of Dominion and Wabasso became a monopoly by Dominion, a firm in transition from a Canadian to a global enterprise. From 1992, the industry returned to an Entrepreneurial mode, characterized by emerging small players exploiting niche markets. In the following discussion, I describe the general characteristics of each phase in terms of the scale of operations, technology, products, and scope of distribution.

1845-1872: Entrepreneurial

Small-scale mills, started by local entrepreneurs, using machinery purchased in Britain, manufactured a narrow range of cotton goods, primarily batting and unbleached cloth for household use and industrial bags. The mills served their local consumers in the British North American colonies of Canada East and Canada West. Results were marginal, marked by bankruptcies and periods of closure, followed by re-openings by new entrepreneurs. Examples of these firms include Merritton Cotton (1857), Dundas Cotton (1861), and Cornwall Manufacturing (1868) in Ontario, and Sherbrooke Cotton (1845) in Quebec.

1873-1878: Growth

The industry's dynamics changed quickly in the early 1870s. Three large-scale mills that integrated the functions of spinning, weaving, and bleaching in one firm were formed within a few years: Canada Cotton Manufacturing Co., Cornwall (1872); the V. Hudon Cotton Co., Montreal (1873); and Montreal Cotton Co., Valleyfield (1873). These mills introduced economies of scale and scope to the industry.

1879-1883: Exponential Expansion

Beginning in 1879, many new cotton textile companies were formed, some large, but most small-scale. Included in the new firms were a cluster of large integrated mills, Merchants Cotton (1880), Montreal; Hamilton Cotton (1880), Magog Cotton (1883), Milltown (1881), and Marysville (1882), New Brunswick; and Yarmouth (1883), Nova Scotia. Several smaller mills—located in Coaticook and Chambly, Quebec; Brantford and Kingston, Ontario; and in the Maritimes in Halifax, Windsor, and Moncton—also appeared. Within this short period, most of the players in the industry were in operation. In order to compete, mills added new fabric styles to their product lines and several incorporated a printing process. The profitable firms in this period were the three existing large-scale integrated operations of Canada Cotton, Hudon, and Montreal Cotton, formed in Phase 2. The sudden rush of new firms saturated the market with more cotton goods than could be absorbed.

1884-1905: Consolidation

The large number of mills formed in the early 1880s created an explosion of excess capacity. Industry leaders organized two major mergers to gain control over selling prices for this output and thus reduce competition. The Hudon firm (renamed Dominion Cotton in 1890) acquired the mills at Coaticook, Halifax, Windsor, Brantford, Kingston, Moncton, and Chambly, adding them to previous acquisitions of Ste. Anne's and Magog. A second consolidation created Canadian Coloured Cotton, amalgamating mills in Dundas, Cornwall, Merritton, Milltown, and Marysville. Together, Dominion and Canadian controlled over half the output of Canadian cotton textiles. The potential output of the industry still was greater than could be absorbed by the market if the mills operated at full capacity, as a result of overbuilding around 1880.

Andrew F. Gault headed a cartel designed to control output to meet the fluctuating demands of the market and to coordinate industry production. Gault was president of Dominion, Canadian, Montmorency, and Montreal Cotton, a connection further strengthened by interlocking boards of directors. Gault's death in 1903, followed by the election of different men as presidents of these firms, ended the unity of purpose, renewing price competition. Most firms in the industry soon faced bankruptcy.

1906-1947: Oligopoly

Faced with bankruptcy, four firms (Dominion Cotton, Merchants, Montmorency, and Colonial) merged to form Dominion Textile in 1905. Dominion controlled 25 percent of the industry's capacity. Legal control replaced Gault's cartel. Dominion included on its board David Morrice, president of the industry's second largest firm, Canadian Coloured Cotton. Firms agreed on product niches in order to avoid direct competition. The industry's third largest firm, Montreal Cotton, had refused to enter the 1905 merger because it was financially solvent, an anomaly. Dominion bought up its shares as they became available and within a few years became Montreal Cotton's majority shareholder. Dominion's directors were elected to the Montreal Cotton board, making it a de facto subsidiary. The fourth largest firm, Hamilton Cotton, focused on the market niche of industrial cottons to avoid direct competition. A new firm entered the stabilized industry when the disgruntled general manager of Dominion, Charles Whitehead, founded Wabasso Cotton in 1907. Wabasso exploited a niche for fine-quality white goods that avoided head-on competition with Dominion, Canadian, and Hamilton Cotton.

The presidents of these firms met regularly in Montreal, at the Ritz hotel, to maintain the stability of the oligopoly under the leadership of Dominion Textile. There were no great changes in production methods, product lines, or consumer demand. In the 1920s, Dominion acquired two tire cord firms started in Canada by American companies. Wabasso acquired several cotton knitting firms to expand its operations downstream and to provide a steady market for its yarns. Canadian made few changes, continuing to specialize in

dyed and printed fabrics. Hamilton Cotton administered Cosmos-Imperial after 1926, and continued to dominate the industrial cottons market. These firms refurbished existing mills, but did not add to production capacity. Through the two World Wars and the 1930s Depression, the oligopoly members respected each other's niches and cooperated to cut back on production when markets were poor. For a few years after World War II, pent-up consumer demand kept all Canadian mills operating at capacity.

1948-1956: Decline

A flood of imports from the United States and Japan sharply reduced the demand for Canadian-produced textiles in mid-1947. By the early 1950s, almost all the Canadian firms were operating at a loss. Dominion Textile absorbed Montreal Cotton in 1948, but the timing coincided with Dominion's acquisition of the last of its subsidiary company's shares. By 1953, facing bankruptcy, Dominion, in desperation, re-examined its approach and reinvented itself as a marketing- rather than production-driven organization. In a few years, it showed a profit again.

Canadian Cotton did not respond to the changed environment and declared bankruptcy in 1959. Now number two, Hamilton Cotton acquired two additional mills and focused on efficient operations, but the fourth generation of its owners, the Young family, began rethinking their commitment to the textile industry. At Wabasso, now number three, a new family of owners, the Crabtrees, replaced the Whiteheads. Wabasso also expanded by acquiring Woods Manufacturing in a reverse takeover in 1956. Except for rayon production at Dominion, product lines had changed little in fifty years, but all three managements emphasized production efficiencies. In 1946, Consolidated Textiles of the United Kingdom acquired Canadian facilities to operate in the expanding synthetic blends market niche.

1957-1979: Turnaround

The reinvigorated Dominion Textile tried to meet the complexities of consumer demand with close attention to ever-changing tastes. It built new plants to produce synthetic fabrics, operations that expanded to account for half its sales by the late 1960s. It acquired firms in additional niches such as Penmans (knitwear), Caldwell (towels), and Esmond (blankets), as well as entrepreneurial start-up firms, such as Elpee and Jaro in new products (carpet backing, geotextiles) to become an even larger firm, operating in most product niches in Canada. Its technology was derivative, but up-to-date.

Hamilton acquired mills in Trenton and Ajax, expanding while emphasizing efficiency. The Young brothers also explored new businesses in international leasing (especially International Business Machine products). They used the textile assets to leverage their entry into new interests, and in 1969 the Youngs left the textile industry. The enlarged Wabasso imitated the new consumer-driven strategy of Dominion Textile, and similarly prospered.

In the 1970s, the duopoly of Dominion and Wabasso dominated the industry. Dominion operated in most product niches, selling its output

almost entirely in Canada. Wabasso prospered with a “me-too” strategy, imitating the initiatives taken by Dominion. Yet, Dominion Textile executives saw the stable Canadian market as static, lacking in opportunities for further growth. In 1975, they acquired DHJ/Swift, an American denim producer. This was seen as testing the waters for possible growth, rather than as a change in strategic direction to an international strategy. The third largest firm, Consolidated (also known as Consoltex), had acquired three Canadian firms with similar product lines. Several smaller firms continued in niches, usually combining spinning and weaving or knitting with integrated finishing operations. These firms included Glendale (founded in 1918), which sold yarn to cotton knitwear firms, Stanfields (1882) and Monarch (1883). Originally in the woolen industry, these firms now produced cotton knit goods resulting in the reclassification of their industry. In 1976, Cambridge Towel Corp. acquired several small firms in the Cambridge area, including Stauffer-Dobbie (1881), to produce low-end household cottons.

1980-1991: Reconfiguration

Sales of textile goods were dismal during the early 1980s recession. Wabasso did not recover, declaring bankruptcy in 1984. Dominion picked up three of Wabasso’s mills and the brand name in order to hold the market against imports. Recovering from the recession, Dominion Textile acquired several U.S. yarn mills in the early 1980s. The firm’s executives now saw international expansion as essential for growth and as preparation for opportunities that might open up when discussions on a free trade pact with the United States were concluded. In 1987, Dominion made an audacious hostile takeover bid for the largest U.S. textile firm, Burlington Industries. The attempt failed, but in the aftermath, Dominion acquired the asset it most wanted: Burlington’s denim operation. By 1988, less than half of Dominion’s output was produced in Canada. It gradually sold, harvested, or closed the Canadian mills that produced the small quantities of goods for Canadian niche markets, while retaining a few large firms.

Post-1991, Entrepreneurial

In the 1990s, Dominion emphasized a few products produced globally, especially denim, while it continued to dispose of Canadian operations considered non-essential to its new core competencies. This divestment included its large-scale Canadian yarn mills, which former employees bought and operated as Cavalier Textiles. In 1997, the U.S. firm, Polymer, acquired Dominion in a semi-hostile takeover. Polymer continued to operate some of Dominion’s non-woven mills in Canada, but sold the Canadian industrial fabrics division to Canadian entrepreneurs and the international denim and workwear mills to Galey & Lord, an American textile and clothing firm.

In an industry life cycle model, one expects the entrepreneurial stage to start the process, as is the case here. One does not expect, however, that after more than a century of oligopoly/duopoly/monopoly the industry structure could be characterized as entrepreneurial. Some of these firms are over a

hundred years old, controlled by the fifth generation of the founding family, but they survive because they still operate in an entrepreneurial mode, seeking and exploiting whatever opportunities the market offers. Besides venerable companies such as Stanfields and Monarch, a second cluster of new firms such as Cavalier and Gildan continued production in Canada. Gildan, a family-owned and -operated business, through nimble actions has become a leading global supplier of cotton knitwear. The Wabasso brand, acquired by Cambridge Towel, is marketed throughout North America. A third cluster of firms in the industry is the Dominion Textile mills, now under the foreign ownership of Polymer, and Galey & Lord. Surprisingly, despite the change in the structure of the industry to smaller firms operating in specialty niches, the total production of textiles in Canada steadily increased throughout the 1990s. After 2000, Chinese imports began cutting into sales in what now appears to be a meltdown of the North American textile industry.

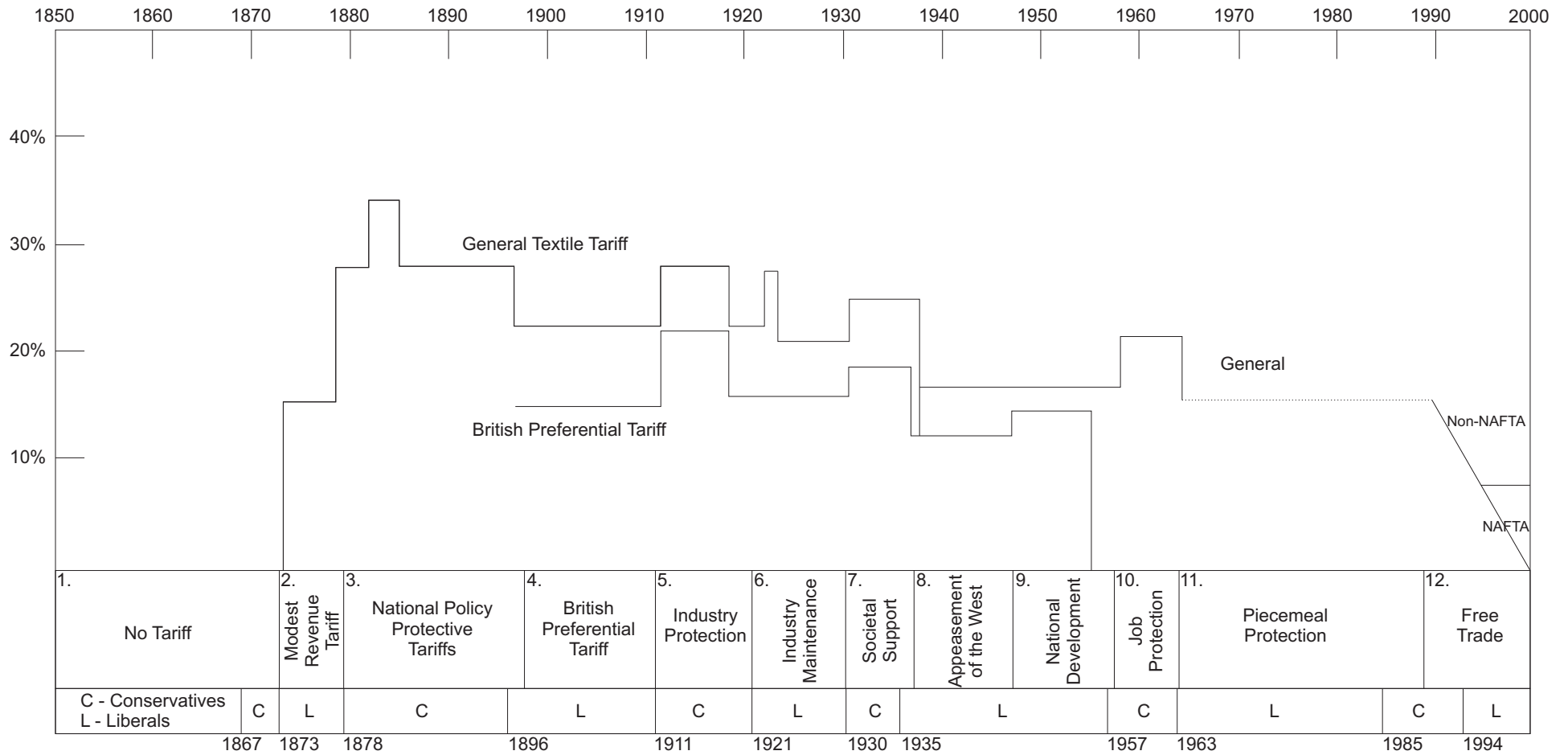
Textile Tariffs

Having established the industry life cycle, I track the tariffs (or lack of them) affecting the industry in a second independently derived chart (see Figure 2).

Tariff rates, over time, reflected the political agendas of the Conservative and Liberal governments in responding to their supporters. Figure 2 indicates the inconsistent pattern to which the firms had to adapt. The industry had political influence while it was labor intensive. Until 1935, the textile lobby could strongly influence Conservative governments to raise tariffs. I describe instances of their influence in 1879, 1911, and 1930. Liberal Party governments lowered tariffs in 1897, 1922, and 1936. When the industry reached its maximum size in 1947, its political “clout” had diminished, as government reframed tariffs to benefit newer industries such as automobiles. From 1957 to 1989, international treaties initiated by the Multi-Fibre Agreement (MFA) and the General Agreement on Tariffs and Trade (GATT) superseded domestic policies. Piecemeal tariffs, set by Canada, maintained the viable parts of the industry, partly to provide employment in depressed regions.

In contrast, tariffs higher than those in Canada sustained the textile industry in the European Union and the United States where the textile lobbies were strong, and federal and state governments powerful enough to ameliorate some of the harmful effects of international treaties on their domestic markets. In the negotiations leading to the Free Trade Pact of 1989 with the United States, the Canadian government intended to continue to sustain the industry in Canada, but sacrificed the industry at the last minute in order to get the agreement ratified by the U.S. Congress. The Free Trade Pact devastated many sectors of the Canadian industry (consumer products and fabric for the garment industry), but certain segments (sales of yarn, industrial fabrics, and knit goods) continued to perform well in the new North American trading region. The analysis found the following phases in the use of tariffs by successive governments.

Figure 2. Canadian Cotton Textile Tariffs



1845-1872: No Tariff

In nineteenth-century colonial Canada, tariffs were the main source of government revenue, but tariffs were not applied to imported textiles.

1873-1878: Modest Tariff

In 1873, the Liberals applied a tariff of 15 percent to imported cotton goods. This tariff was levied for income, rather than to protect the industry from imports.

1879-1897: National Policy Tariffs

Following their return to federal power in 1878, the Conservative government of John Macdonald significantly raised tariffs on a range of imported goods in 1879, partly for the traditional reason of raising revenue, but with the added purpose of protecting certain industries. In selecting textiles as one of the industries to foster, the Conservatives rewarded the financial support they received from the Montreal business and financial community, many of whom had invested in the mills. The Catholic clergy, another source of political support, supported the move because the mills provided employment to Quebeckers forced to leave overcrowded farms for jobs in the textile mills of New England. The Conservatives raised the tariff to 30 percent by the end of the decade, and to 35 percent for a period in 1884. The tariff was reduced in the late 1880s to a still substantial 30 percent.

The high tariffs continue to be seen from two partisan perspectives. Historian Ben Forster notes these viewpoints: “One holds that the Conservatives sold themselves to a monolithic manufacturing interest in return for political power, and the other asserts the purity of Conservative diplomacy in bringing forth a tariff vital to the future progress of the nation.”³ He concludes that the protection given industrialists followed lobbying by diverse interests, and the tariffs reflected those interests.

1897-1911: British Preferential Tariff

At the third Colonial Conference in 1897, the Liberal Prime Minister, Wilfrid Laurier, rejected the overtures of British Colonial Secretary Joseph Chamberlain to form a commercial and defensive union with Britain. However, Laurier acknowledged Canada’s dependence on British military support by reducing by half the tariff on British textile exports to Canada. The General Tariff stayed at over 30 percent, keeping out most cotton goods made in the United States. The new British Preferential Tariff (BPT) conceded British goods the lower rate of 15 percent.

³ Ben Forster, “The Coming of the National Policy: Business, Government and the Tariff, 1876-1879,” in *The Development of Canadian Capitalism: Essays in Business History*, ed. Doug McCalla (Toronto, 1990), 108.

1911-1921: Industry Protection

After their return to power in 1911, the Conservatives raised the BPT to 24.5 percent and the General Tariff to 30 percent, renewing their support for the Montreal business elite, who were heavily invested in the industry, and reflecting the continuing close ties among the government, the textile industry, and banking.

1922-1930: Industry Maintenance Tariff

The Liberals, assured of all sixty-five Quebec seats in Parliament, tried to quell the rise of the new Progressive Party in the western provinces with a policy of selective tariff reductions that would lower the price of consumer goods produced in the East to western voters. The BPT was halved to 12.5 percent, while the General Tariff that applied to other foreign goods (of which the U.S. was the largest exporter) remained at over 30 percent. Personal income and corporate taxation, introduced in 1917, meant that the government no longer relied on tariffs as its main source of revenue. The government did not need to use tariffs to stimulate growth in the textile industry's capacity because the emergence of new consumer product manufacturing industries such as automobiles and electrical appliances provided new employment opportunities. Textiles, however, still employed the largest number of workers in the manufacturing sector and stabilization of the industry by continuing protective tariffs protected those jobs.

1930-1935: Societal Support

Because of the Depression, the Conservatives reformulated the tariff policy to provide stable employment in the textile mills. The General Tariff was raised to reduce American and Asian imports, and the BPT increased to 17.5 percent to protect domestic industries.

1936-1948: Appeasement of the West

The lowering of textile tariffs in 1936 hurt the Quebec mills, but the Liberal Prime Minister Mackenzie King took that risk in an effort to stem the rise of the new Co-operative Commonwealth Federation Party. King was trying to show the West that he had the eastern industrialists under control. During World War II and the postwar period, tariffs were not a factor, because by 1940 imports had ceased. Government subsidies allowed the sale of textiles below production costs during the war, and until 1947, to encourage the industry to produce at its maximum capacity.

1948-1956: National Development

By 1948 the wartime allocation price supports ended. Duties on British imports were abolished to aid in Britain's recovery, while the Geneva Agreements lowered duties on imports from other nations. The industry's relations with the government had changed. Until 1947, Canadian governments, to varying degrees, viewed the textile industry as valuable and in need of protection because of the jobs it generated. The government

approached industry executives directly when issues arose; a telephone call from the Minister of Finance was normal at Dominion Textile.⁴ After 1947, government relations with business generally became more formal. In 1953, Ottawa decided to help the rapidly declining industry by amending the Customs Act to stop dumping by U.S. firms, but the legislation was not effective.

1957-1963: Job Protection

The Conservative government of John Diefenbaker responded to a recession and to the industry's agitation over its 45 percent domestic market share by increasing the duties on imported textiles in order to save jobs. Despite its decline, the combined primary and secondary textile industry ranked third in terms of the number of people employed in the manufacturing sector. The government used a wide range of industrial policies to stimulate selective industry growth to preserve textile and garment industry jobs.

1963-1988: Piecemeal Protection

Canada signed the first General Agreement on Tariffs and Trade in 1962, giving textile products from developing Asian and other low-wage countries greater access to the Canadian market. Thereafter, international agreements had a greater influence on textile industry conditions than did national tariffs. Canadian government intervention was limited to piecemeal restrictions on imports, designed to compensate somewhat for regional disparities through equalization payments that benefited some mills. When textile industry employment fell off too rapidly and affected employment, especially in Quebec, regional transitional support grants were used to maintain jobs.

In the 1970s, the textile industry became increasingly global and subject to international agreements. The Multi-Fibre Agreement, an international regulatory group, seriously affected the operations of Canadian companies. As more developing countries exported low-cost textile products to the Canadian market as a result of the GATT rulings, the Canadian industry protested that the lack of a firm government policy created a climate of uncertainty, undermining investment. The Liberal government's response, the 1970 Textile Policy recommending selective protection, signaled that they viewed textiles as a declining industry. The industry was urged to promote productivity and efficiency by concentrating on viable sectors, while phasing out less competitive lines.

To administer the policy the government set up the Clothing and Textile Board (CTB) to detect the evasion of quantitative restraint agreements by foreign producers and to provide technical and promotional support to the domestic firms. The CTB conducted hearings in sectors of the industry being injured by imports and negotiated restraint agreements on a product-by-

⁴ Edward King (Dominion Textiles), personal correspondence with author, 1983.

product, country-by-country basis. While the United States and the European Community held imports to 12 and 22 percent, respectively, the Canadian government accepted a 50 percent import penetration level. When imports reached 60 percent of the Canadian market in 1975, the government took action under Article 19 of GATT and put in a series of global restraints. The 1970 Textile Policy was partly politically motivated, because the textile industry was a major employer in Quebec where Pierre Trudeau's Liberals held all the parliamentary seats. While the government's focus in the 1970s was on energy policies, when the textile industry fell off too rapidly and affected employment, especially in Quebec and the Maritimes, regional employment transitional support was used to prop it up.

In the recession of 1981-1982 the government took action on the recommendation of the CTB to hold the 50 percent mark on imports, set quotas on an array of imported products for ten years, and gave seed money to modernize plants. When the Conservatives came to power in 1985 with plans to continue free trade negotiations with the United States, the government's sporadic aid to textiles declined.

1989-2000: North American Free Trade

Ottawa proposed a duty remission scheme for textiles in the free trade negotiations with the United States, but the American Textiles Institute, then one of the most powerful U.S. lobbies, threatened to block passage of the Free Trade Pact in Congress. Ottawa capitulated. The Free Trade Pact eliminated tariffs on the flow of goods, including textiles, in steps over ten years. The government withdrew from involvement in the industry. The 1992 North American Free Trade Agreement that admitted Mexico to the Canada/U.S. trading bloc continued the no-support policy in Canada. World Trade Organization tariffs applied to imports from non-NAFTA countries, but these were set low. In 2000, they were 5.4 percent for yarns, 9.9 percent for woven fabrics, and 12.1 percent for knit fabrics.⁵

Initially, then, Canadian government tariffs were politically motivated to support employment in the country's largest manufacturing industry. After World War II, textiles were supplanted in political importance by industries using newer technologies and, except for sporadic piecemeal support, were no longer protected. After 1989, the government abandoned the textile industry.

Foreign and Domestic Market Share

If tariff schedules helped to determine the size of the domestic market share that Canadian producers could sell to, there were exceptions to the pattern. World wars and buoyant or depressed business conditions could override the intention of tariff policies. Because Canadian goods, with few exceptions, were more expensive to produce than imports, goods produced in Canada

⁵ Canadian Textiles Institute, *Canadian Textile Policy*, monograph, press release (Ottawa, 2001).

were sold domestically until the 1990s brought free trade in North America. A timeline recording the domestic and foreign market share of the Canadian market tracks this issue (see Figure 3).

1845-1878: Regional Niches

Goods imported from Britain dominated the Canadian market. Small domestic mills served their region's market with simple lines of goods. The 1867 Confederation of Canada created a larger market, gradually linked by a national system of railways. The railways opened up national trade and permitted large-scale mills designed to serve the entire country.

1879-1882: National Boom

The 1879 National Policy protective tariff on cotton textiles suddenly made Canadian goods seem attractively priced to Canadian consumers, compared to imports. The domestic market share spiked from about 10 to over 60 percent of Canadian consumption. Three large-scale mills—the Hudon, the Canada, and the Montreal Cotton—made huge profits. The sellers' market conditions immediately after 1879 precipitated the formation of several more large-scale mills, and numerous small regional ones, breaking the domination of British suppliers. With the new mills, domestic companies provided for three-fifths of the Canadian market.

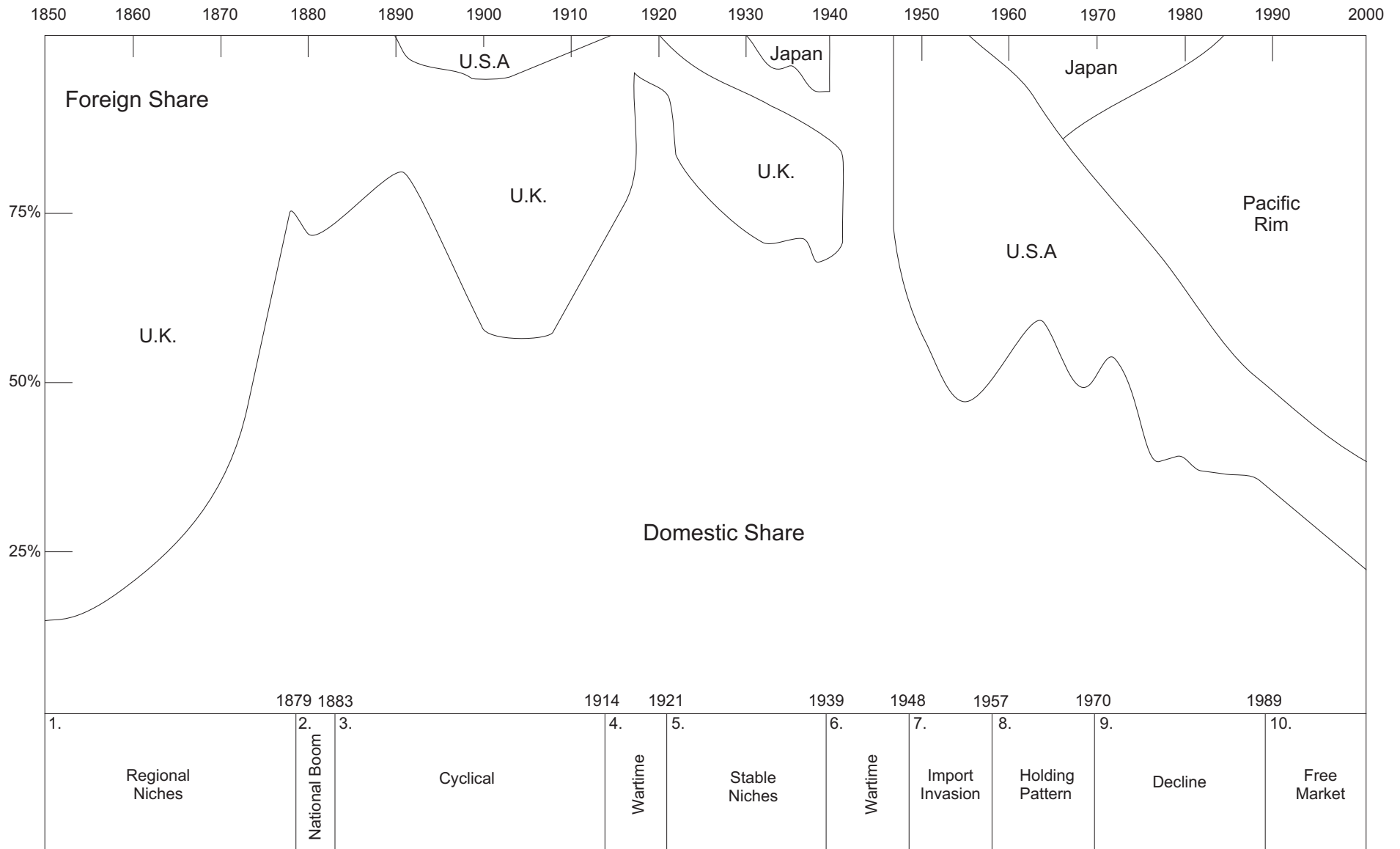
1883-1914: Cyclical Sales

By 1883, the new domestic mills were in production, creating chronic over-capacity that resulted in intense competition, including price-cutting. Despite high tariffs of 35 percent on imports, the world depression in the mid-1880s brought dumping by British producers. Some U.S. mills also sold their excess output in Canada at very low prices. In 1885, the Canadian mills sought an export market and sold goods in China, using the newly built Canadian Pacific Railway to ship goods through Vancouver, but this trade ended abruptly with the 1900 Boxer Rebellion. Sales in domestic textiles did not reflect the general economic upturn in Canadian business conditions after 1896 because the BPT, by lowering the price of British imports, sustained intense competition in Canadian markets. From 1897 to 1904, ruinous domestic competition kept selling prices so low that mills could not make a profit on operations. The collective action accompanying the merger of several firms in 1905 stabilized the industry's output to match market demand. A world recession during 1912 and 1913 cancelled out the 1911 increase in the tariff on textiles. The BPT determined that competition was primarily from Britain, as the General Tariff mainly kept out American goods because of high prices.

1915-1921: Wartime I

During World War I and in the postwar period, Canadian mills met a boom in demand from the government for the armed services. The war in Europe

Figure 3. Domestic and Foreign Market Shares



absorbed foreign production, stopping all import competition in Canada. Canadian mills also produced war goods for the United States in 1917-1918, because American mills were unprepared for that type of demand.

1921-1939: Stable Niches

The textile industry did not share in the boom of the newer manufacturing industries in the 1930s. Between 1921 and 1927, world demand for cotton goods was stable and met by the existing mill capacity. The Canadian industry still had excess production capacity and faced heavy competition from British imports because of the preferential tariff. A lowering of the General Tariff on textiles in 1927 encouraged U.S. jobbers to dump over-production in Canada. These already poor market conditions in textiles were not substantially changed after the stock market crash of 1929. Tariffs sustained the industry until 1935; lower Liberal tariffs in 1936, and an increase in American and Japanese imports, created more difficult market conditions in textiles at a time when other industries were showing some recovery.

1939-1947: Wartime II

Again, imports stopped. The domestic market eagerly absorbed all output. The 1941 Wartime Prices and Trade Board directly controlled market prices and distribution. Until 1947, domestic producers supplied 100 percent of domestic demand, although tariffs remained at the relatively low levels set in 1936.

1948-1957: Import Invasion

In 1948, when government price support was dropped and tariff support remained low, market conditions suddenly reversed. Imports into Canada shot up, as U.S. mills dumped excess goods in Canada, reducing the domestic market share to 45 percent by 1953. Customer demand was high, but not for Canadian goods that could not compete in price or styling with the American products. Heavy Japanese imports began in 1954, using the tactic of concentrating on one industry sector at a time until they controlled a specific market niche before moving on to control another niche.

1957-1970: Holding Pattern

Government import containment policies, used first by the Diefenbaker Conservative government, and then by the Liberals of Lester Pearson's government, halted the steady decline in domestic market share, stabilizing it at around 50 percent.

1970-1989: Decline

The 1970 Textile Policy had a short-term stabilizing effect on the industry. In the 1970s, international trading patterns changed the nature of competition. Developing countries focused on garments. Developed countries, notably the United States and countries of the European Union, emerged as major

suppliers of manufactured yarns and fabrics to global markets by taking advantage of technological improvements in production. Japan lost its competitive position as the low-cost producer. International competition tended to specialize in long-run lines sold globally, forcing Canadian producers out of those lines and into high-quality niches. Imports gained 60 percent of the Canadian market in the world recession in the mid-1970s and again in the early 1980s. The domestic market share of Canadian firms declined steadily.

1989-2000: Free Market

After 1989, the Canadian primary textile industry developed global export markets. Exports tripled in the decade after 1989, growing from 11 percent to 30 percent of production. In contrast, in 2000, the United States exported 13.7 percent of its output. Of the \$10 billion of textiles produced, \$3.3 billion was sold outside of Canada (the same sales dollars brought by Canadian wheat exports). Half the Canadian exports were to the United States.

International business cycles strongly affected industry competition in Canada because the tariffs could not prevent dumping by foreign producers during world recessions. Textiles are commodity products sharply affected by supply and demand conditions. In world recessions, when domestic demand declined, foreign countries dumped surplus goods, creating magnified cyclical invasions.

The global textile industry had its own cycles, sometimes separate from the general business cycles. The origins and intensity of foreign competition were largely determined by the tariffs. The BPT meant that British goods dominated imports between 1897 and 1937. After 1960, GATT and MFA agreements changed the source of competition, first to Japan and the United States and later to many Pacific Rim countries, including China and India. Within these general trends, the success or failure of individual firms reflected how management strategies dealt with the Canadian industry environment. In the late twentieth century, successful firms increasingly traded in international markets by seeking niches in which they could compete.

These descriptions are historical. In the early twenty-first century, global textiles are in a period of radical change. The Canadian industry is declining, yet some entrepreneurial firms such as Gildan ride the wave. The once seemingly impregnable American textile industry is in free fall, with most of the formerly major firms now bankrupt. Low-priced Chinese textiles have even decimated other Pacific Rim producers. This phenomenon is in progress, the outcome to be determined.

Industry Financial Performance

It is impossible to give an account of industry financial figures over this time span. In all periods, many firms were family owned, and thus not required to make public disclosures. In addition, Standard Industrial Classification (SIC)

codes have changed over the century; the 1990s brought the amalgamation of woven and knitted fabrics, previously recorded as separate industries. My analysis uses aggregated financial reports from firms to summarize general trends into periods of profit and loss (see Figure 4).

1845-1878: Marginal

Most of the small mills that had failed earlier because their owners were unable to make satisfactory financial returns were reopened by new owners ready to try their luck. Hudon, Canada, and Montreal Cotton were shaky, dealing with start-up problems.

1879-1882: Windfall Profits

The 1879 tariff, coinciding with a brief spurt in the Canadian economy and a general up-turn in the international economy, created windfall profits for existing firms, particularly Hudon, Canada, and Montreal Cotton, whose size allowed economies of scale and scope.

1883-1897: Cyclical Returns

When new companies, formed because of high returns, came into production, the market was flooded with goods, and profits were marginal. The low returns from 1883 to 1896, despite the high tariffs, were the result of the Great Depression in Europe and North America, and domestic over-capacity. The mergers of 1890 and 1892 restored some stability by coordinating outputs with market demand, resulting in moderate financial returns. Some small mills were closed.

1897-1904: Losses

After 1897, a combination of lower tariffs, sluggish economic growth in Canada, over-capacity, and British competition resulted first in low profit margins, then steady losses. By 1904, most firms in the Canadian industry were near bankruptcy.

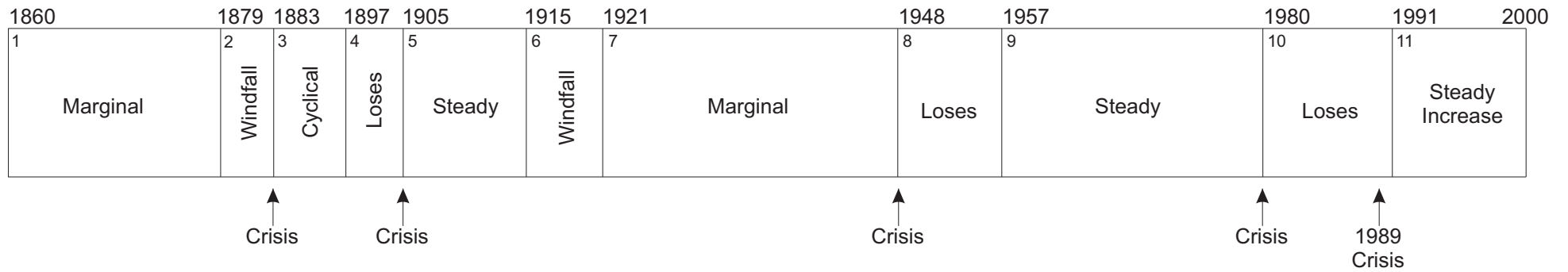
1905-1914: Steady Returns

Although the tariff changed little, a cyclical upturn in the demand for goods and the efforts of textile industry investors in creating Dominion Textile helped restore profitability to most firms in the industry.

1915-1921: Windfall Wartime Profits

Many Canadian textile firms made windfall profits in the latter part of World War I through sales to the British and American military. Pent-up demand and little foreign competition meant that high profits continued after the war until 1921.

Figure 4. Industry Financial Performance



1922-1947: Marginal Returns

Lower tariffs in 1922 made industry profits marginal because of imports. Textile firms did not share in the economic boom of the 1920s, but also did not suffer as much after the stock market Crash of 1929. The high tariff policy of Richard Bennett's Conservative government, 1930-1935, maintained relatively stable conditions in the industry despite declining sales and profits.

In the 1930s, most cotton firms operated with marginal returns, but the tariffs protected them from bankruptcy. In 1936, when lowered tariffs increased dumping from the United States and Japan, most companies again reported losses. Between 1941 and 1947, the Wartime Price Control Board set selling prices at 1941 rates, resulting in operating losses made up for by a government subsidy that created a 7 percent profit.

1948-1957: Losses

With the removal of price controls in 1947, the industry suddenly lost one-half of its market share to American and Japanese producers. Firms that had operated with marginal returns suffered sharp losses and faced bankruptcy. Although the early 1950s was a time of economic boom for many industries, it was the worst period the textile firms had yet experienced. Canadian Cotton, the second largest firm in the industry, declared bankruptcy.

1957-1980: Steady Returns

Although tariff rates were relatively low compared to the protection U.S. firms enjoyed, piecemeal tariffs restored modest profits to most Canadian companies. The industry survived because of consolidations, more efficient production, new products, and a close attention to marketing.

1980-1990: Losses

Revenue generated by Canadian textile firms declined throughout the 1980s. Wabasso went bankrupt in 1985, Textiles Dionne a few years later. Dominion Textile, the industry giant, expanded its U.S. operations while closing many of its Canadian mills, enabling it to generate profits.

1991-2000: Steadily Increasing Returns

Firms were able to gain economies of scale by producing in specialized niches for the global market. Industry profits nearly doubled, from \$268 million in 1989, to \$503 million in 1996. Without protection, Canadian firms succeeded internationally by providing desired niche products.

Industry performance was closely tied to tariffs, although world business cycles and collective actions by industry leaders created anomalous periods. Government tariffs were designed to maintain employment in the industry in times of economic downturns: the 1880s, 1910s, 1930s, and the late 1950s. Although not financially prosperous in those times, the firms did not suffer heavy losses. Textile industry profits were marginal in the boom times of the 1920s and early 1950s. Performance in the long term was tied to the tariff levels, even for Dominion Textile. That firm gradually moved its operations

to the United States and Europe, environments offering more tariff protection. The early twenty-first century brought overwhelming competition from China, resulting in the failure of some Canadian operators.

Conclusions

What effect, then, did tariff rates have on industry structure and performance, given that world events could periodically override their effects? When combined, my charts indicate that government tariff support was essential in promoting textiles as a major industry in Canada for a century. In 2000, without benefit of government support, textiles remained a significant (although not dominant) industry, characterized by entrepreneurs with no influence on government policy, nimbly serving global markets.

Initially, without tariffs, the industry's firms were small and regional and, generally, they failed. The 15 percent tariff in 1873 stimulated business people from other industries to invest in three large-scale mills, Hudon, Canada, and Montreal. Investors in those firms were at the forefront in successfully lobbying for the high tariffs placed on imported textiles in 1879. The three large-scale mills made huge profits immediately following the tariff increase, stimulating investors throughout the country to create new textile companies, large and small, to cash in on the bonanza. However, only the original three, their start-up debts paid, made much profit. The 1879 textile tariffs did what they were intended to do: they fostered the creation of an industry that employed people in something besides farming, fishing, and lumbering. By the mid-1880s, textiles constituted the largest manufacturing industry in the country.

The tariffs were critical in creating the cotton textile industry in Canada in two stages. The modest 15 percent rise in 1873 created what would become the major players. The 1879 tariff seemed to promise high profits, but like latecomers to a gold rush, the best claims were already staked and in production. When the second wave started production in the early 1880s, they created massive over-capacity. So comprehensive was the investment in cotton mills across the country that business people in other industries heavily invested in the new firms. The banks carried the industry's massive debt in bonds and loans. The Conservatives, in order to guard investors' capital and to hold the jobs, further increased the tariffs. Not to do so would have created a financial panic across the Canadian economy. Textiles provided jobs for the poor and semi-skilled whose alternative to manufacturing work was emigration to mills in New England, or taking a chance on opportunities rolling out on the American frontier. The business community tried to tame the mammon their frenzy had built. Mergers were organized, especially two large ones in 1890 and 1892. Once these structures were in place, the industry continued to need protection to guard investors' capital and to hold jobs.

Newer manufacturing industries producing automobiles, electric appliances, and emerging consumer goods, and the primary industries needed to support them, emerged in the 1920s. The government treated

textiles as a holding operation, supporting the oligopoly created in 1905, dominated by Dominion Textile, through the 1920s and 1930s. Textile executives remained leading members of the business elite.

Post–World War II, textiles fell in national prestige, replaced by another wave of new industries with greater growth potential such as petroleum, mining, and consumer goods. The government provided only piecemeal support, often tied to regional development (or, rather, to the lack of it) to maintain jobs in regions such as Quebec’s Eastern Townships.

The Free Trade Pact with the United States in 1989 was the critical point, ending government involvement and the industry’s concept of itself as primarily producing for the domestic market. Firms reconfigured their products and technologies and re-aimed their efforts at global opportunities. Bereft of tariffs for the first time in over a century, the textile industry thrived. The recent decline in the industry, due to massive Chinese imports, will end at some point, as has every other phase, but it has created a round of bankruptcies and reduced output.

I found that during the period of tariffs (1873-1989), the industry’s financial performance correlated with tariff rates. More than that, though, tariffs shaped the industry structure. Could the industry have reconfigured its structure earlier than 1989? No, its firms needed the impetus of lower trade barriers decreed by GATT (later the World Trade Organization) and the stimulus of the 1989 Free Trade Pact to create a trading environment that allowed them to seek global markets for their products. Dominion Textile, the leading firm, knew this in the mid-1970s and accepted by the early 1980s that tariff protection would erode the domestic market even further. Because the firm was large and complex, it needed more than a decade to reconfigure its products and markets. The smaller firms could respond faster.

This description and analysis, based on primary sources, yields a life cycle model—although the industry will always be a work in progress—of one industry in a single country. Textiles are an industry associated with the first wave of industrialization. Considering that the textiles industry first reached significance in China thousands of years ago, it is ironic that it is again China that is producing textiles (further manufactured into low-cost clothing) that flood the malls of the world.

While the textile industry continues to change, surely this 160-year summary constitutes a life cycle, a model that may be instructive. Can we apply it to other, later, industries such as appliances, electronics, and automobiles? Yes, we can. Textiles are a bellwether industry, used by nations in the first wave of industrializing before moving on to other manufactured goods. This is true for Britain, the United States, Japan, and Canada. It will probably be the case for China as well.