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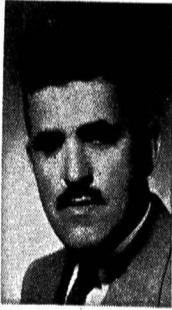
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Private Enterprise at Work in Newfoundland

By HON. JOSEPH R. SMALLWOOD*

Premier and Minister of Economic Development for the Province of Newfoundland

In extolling union of Newfoundland with Canada, Mr. Smallwood stresses need for accelerated progress of Canada, and its new undeveloped Province of Newfoundland. Urges security dealers should study investment possibilities in Newfoundland. Cites British Colonial restrictions as reason for lack of Newfoundland's economic development, and says, it demands, as a Canadian Province, new economic development and progress along with rest of Canada. Reviews legislative efforts of Newfoundland to attract capital, and calls attention to the recently created Newfoundland Labrador Corporation, owned jointly by Newfoundland Government and private interests, to acquire and operate plants originally constructed by the Province and develop and exploit mineral and forest products of Labrador region.

I thought it was most appropriate to see the halo about the head of the retiring President of your organization when that plate was



Hon. J. R. Smallwood

presented to him and I hope all of you noticed the halo caused by the reflection of the light on the plate. You will see in a moment that I really mean that, that I think a halo ought to rest on the official head of this particular organization.

Now, if a man attended a convention of clergymen he would feel that he was mixing with people of very great importance in any land, the people who were attempting to guide all of us to spiritual salvation. If he attended a meeting of the members of the Parliament of Canada he would doubtless feel, too, that he was mixing with very important people, people who wrote the laws of the land. If he mixed with a convention of newspapermen he would feel, too, that he was mixing with most important people, people who enlightened the population of the land, brought information to them and enabled them, upon the basis of accurate information, more accurately to form conclusions on public issues. And, indeed, in mixing with all kinds of people he could very rightly feel that he was dealing with people who helped in one way or another to shape the destiny of a nation. If he met, for example, with bankers or insurance company representatives, he would very rightly feel that he was dealing with one particular class of the population who performed the terribly important function of providing the means whereby the population can save. But I know, frankly, of no group in Canada—at least today—quite so important in the economy of Canada as the Investment Dealers of Canada, because the function that they perform is, it seems to me, of quite paramount importance. I don't know whether I might call the Investment Dealers of Canada a sort of economic mar-

riage broker bringing together the capital and energetic initiative of the nation, resulting in industry, or whether I would call you a sort of accoucheur, but in plain English "midwives" of industry.

In Canada, particularly because I think this is a very young country and it is very rich in natural resources, perhaps one of the richest parts of the globe, and its population is very small—a mere 14,000,000 people rather presumptuously and boldly occupying more than half of a very remarkable continent—and the great need it seems to me in Canada today is to bring about a marriage or to bring about many marriages of capital and energetic and progressive men, who have had dreams and the boldness to realize the dream of industrial greatness for a great land.

Frankly, gentlemen, as you look around the world today you see the undeveloped state of it in some parts and the quite extraordinary overdeveloped state of it in other parts and you get to feel that Canada is flying in the face of destiny to allow itself to be as undeveloped as it is. Do the people of Canada deserve to have more than half a continent? How long can 14,000,000 people continue in the face of this world to occupy and not develop the third largest land mass of the earth, following only after Russia and China in physical area and perhaps far richer in natural wealth than either Russia or China? How long is it fair to expect in this modern world that 14,000,000 people will be permitted in safety and in unity exclusively to occupy the third largest and certainly one of the richest of all the land areas of the globe? So the need,

therefore, for development of Canada is just staggering in the extreme.

Much More Can Be Done in Canada

I happen to be one who is left quite unimpressed by all the proud talk in which we have indulged in these later years about the fabulous development of Canada. Compared with the background of Canada as she was ten, twenty years ago, the development of these recent years is quite fabulous, but compared with the Canadian potential the development of these later years is quite trifling. I was a little staggered, incidentally, in talking with Mr. J. P. Ripley, of the firm of Hariman Ripley & Co. of New York, some months ago to learn that of the \$100,000,000 needed at the outset to build the railway from Seven Islands down to Nob Lake to tap that vast new iron ore deposit, Canadian capital met the need to the extent of about \$2 or \$3 million and that all of the remainder of it was subscribed in the United States. Now I do know that in later years the proportion of the total capital investment in Canada, coming from Canada, is very appreciably greater than it had been in earlier years. However, what rather fascinates me as I think on the

one hand of a land that is bigger than the Continent of Europe and endowed as few parts of the earth are endowed, and on the other hand of those millions of dollars of safe deposits in the banks and many more thousands of millions of dollars on safe deposit in insurance companies, and of the need on the third hand—if you could have a third hand—the need for tremendous development in Canada and the possibilities of such development, I wonder and I ask myself if Canada is indeed living up to her own destiny.

Now may I say this, that when we in Newfoundland decided to throw in our lot with Canada, to turn our backs upon a very ancient and sometimes honorable, always interesting isolation extending back for four and one half centuries—when we decided to cease attempting to paddle our own canoe and to cast our lot with Canada, we did so mostly because we were convinced that Sir Wilfrid Laurier told the simple truth when he said "The Twentieth Century belongs to Canada" and that Canada had a great and glorious future. We cast our lot with Canada because we felt that Canada was going up, going up very far and very high, and that we would likely go up with her. I am personally not at all satisfied that Canada is going up as

far and as fast as she is capable of going.

Europe vs. Canadian Workers

Last year and the year before I visited Western Germany. I traveled 2,500 miles by motor car the year before and 3,000 miles last year, from the northern tip of Germany to the southern, in western Germany. There I saw vast cities—Hamburg, Cologne, Dusseldorf, Duisburg, Frankfurt, Munich and 50 others—in any one corner of any one of which more damage had been done in the late war than in all of the United Kingdom put together; whole areas leveled, areas as big as the City of Toronto, leveled to the ground, and in Hamburg in three nights a quarter of a million killed—cities that had taken a thousand years to build leveled in a few nights. Yet that crowded country, packed tight with people working night and day—farmers going with their wives and children before the break of dawn in the morning out on their farms, having breakfast, lunch and dinner out in the open on the land and not even thinking of hitching up the team of cows to the wagon to go back to their homes in the village until dusk had fallen; people working night and day with an industriousness that was just staggering, like an anthill; 60 million people crowded into an area that you could drop and lose in the Province of Quebec. Then move on into Holland, into Denmark, into Belgium and see these vastly crowded areas, people working like ants day and night, and then come back to Canada and find these vast open spaces with natural wealth that makes them drool at the mouth merely to hear about it; and 14 million people not, I am quite convinced, not working, not even pretending to work in Canada today—businessmen, industrialists, bankers, workers—not even pretending to work as they are doing at least in some parts of the Continent of Europe today. I kept

Continued on page 13

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Highlights in Merchandising Securities

By ROBERT A. MAGOWAN*

Partner, Merrill Lynch, Pierce, Fenner & Beane, New York City

Shortly before receiving an invitation to speak before this meeting, my firm had decided to open an office in Toronto. Or—I should



Robert A. Magowan

say re-open—because one of the firms which was merged into our present organization was E. A. Pierce & Co., and that firm operated in Canada for many years. Mr. Pierce is one of our senior partners today, and he had been a member of the Toronto Stock Exchange since July 2, 1925.

We will open this office in Toronto next week. My appearance here this morning, therefore, affords me an opportunity to tell you why Merrill Lynch is coming to Canada, and something about one of your newest neighbors.

Merrill Lynch, Pierce, Fenner & Beane has come to Canada because we believe this great country is going to develop and grow over many years to come, and it is that long-range development which challenges our interest just as it does yours. We want to help you, and work with you, and have a part in the development of this country.

Canada is today the brightest new frontier of capitalism. We believe profoundly in that system as it has evolved throughout history, because it is a system that brings the greatest good to the greatest number. We want to see it grow. We want to be part of its growth. And that's another of the compelling reasons why we have come to Canada.

We've always operated on the theory that there's a vast untapped market in securities and that

*An address by Mr. Magowan at the Annual Meeting of the Investment Dealers' Association of Canada, St. Andrews-by-the-Sea, New Brunswick, Canada, June 11, 1952.

there's plenty of business for everybody. We still feel that way about the market in the United States and we know this is also true of Canada. It's not our objective merely to chisel out for ourselves a share of the existing market. Rather, it is our ambition to make a place for ourselves here by helping to expand the total volume of that business. This has always been one of our principal business objectives. How well we have succeeded in realizing it is perhaps not for me to say, but I am content to rest the case on the judgment of our competitors.

It seems self-evident that the more we talk about securities, explain what they are, and advertise them and promote them, the more people there will be who become interested in buying and owning securities.

Anything that benefits an industry as a whole usually benefits everyone in that industry. If we can help increase the size of the pie so that everyone has a bigger piece, we can be confident that there is going to be a piece for us, too. That has been our experience below the border.

We know we have much to learn about doing business in the Dominion. We will do our best not to make mistakes. We want to get started on the right foot. You'll find us fair competitors and good neighbors, ready to give and accept a helping hand.

I have been asked to talk this

Mr. Magowan, in commenting on entrance of his firm into Canada, points out anything that benefits an industry as a whole, usually benefits everyone in that industry. Says the more securities are advertised and promoted, the more people will become interested in buying and owning them. Advocates salary basis for compensating salesmen, and stresses merchandising principles for the securities business. Urges education for salesmen as well as public, and contends ignorance is reason why there are not more investors. Fosters idea of more sales promotion and advertising in marketing securities.

morning about merchandising securities and about our experience in recruiting and training sales personnel. Obviously, this means I must talk about Merrill Lynch.

Back in 1939 the security business was in bad shape. Public confidence in Wall Street was nonexistent. Practically every brokerage firm was losing money, including the biggest one of them all, E. A. Pierce & Co. It was in this atmosphere that our firm was conceived by Charles E. Merrill.

At that time Mr. Merrill had a substantial investment in the Pierce firm, and he was the sole owner of the investment banking firms of Merrill Lynch, Inc. and Cassatt & Co., Inc.

On April 1, 1940, these interests were consolidated into a firm, Merrill Lynch, E. A. Pierce & Cassatt. The following year the firm was enlarged by a merger with Fenner & Beane, and our name was changed to its present form. At the head of the organization—the largest in the industry—was Mr. Merrill.

Mr. Merrill had spent his entire life in Wall Street, and had been the principal banker for a number of chain store companies—J. C. Penney, Kresge, Safeway, First National Stores, Western Auto Supply and many others—including two of your leading grocery companies—Loblaws Groceries Co., Ltd. and Dominion Stores.

Although a banker by profession, Mr. Merrill was a merchant

by instinct. As much as any one individual, he is responsible for the present-day chain store system of merchandising.

Mr. Merrill thought that merchandising principles had to be applied to the security business if it were going to survive as a healthy industry. Although we were losing money in the months immediately following the formation of the new firm, Mr. Merrill ordered an extensive advertising program which was and still is directed to educating people to the advantage of owning securities.

He put all salesmen on a salary basis instead of a commission basis and established other basic policies designed to serve and protect the interest of the individual investor.

Why a Salary Basis for Salesmen

Let me dwell briefly on this policy concerning compensation. Two things motivated Mr. Merrill in his decision to pay salesmen, or as we call them—Account Executives—on an annual salary basis instead of a commission basis.

First: He thought it in the salesman's best interest to be assured a fixed income on which a family budget could be set that would not be subject to the vicissitudes of market volume.

Second: He wanted to remove any suspicion on the part of the customer that recommendations to buy or sell were influenced by the commissions involved.

Since 1940 there has not been a single person at Merrill Lynch who has been compensated on a commission basis. To our salesmen we say that you may be getting fewer per cents at Merrill Lynch, but we think in the long run you end up with more dollars. That most of our people believe this to be true is indicated by the very few people we have lost to other firms over the years.

Partners and managers stopped competing with salesmen. Except in the smallest offices, managers

were told to distribute the accounts they had been servicing among their salesmen, and to devote their energies to supervising their staffs. We stopped having House Accounts and saw to it that every account was assigned to somebody and that full credit was allotted. We divided up fairly the substantial walk-in business. Every effort was made to stimulate individual production and to build up the professional stature and dignity of the Account Executive position.

At the very outset Mr. Merrill made it perfectly clear that he believed the customer was the firm's customer and not the salesman's. While our advertising, sales promotion, and research material is designed primarily to help our salesmen, it is also very definitely designed to cement the customer to the firm.

Our sales salaries may seem on the low side percentagewise. However, if we add other costs such as advertising, research, and sales promotion, as they properly should be added in evaluating sales costs, then our total sales expense is in line with those of our more conservative competitors.

Mr. Merrill drove us hard in those early days following the merger, and himself harder than anybody else. In 1944 he suffered a heart attack which forced him to the sidelines. One of his oldest associates, Winthrop H. Smith, has carried on as Managing Partner since, but he and the rest of us continue to regard Mr. Merrill as the boss. No important decision is taken without his approval. He was the first person to advocate our coming to Canada, and he is as close as his telephone to all our basic problems.

Let me give you a few figures about our firm. Our personnel numbers about 4,000. We have 106 offices. Last year our gross income was \$44 million. Our customers bought and sold \$3½ billion in securities. We participated in the retail distribution of 371 security issues. We ranked 6th among all U. S. underwriting houses in corporate security offerings. We handled 1½ million security transactions, and 320,000 commodity transactions. We handled about 10% of all the round lot business on the New York Stock Exchange, and 15% of the odd lot business. All of these figures can be found in our Annual Report. Incidentally, we're the only brokerage firm in the States that issues such a report.

Do these figures impress you? Well, they don't impress us, because they represent only a frac-

Continued on page 28



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Canada and International Trade

By GRAHAM TOWERS*

Governor of the Bank of Canada

You may find it rather surprising that I should have chosen to speak today on some aspects of international trade. It is true, of course, that Canada's interest in this field is far from academic because our prosperity is heavily dependent on a high level of foreign business. On the other hand, there has been a tremendous amount of discussion of international trade and related problems during the last seven or eight years, and one might wonder what more could usefully be said. My intention is not to thrash old straw, but rather to assess, so far as I am able, the results of all the discussion and effort to improve international trading conditions in the postwar period. In other words, I propose to ask the score.



Graham Towers

As a first step, let me briefly sketch in the background, familiar as it may be to all of you. Long before the war ended, it was obvious that the disruption which it was bound to cause would leave many countries in a very weakened condition. For those which had suffered serious war damage or occupation, the task of restoring prewar conditions would be a formidable one. And yet this in itself was not enough. Such countries needed resources to look after growing populations and to hold out tangible hopes of improvement in prewar standards of living. The same could also be said of many countries which had not suffered war damage, but had been indirectly affected by the chaos in Europe and parts of Asia, and would continue to be affected by the weakened position of the European continent. The desire that things should be better, and the recognition that the strong must help the weak, was not inspired solely or even mainly by humanitarianism, in spite of occasional jeers to that effect from those who take a dark view of such things. It was based upon the belief that political security is founded on economic strength, and that unless the freedom-loving nations of the world could demonstrate their capacity for material progress, the interna-

Head of Canada's central bank recites postwar impediments to foreign trade and Canada's role in support of efforts to maintain a high level of international commerce. Calls attention to severe import restrictions throughout world, and urges their elimination, contending they weaken the economic structure of the free world. Foresees problem of obtaining raw materials supplies, and urges development of backward areas as of great and immediate importance. Concludes Canada needs flexibility in its economy and should continue to maintain high productive efficiency so as to meet world competition.

tional political consequences might be most unfortunate. Nothing has happened since the end of the war to indicate that this view was wrong.

Another belief was that economic strength could not be achieved if each country, or even groups of countries, put up barriers to trade and tried to pull themselves up by their own bootstraps. It was felt that the free world's interests could best be served by the maximum possible degree of economic cooperation between countries, so that the waste of resources in uneconomic production would be kept as low as possible. While later on, I shall express the view that the world has not made great progress toward this objective, I think the objective itself still makes sense.

Since the end of the war, the views and beliefs which I have mentioned have been given tangible expression in a number of different ways. Fifty-one countries associated themselves with the International Monetary Fund and the International Bank for Reconstruction and Development. The Articles of Agreement of the Fund in describing its purposes, state amongst other things that it is intended to facilitate the expansion and balanced growth of international trade and the development of the productive resources of all members. It is to assist in the establishment of a multilateral system of payments in respect of current transactions between members, and in the elimination of foreign exchange restrictions which hamper the growth of world trade. Another postwar development was the extension of very large credits by Canada and the United States to the United Kingdom and a number of other countries mainly in Western Europe. One of the purposes of these credits was to assist the countries concerned in assuming the obligations of multilateral trade. Subsequently, as we all know, the United States contributed vast

sums under the Marshall Plan to help freedom-loving countries regain their strength and cast off the economic fetters which weakness almost inevitably imposes. I should mention also the formation of a group of about 40 countries in the general agreement on tariffs and trade commonly known as GATT. This group of countries has endeavored to promote the reduction of tariffs, and the simplification and standardization of customs practices, in the hope of eliminating a number of the handicaps to international trade. Last, but not least, there has come into being the North Atlantic Treaty Organization, a group primarily associated with defense but which recognizes in its charter the necessity for economic collaboration.

Canada's Role

It is not surprising that Canada has played a part in these affairs, or that Canadian postwar policy has been consistently directed towards the support of efforts to maintain a high level of international trade, to reduce or eliminate restrictions on imports, and to achieve convertibility of currencies. The attainment of such objectives would serve our best interests as well as—so I believe—the best interests of the world at large.

Today, seven years after the end of the war, it is, I think, worthwhile to inquire what degree of success has attended all these ef-

orts, unprecedented in their scale. No one can deny that the positive accomplishments have been great. In the United Kingdom and the countries of Western Europe, industrial production is estimated to be some 50% higher than before the war—this in spite of the terrific losses and disruptions caused by six years of fighting and, in many cases, enemy occupation; in spite of the closing of age-old channels of trade and of dismemberment of certain countries; in spite of the continuous efforts of Russia to inspire confusion and fear. The task which faced many of the countries was not just one of reconstruction. It involved the painful building up of something new. We are surely entitled to take a good deal of satisfaction in the progress achieved since 1945, not only in the war devastated countries but in many other places round the world. At the same time, I think we would be well-advised to take a look at existing weaknesses in the world structure, not for the purpose of sterile criticism but as the basis for a sober appraisal of the present position and future prospects as far as anyone can understand them.

Eliminations of Import Restrictions

Time does not permit a survey on all fronts so to speak, and in any event I am not qualified for such a job. So I am going to con-

fine myself to the subjects which formed such an important part of postwar hopes and planning, namely the elimination of import restrictions, the convertibility of currencies and restoration of multilateral trade. Here the record is an unhappy one. Convertible currencies can be numbered on the fingers of one hand, and trade restrictions, often of a highly discriminatory character, are the rule rather than the exception. Why should this be so? Why should a large part of the world still be in this fix seven years after the war, in spite of the enormous amount of money and effort devoted to the solution of the underlying problems? To this question you can get as many answers as there are men. One answer which seems to be popular in certain places is the bad behavior of the dollar countries—particularly the United States—in not buying enough from others. "The intractable dollar problem" it is called. Another reason given is that many manufacturing enterprises in the more highly industrialized countries of Europe have not been able to modernize their equipment and improve their processes to the extent achieved by those who were far from the scene of conflict and had ample resources at their disposal. Still another is the pressure of rearmament on countries which have relatively little to spare for this purpose if they are at the same time to maintain a tolerable standard of living. As regards certain countries—in the main, relatively undeveloped ones—which were not engaged in the war and are not burdened with substantial defense expenditures today, it is often pointed out that their growing populations and needs for capital development impose strains on their resources which almost inevitably result in import restrictions.

No doubt the various reasons put forward to explain the continuance of trade restrictions and currency inconvertibility all have

Continued on page 25

*An address by Mr. Towers before the Investment Dealers' Association of Canada, St. Andrews-by-the-Sea, New Brunswick, Canada, June 13, 1952.

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By HENRY BORDEN, C.M.G., Q.C.*

President, Brazilian Traction, Light & Power Co., Ltd., Toronto, Ont.

During the past few years—and in recent months particularly—we in Canada have been conscious of the fact that much has been



Henry Borden

written and spoken about our country, our resources and our economic future. It would almost seem that some parts of the world regard our country as one "flowing with milk and honey." Perhaps they are aware, as we all must always be, that the flow of milk and honey is dependent on the flow of the sweat of our brows—and perhaps they are, with their flattering regard, giving us credit for a willingness to swell the flood. But, whatever the reasons, and there are many, for the attention we have received, two outstanding facts characterize our economic life today.

For one thing, confidence in the continuing development of Canada has resulted in a large influx of new capital. During the past two years this has amounted to a total of more than one and a half billion dollars, or approximately 15% of our aggregate capital expenditure during the period. Welcome as this new capital is, to assist us in the further development of our great natural resources—particularly our oil fields and iron ore deposits—it nevertheless brings with it not inconsiderable national and personal responsibilities, which we must face realistically. It means, for example, that we must make even greater efforts to increase our export trade in order to augment the funds with which to service this capital. It also means that we must make sure that this capital is efficiently applied to the job it is intended for. And not least, by any stand-

*An address by Mr. Borden at dinner given by Canadian Exporters' Association in connection with Canadian International Trade Fair, Toronto, Canada, June 6, 1952.

Prominent Canadian industrialist, after noting contribution made by foreign capital in development of Canada's economy, urges that businessmen seriously consider the exportation of capital to other countries for development purposes. Says recent removal of Canadian foreign exchange control regulations presents opportunity to greatly increase Canada's trade potential via overseas investment, and avers that successful experience of his own company in Brazil can be duplicated in other parts of South America. Commenting on Canada's "economic metamorphosis" since 1939, Mr. Borden observes that in ensuing 13 years nation's Gross National Product has increased by almost 90%; farm employment lowered by 25%, while non-farm employment has increased by 56%.

ards, it means that we, and our governments particularly, must provide safeguards against dissipation or confiscation of what is, after all, a reasonably worthwhile asset—at any rate \$1½ billion of new capital seems worthwhile to me! In short, we cannot afford, for both practical and moral reasons, to borrow our neighbor's lawnmower and then run it over rocks and let destructive children play with it; we must, instead, care for it at least as well as if it were our own.

Importance of Foreign Capital

I know that there exists some suspicion and misunderstanding of the role of foreign capital—both money coming into Canada and Canadian money invested abroad. Recently there has been criticism of the great sums of United States capital invested in our western oil fields; the charge has even been made that we are "selling out" to the United States. The ridiculous nature of this charge is perfectly plain when the facts with respect to external investment in Canada are made known. The facts are that even if we were to consider net external investment in Canada as a mortgage on our national wealth, this mortgage has decreased during the past generation from 19.2% of Canada's wealth to less than 5%

of that wealth today and this despite the heavy capital inflow to Canada which has taken place during the past two years. Far from feeling critical with respect to the receipt of capital from external sources for the development of our country, I feel that we, in Canada, have benefited immeasurably by such investments. In the case of oil, much of this country is now, for the first time, self-sufficient and while it is true that we must service this great new foreign investment, nevertheless, the cost of servicing the debt is offset by the saving effected in the reduction in petroleum imports.

The steel industry provides another example. Until recently this industry depended to a considerable extent on imported ore. Then United States capital, in conjunction with Canadian, developed Canadian ore deposits. Perhaps some felt that this was another case of "selling out" but today we are exporters of iron ore. We export nearly as much as we import, and our exports are to grow more rapidly than our imports of this commodity.

And could our pulp and paper industry have become a major contributor to Canadian prosperity without capital from outside Canada? The answer is, of course "No."

An equally vital import is, of course, people.

It is not really a digression from my theme to emphasize the fact that without people from the Old World, this hemisphere would not be a market for either goods or capital in any large amount. I think that both the historians and the economists agree that the growth of population is necessary to the growth of markets. There is no use bringing in capital if there are not people—workers—to use it. Likewise it is necessary to have capital if people are to be employed usefully.

Canada's Immigration Policy

It is gratifying, therefore, to note that public policy on the question of immigration to this country has reverted, at least to a degree, to the policy prevailing in the early years of the century when hundreds of thousands of people came to Canada each year. I am one of those who believe that the granting of visas to prospective immigrants should be quite easy. It might be that under rules of easy access, we would get relatively no greater number of undesirable residents than when we are terribly strict about the applicants' apparent health, mental and physical, and their political beliefs. In other words, I wonder whether the stern sifting that is attempted overseas keeps many undesirables out and whether it may keep out many others who would add much to the material

and cultural progress of our country.

Canada has had a gratifying growth in population in the most recent decade, but we have room and opportunity for millions more. And at least you who are in the business of exporting and selling know that the word population is another name for consumers and every consumer is an actual or potential customer for each of you.

Canada's Remarkable Growth

The second outstanding fact of our present economic life, which I mentioned a few moments ago, is simply that we have grown—grown almost beyond belief. Since 1939 Canada has experienced what may be properly called an economic metamorphosis. During those 13 years the Gross National Product, in terms of 1935-39 prices, has increased by almost 90%, from \$5,664 billion to \$10,731 billion.

During the same period farm employment has, it is true, decreased by 25% to 1,016,000 persons but our non-farm employment has increased by 56% to 4,231,000 persons.

This change in the nature of employment is reflected in spectacular increases in the output of many commodities: newsprint production, last year at 5½ million tons, almost doubled, over the period; steel, at 3½ million tons, has more than doubled; aluminum, at 400,000 tons, increased five-fold; base metals, at 892,000 tons, increased by 10%; automobile production almost trebled from 155,000 units to 414,000; oil increased from 8 million barrels to 48 million; and electricity doubled to 57 billion KWH. And, in spite of the shift in employment, as a result of which there are now more than twice as many industrial workers as farm workers, the value of our agricultural product—and again I speak in constant terms of 1935-39 prices—has increased.

For many years Canada has been recognized as a great exporting country. In this respect she has been most fortunate, in that the bulk of the export trade consisted, and indeed still consists, of products greatly in demand by

Continued on page 22

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The Salesman Cometh

By TREVOR F. MOORE*

Director, Imperial Oil, Limited, Toronto

In the May issue of the "National Industrial Conference Board" is an article entitled, "For Chief Executives Only," in which an attempt is made to look at the boss himself. For your benefit, as the chief executives in your own businesses, let me summarize what this article had to say about you.

The chief executive is the most important individual in any business yet only too often he under-estimates his influence. His importance lies mainly in his office which is endowed with unique power regardless of the personal capacity of the incumbent and simply because it is the office of the chief executive. It is he who creates the spirit of the organization, its integrity, its ability to function as a unit, its policy and its hope. What the chief executive does is important, but what he stands for is often more important, for he will determine whether the business receives the full creative potential of its people. It is the opinion of a good many of you chief executives, and indeed the chief executives of a large segment of our wholesale and retail organizations in Canada, that we are approaching a period of business when the true salesman will be in his element—in his element because as a salesman he experiences the personal satisfaction, the thrill which one obtains from the making of a real sale.

You gentlemen are responsible for creating the spirit of your organization. To my mind that spirit shows up first and foremost in your sales department, the very heart of your business. Selling is the easiest job in the world if the salesman works it hard—but the hardest job in the world if he tries to work it easily.

Peculiarly enough, it was about a month ago that a very good friend of mine who heads one of the largest companies in Canada to manufacture and distribute ice, said to me: "All around me I see



Trevor F. Moore

In stressing role of salesmen in securities business, Mr. Moore calls attention to plans of Investment Dealers' Association of Canada to educate both personnel and public in security buying. Points out keys to selling are knowledge, sincerity and enthusiasm. Urges Canadian investment firms educate public to the soundness of savings and investment to build up Canadian business and share in Canada's growth. Says regular buying of securities should increase funds for equity investment, and finds Canada an attractive land to invest in.

conditions from annual reports, monthly statistical reviews; I hear from my banking friends that business has reached its peak. Strangely enough that is borne out by the ice business. For over 40 years of close association with my business I have come with others to rely upon it as an indication of the buying habits of the general public. They are not buying ice now as they have been, and in relation to their personal incomes and savings." (It looks as if your statisticians and market forecasters have the basis for a new indicator—number of blocks of ice per square mile.) He ended up by saying that his route salesmen are going to have to live up to their name. It may no longer be a case of the iceman cometh, but the salesman cometh.

Two years ago, in the fall of 1949, I needed a car. I visited three different automobile showrooms and displayed interest. In not one case was I followed up and finally I called a dealer and after considerable effort on my part and delay of one month, received a car. Of course cars were short and customers were plentiful—but after buying the car I was not once followed up with service or courtesy calls.

This April I told a friend of mine in one of the banks that I would probably be looking for a car this next fall. Within 24 hours I received two telephone calls—one of them to the house, so that Mrs. Moore learned that I was thinking of a car. Within a week I had three good—and I mean good—salesmen from three different car agencies trying to sell—offering to demonstrate—bidding on my old car. On May 5th I bought—on May 23rd the salesman through whom I bought telephoned Mrs. Moore to ask how she liked the car—was everything satisfactory? On June 2nd I received a courteous letter from this

salesman in connection with the car—servicing, etc. Our feeling is certainly one of warmth toward this dealer's organization and this salesman. Gentlemen, take a look around you, at other industries—textiles, household appliances and so on. There is selling going on—order-taking is nearly over.

This morning we have heard an extremely interesting account of the growth in business of the very well-known Merrill Lynch organization. In my opinion the key to the success of that very fine investment firm lies in Mr. Magowan's statement that Merrill Lynch is among the first firms sought after to participate in underwriting—because of its ability to sell. This ability to sell—to place securities—is the stock-in-trade of all investment houses which count for anything. Over a period of many years in both good times and bad that stock-in-trade, that very essential asset, is supplied only by a well-trained, intelligent and enthusiastic sales organization. [Ed. Note: Full text of Mr. Magowan's address appears on another page.]

You are aware of these things, of course. You know that the time of the salesman is not far distant, or you would not have asked Mr. Magowan to talk about merchandising securities. Bill Borrie, your President, tells me that quite a number of new men have come into the investment industry in recent years and are now finding

the higher interest rates and lower prices a difficult hurdle to overcome with clients who bought at the top of the curve. Those young fellows need only to talk to any investment man who came through the depression of the 1930's. In those days it took real courage, but it paid, to face the client who blamed you and your organization for losing a substantial amount of his capital. What tougher background for selling than that which existed from 1930 through 1936? What courage and salesmanship were displayed then by the security houses, the underwriting firms! Those were selling days—those were tough selling days.

In the years 1946-47 following Victory Loan campaigns, senior men in the investment business gave considerable thought to the laying of plans for the purpose of, (1) educating members of the IDAC; and, (2) educating the public in the matter of security buying. Those plans, as I recall them, placed emphasis upon number "1" with a view to building up the investment dealer in his own eyes and strengthening the Association as such. The Number 1 plan involved training of investment personnel with junior and senior courses; with booklets and pamphlets available for public consumption and speakers from the Association at public gatherings. All who participated in those plans looked for regular improvement in the program, year by

year, to the point (and that point you have apparently reached) where plan Number 2—educating the public in buying securities, could be embarked upon as a program. Quite obviously the success of Plan 2 depends upon how successful with all members of the Association Plan 1 has been. It requires only a few loosely ethical houses to brand all the investment and brokerage firms as a bad lot. I'm sure you will agree that it is in the interests of all investment houses, large and small, prominent or not, to promote in every possible way the aims of your Association for a high standard of ethics.

Then what about the high standard of salesmanship? I am quite sure that each investment house wants to train its own salesmen—indeed considers its own method of training better than that of any other investment house. I do suggest, however, that your Association could benefit the investment industry by making a course in security selling available to the budding security salesman. I presume that it would not be an easy matter to decide along what lines the course should be laid out, but surely there can be no conflict of opinion with respect to a course which at least prescribes full disclosure and a high standard of selling ethics.

Certain Criticisms

Forgive me now if by chance I impose upon your friendship by passing along certain criticisms. A week or two ago I took the liberty of contacting 12 different people, four were buyers for insurance companies, three purchased securities for investment trusts and the remaining five were wealthy enough to buy for their own account or for corporate account. I did not send them any questions—I merely told them I was going to be here and then asked them to make some observations concerning security salesmen. Here was an opportunity

Continued on page 10

INVESTMENT OPPORTUNITIES in U. S. Securities . . .

interpreted from the CANADIAN point of view

The freeing of foreign exchange controls opens new fields of opportunity for the investment of Canadian funds in the United States and vice versa.

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*An address by Mr. Moore before the Annual Meeting of the Investment Dealers' Association of Canada, St. Andrews-by-the-Sea, New Brunswick, Canada, June 11, 1952.

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Continued on page 12

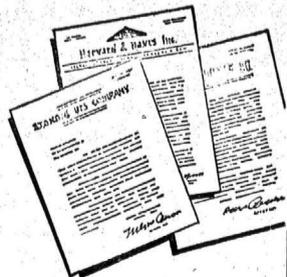
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Mutual Fund Investing in Canada

Mutual funds, recently organized in the United States to invest in Canada, meet a need which has been building up for a long time.



Alfred Borneman

For a period of about 20 years, wars, currency restrictions and legal obstacles have prevented formation of investment companies in the United States, designed to offer investment in foreign countries. The year 1952 will go down in the history of investment companies in the U. S. as the year in which the first mutual fund of important size organized primarily to invest in foreign securities was offered to investors in the United States.

The role of the investment trust as a vehicle for the export of capital from one country to another is very old. In fact, of the 47 trusts organized in Great Britain between 1860 and 1890, virtually all were formed to take advantage of investment opportunities abroad. Our own pioneer investment trusts also bore this characteristic. For example, the International Securities Trust of America organized in 1921, had a charter provision that not more than 70% of total funds could be invested in the United States.

Periods of active formation of new investment trusts generally developed as a result of broad economic changes either at home or abroad which have created unusual investment opportunities. Thus it was that low interest rates at home and high rates in the United States caused the rapid formation of investment trusts in England and Scotland during the eighties. Debenture capital could be raised at 3¼% to 4½% and funds invested in the United States at 7% to 10%. These trusts were usually organized with about 65% debenture and 35%

Commenting on formation in U. S. of Mutual Funds to invest in Canada, Mr. Borneman cites progress of British investment companies in foreign investment field. Points out opportunities for capital in Canada and holds now is appropriate time for diversified investments in Canada by mutual funds. Lists Mutual Funds recently organized for making investments in Canada, and lauds opportunity thus given small investors to participate in Canada's progress.

share capital. The resumption of specie payments in 1879 caused the creation of trusts for investment in our depreciated municipal bonds, which yielded up to 10% at the time.

In a later period of investment trust formation, from 1902 to 1914, easy money, and low interest rates on bonds available for investment caused a shift of investment by British trusts to American shares and investments in colonial development, with the result that a greater proportion of capital was raised by sale of shares rather than debentures and greater emphasis was placed on skill in selection. The first World War, which converted the United States from a debtor to a creditor nation, changed all this, however, and in 1921 there was a wholesale liquidation of American securities held by British trusts to invest at greater returns at home, in South America and in the colonies.

Opportunities for Capital in Canada

The Second World War brought about political and economic changes of such scope and magnitude affecting the economy of the United States that American investors in increasing numbers have been looking for investment opportunities abroad, especially as they exist in Canada, now known to be a nation possessing natural resources of incalculable extent in the early stages of development. Political changes caused by the Second World War of great sig-

nificance to investors were: (1) the acceptance of responsibility for policing the world, formerly borne by Great Britain; (2) the rise of a rival world power, communist Russia, as a threat to peace; and (3) imposition of wartime and postwar economic controls to implement the defense effort. Economic changes of great significance to American investors resulting from these and other political developments are the following: (1) We now have a burden of individual income taxes at rates so high that increasing numbers of investors are obliged to look for capital gain rather than income; (2) highest corporate tax rates record for peacetime plus excess profits taxes to finance armament, limit at least temporarily the opportunity for substantial enhancement in value of domestic industrial stocks; and (3) government controls and liberal attitude of government toward labor has caused management in many key industries to have great difficulty in controlling costs.

Moreover, development of Canada's natural resources received a great stimulus as a result of World War II. The vast quantities of raw materials produced for the war caused a considerable reduction in our low-cost reserves of many important basic materials. Because of either increased demand or diminished supply, we must now rely on Canada for supplies of such important materials as newsprint, cellulose in the form

of wood pulp, nickel, asbestos, iron ore, aluminum, zinc, lead and titanium. Intense activity in the development of oil reserves in Canada, aside from the investment opportunities presented by the shares of oil companies, is having a salutary effect on the basic credit position of the country. Previous to the development of oil resources, Canada was obliged to find about 250 to 300 millions of dollar exchange annually to pay for imports of crude oil and petroleum products. In many recent years not affected by the war this amount came close to the total adverse balance of payments on account of trade with the United States. Thus, when Canadian oil production increases to the point where the nation's own domestic needs will be met, a few years hence, as appears indicated, a considerable burden on Canadian exchange will be lifted. Furthermore, there is the possibility that ultimately exports of crude oil will be made to our Pacific Coast area where a shortage exists. Natural gas is already being exported on a limited scale to the United States through sales to the Montana Power Co.

Thus, a combination of far-reaching political and economic developments created a need for a vehicle by which the American investor could take advantage of the unusual investment opportunities which have resulted from

these political and economic changes. Many American investors were reluctant to "go it alone" in the selection of appropriate stocks from the bewildering array of new issues being brought to the market as a result of Canada's rapid development. There was a great need for a "spread" in investing in the development companies especially among western oil stocks. Then, too, there was great need not only for skill and experience in selection but also supervision by those familiar with Canadian investing.

Organization of Mutual Funds For Investments in Canada

It was logical that the mutual fund form of investment trust be selected to meet the requirements of investors seeking a medium for diversified investment in Canada. The mutual fund is America's own refinement of the best investment trust experience covering wars and the problems of deflation and inflation of the past 30 years. Mutual funds have built up a high degree of acceptance by investors. People are familiar with this form; like their method of paying dividends, and the formula for qualifying under the SEC laws and the Blue Sky Laws of the various states is well established.

It was natural that the Calvin Bullock organization would take the leadership in meeting these needs by the formation of Canadian Fund, Inc., whose shares were offered to the American investing public on April 30, 1952, by a group of 102 underwriters headed by Kidder, Peabody & Co., and Dominick & Dominick, aided by 174 selected dealers. The offering consisted of 900,000 shares of common stock at \$12.75 per share which provided the company with \$10,610,000 of capital with which to begin business, after underwriting discounts and expenses. During the period of the initial offering, the company was a closed-end investment trust, but upon termination of the offering the company became a diversified,

Continued on page 30



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Continued from page 7

The Salesman Cometh

through me for these security buyers to pass on constructive comments without fear of their names being disclosed. Many of the comments were trivial and indicated that some salesmen in the business were obviously better trained than others, and in this connection the size of the firm wasn't always the *sine qua non*. Here they are:

It is surprising the number of salesmen who take for granted they cannot get into a certain account — and never try. The reason for this is that the salesman and of course the firm think there is a close connection between the investment account and another investment house.

There is a rather general tendency for security salesmen to read the circular in a hurry and rush to the investor before the latter accidentally hears of it from someone else. In this connection a telephone call stating that the salesman plans to make the offering the following day as soon as he has all the information at his finger tips, would probably be sufficient to hold the buyer at least overnight.

Incidentally, one of the mat-

ters which I called trivial which I now realize was expressed by all of the 12 individuals was the matter of an appointment. As one of the buyers said to me: "There are four or five investment firms which we have been dealing with for years and none of them ever came in to see me without telephoning first. On the other hand it is surprising how the younger men will drop in casually when I have 15 minutes to prepare for a meeting of the Investment Committee or at 20 minutes to 5 when I am just getting my desk cleared for the night." Such an individual obviously has three strikes against him, and as this buyer said, "I am irritated to start with."

Another trivia which I will not enlarge upon is that there are still some men who ask for a deal because they haven't had one for six months. You will note I said "men" and not "salesmen."

Perhaps one of the most interesting observations was made by two of the institutional buyers. It was so interesting that I checked back with the other two buyers of this type of security and asked if they agreed

and they said they did. Here was the observation: The majority of security salesmen (and I suggest the institutional salesman make note of this) the majority of security salesmen take for granted that we will make our own cold analysis of the security offered and not be influenced by the salesman's knowledge, sincerity and enthusiasm. This is not the case, particularly when the salesman is known and the firm well-regarded. The institutional buyer says, "I'm definitely influenced by the enthusiasm and sincerity of the security salesman, and if he sells me, I will go a long way down the road to sell my investment committee. On the other hand, if I am left with the cold facts and figures in black and white, I may or may not become enthusiastic."

As I have said many times in the past and have already mentioned here this morning, the key to all this business of selling is knowledge, sincerity and enthusiasm — no matter to whom you are selling. You know as I do that the salesman should be inoculated with good heavy doses of all three.

Gentlemen, you represent organizations which are not only sharing in but helping to promote the long-term growth and development of this country. You know better than I that well-trained personnel, enthusiastic and knowledgeable salesmen will always be your chief assets. Are you giving them plenty of attention? As chief executive you are the one to develop the creative and sales potential of your organization. Are you doing so? Is the Association of any help?

In recent years capital has grown — (taxes have spread it thinner) — and there has been a vast increase in the number of capitalists. To keep pace, the investment business eventually will follow the lead of other industries and develop mass merchandising methods. The methods of Mr. Magowan's firm can be taken as a splendid model.

In this connection, let me digress slightly. We live in an age

when "clipping" the rich is popular, and I must say that within reason I applaud so long as the incentive for risk-taking is not destroyed. But when you reach the point of getting 75%—85%—90% of individual income, then I think you're taxing opportunity and growth. At levels in excess of 50% the income tax is not only a tax on the rich but also a tax on the chances of the poor to become rich. The man who inherits a fortune can pay 50%—90% income tax and suffers not too much — the man who is trying to save and invest cannot pay it and accumulate a fortune.

Assuming this state of affairs continues, you gentlemen, your firms, and certainly your Association, have a tremendous task of educating the public to the soundness of saving and investing in order to share in Canada's growth and build their savings. We all want Canadian capital to develop Canadian business — to benefit from the country's growth. The opportunity for this lies of course in the ownership shares of our companies—equity.

While I would not for a moment underestimate the importance of investigating and analyzing individual securities, it does appear advisable that more prominence should be given to the old adage of, "It's not only what you buy but when you buy it that counts."

There are a great many advantages to this approach in the problem of merchandising securities—for one thing, if investors adopted regular buying programs, they would derive greater financial benefit over the years. I will always remember when I was in the investment business advising a good solid investor that he should be buying more securities — the time was ripe. And he replied, "Moore, I always invest at the first of each quarter and have done so regularly for 25 years—it's a good system." Such regular investing on the part of many would tend to close the wide gaps between capital demand and capital supply. From the industrial point of view, it would make public investors a more reliable source of funds.

Any such regularization of pri-

vate security buying should increase the sums available for equity financing. I believe that more of Canada's capital should and could be put into equity investment. Over the pull, I think more of this "risk capital" would be forthcoming if investors spread their buying, regularized their buying, instead of concentrating at periods of high prices.

The past 20 years have seen a growing familiarity on the part of the general public with industry and industrial techniques. Investment firms have played a large part in this job, as have governments, educational authorities and the informational services of industry.

I believe that the past 20 years have brought to the average man a far better concept of what industry is and how it operates. As a growing industrial nation we are taking our educational responsibilities in this regard very seriously, and the improved understanding that results is one of our best guarantees for the future.

Not only have you better customers to sell to, you have a better product to sell. Canada, even 50 years ago, was regarded as an attractive land in which to invest. Today, many people think it is the only land in which to invest — and you and I think they are right.

IDAC Convention Big Success Says Borrie

The annual Convention of the Investment Dealers' Association of Canada this year was most successful, with the largest attendance on record, according to Wilfrid J. Borrie, Pemberton Securities Limited, Vancouver, the retiring President of the Association. The inclusion of wives of the delegates at the Convention was extremely popular and will be continued next year.

The 1953 Convention will be held in the early part of June at Bigwin, Ontario, dates to be announced later.

It is our opinion that here in Canada we will shortly have further easing — perhaps complete removal — of exchange control restrictions on security transactions.

We will be glad to tell you why we think so, and what it means to investors in other countries.

We cordially invite banks and institutions to write our statistical department for accurate information and unbiased opinion on any Canadian stock — industrial, mining or oils.

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Nature and Size of Canadian Industries

In acknowledgment of the great demand from public and private sources for comprehensive and up-to-date information on the subject, the Canadian Department of Trade and Commerce has prepared a voluminous study entitled "Private and Public Investment in Canada, 1926-1951." The report, prepared by Dr. O. J. Firestone, the Department's Economic Advisor, contains a wealth of data that should be of interest not only to Canadians but also to investors in the United States and others who may be interested in obtaining authoritative information relative to the phenomenal growth of Canada and its industries, particularly in recent years. Among the sections included in the study is one containing an analysis of the economic developments for each of the major industry groups in Canada since 1926. The following are extracts from this section of the study.—Editor

Brief comment on nature, size and growth of various industries in Canada as contained in study "Private and Public Investment in Canada, 1926-1951" issued by the government's Department of Trade and Commerce.

amounted to only 13% of domestic production.

Rubber, Leather and Tobacco and Their Products Industry

This group of industries operated about 900 plants in 1950, employing some 65,000 people, producing a total gross value of output of \$744 million and contributing 5.9% to the total net value of manufacturing production. About half the number of firms in this industry group are corporate enterprises and they do over nine-tenths of the business. These industries have grown less rapidly than most other manufacturing industries. In 1939 they provided employment for about 8% of all persons working in manufacturing industries. By 1950 this proportion had declined to 6% in spite of the fact that some 40 new large and medium-sized firms were established in Canada in the postwar period, providing an additional 1,200 jobs.

The domestic market is the chief outlet for the products of the animal and vegetable nonfood industries. In 1950 imports amounted to only 5% of domestic supply while exports accounted for less than 3% of domestic production.

Primary Textiles and Their Products Industry

At the end of 1950 the primary textiles and their products industries operated about 900 establishments, employing some 78,000 men and women and producing an output of about \$718 million worth of materials and articles during the year. The net value of output of the industry was more than \$300 million, or about 5% of the total net value of manufacturing production in Canada in 1950. About three-fifths of the number of firms operating in this field were incorporated companies, responsible for approximately 95% of the total

output and concentrated in the provinces of Quebec and Ontario. The industry primarily serves the domestic market, with only about 3% of its output being exported. Imports generally supply about one-quarter of total demand for primary textiles and textile products other than clothing.

Like most other manufacturing industries this industry has grown rapidly in the last decade. From 1939 to 1950 the number of plants more than doubled. Employment and output in volume terms rose by more than 30%. If no allowance is made for price changes, gross value of production by the industry was about four times as large in 1950 as in 1939. In this period, the development of new commodities, the introduction of new techniques and processes, as well as the rapid growth of the domestic market stimulated expansion of the industry. Manufacture of rayon was expanded and production of nylon yarn and nylon products was first undertaken. Canadian producers now supply the bulk of Canadian synthetic raw material requirements. Expansion of the industry is reflected in the large capital expenditures made by manufacturers and by the number of new firms entering the textile business. Since the beginning of 1946 some 67 new textile companies of medium and large size have come into operation, providing employment for about 2,100 workers, thus contributing another 3% to employment in the industry.

Wood and Its Products Industry

The industry contains the largest number of operators of any of the manufacturing groups. In 1950 there were over 11,600 establishments in operation, employing some 124,000 people and producing over a billion dollars worth of lumber products of various kinds.

The industry contributed about 8% to total manufacturing net value. Although the proportion of firms operating as corporate enterprises was comparatively small, less than 20%, they were responsible for about three-quarters of the business of the industry. A large share of the Canadian output goes to the domestic market, although purchases by foreigners are also important. Exports amounted to over one-third of production in 1950. Imports comprise only 2% of domestic consumption.

The heavy demand for lumber products in the postwar period was responsible for the entry of a large number of operators into the field. In fact, their number more than doubled in the period from 1939 to 1950. Employment, however, increased by a somewhat smaller proportion, suggesting that many of the new firms were small-scale operators. Only about 160 new firms which have come into operation since 1945 have reported employment of 10 or more persons each. These companies provided over 5,000 jobs, or an average of 30 employees per plant.

Pulp and Paper and Their Products Industry

The industry comprises over 500 enterprises employing about 80,000 people. Pulp and paper mills number 125 and provide jobs

for about 55,000 persons. The remaining 25,000 persons are working in some 400 establishments producing a variety of paper products. In 1950 the industry as a whole contributed 10% of the total net value of production by all manufacturing industries. Its gross value of production was of the order of \$1.2 billion, of which pulp and newsprint production accounted for about three-quarters and the remaining one-quarter represented the value of other paper products. Corporate enterprises made up more than four-fifths of the industry and were responsible for 99% of its business and employment.

The establishment and growth of Canada's pulp and paper industry have been based upon the nation's abundant resources of timber, water and water power. A mass market for its products in the United States has also had an important influence on the structure and development of the industry. These are the major factors which have contributed to making Canada the world's largest producer of newsprint, producing nearly three-fifths of the world's total supply. Canada produces one-third of the world's pulp exports and is a leading manufacturer of various grades of pulp and paper products. Of the total output of \$1.2 billion in 1950, some two-thirds was sold abroad, mainly to the United States. This proportion was notably higher for newsprint, more than 90% of Canadian production being exported. Imports, while small in relation to total production, are important in certain specialized lines such

Continued on page 30

Food and Beverage Industry

The industry is the largest manufacturing group in terms of the number of persons employed and gross value of production. It operates some 8,600 plants employing over 170,000 people and in 1950 gross value of production amounted to about \$3 billion. In terms of net value of production the industry contributed 15% of total manufacturing output, a proportion exceeded only by the iron and steel and their products industries. About one-quarter of the number of enterprises in the industry are corporate entities, accounting for about four-fifths of the employment. The remaining business is being conducted by individuals, partnerships and cooperatives. Less than 10% of domestic requirements for food and beverage products is met by imports. The industry, which in the early postwar years used to export up to one-quarter of its output, more recently has had to rely to a greater extent on the domestic market. In 1950 exports

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Continued from page 8

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Continued from page 3

Private Enterprise at Work in Newfoundland

asking myself—I couldn't help it and must repeatedly do so—does Canada deserve to have all this wealth undeveloped while other parts of the world, working night and day, long hours, can't conceivably begin to produce the standard of living that has been accomplished in Canada with a third or a fourth of the amount of physical effort being expended all the time in some parts of the Continent of Europe.

I have been greatly impressed, greatly impressed indeed, by the thought that Canada is not developing to the extent possible—and I know a newcomer from a new Province would be expected, in talking with his new fellow Canadians of three years standing, to indulge more in flattery and more in mutual congratulations about the great nation we are and the great strides we are making. I don't deny that great strides are being made when you relate them and compare them with the past, but I am not satisfied, personally, that we in Canada are developing Canada as rapidly as it can be developed and as it ought to be developed. But I go back to the point I made at the outset, namely that in the vast need for the development of Canada you gentlemen can play and I think you do play the greatest single part taken by any class of men in Canada today. Comparisons are odious and I would not for a moment wish to underestimate the importance of other classes of people in our community. But I am always a little overawed when I meet investment dealers because I feel that they must surely be amongst the best informed people of all the population so far as Canada's economy is concerned. I dare say, if the truth were known, there isn't a gentleman present here today but who has personally investigated not one, not a dozen, but 50 industries. He has been under that necessity, because of his

work, to investigate closely the position of at least 50 different industries in Canada, and of no other class of people in Canada can that be said with any truth or with any realism.

Dealers Should Study Newfoundland's Economy

Now, I would say that each one of you is probably quite an authority on the industries of all the provinces of Canada and an authority on all the governments of Canada and on the affairs of all the Provinces of Canada, and I do suggest to you that now that Newfoundland is a Province of Canada there is upon you a very distinct duty, a responsibility, to acquaint yourself with some, at least, of the basic facts of the Newfoundland economy and of Newfoundland affairs. I have found across Canada generally a considerable amount of good will toward Newfoundland. I think when Newfoundland became a Province of Canada the average Canadian citizen, in what we in Newfoundland call the "mainland of Canada," felt rather a feeling of satisfaction that Canada had become a bit bigger by the addition of a new province, and that somehow and in some way that wasn't too clear in people's minds Canada had become a bit stronger in the world's sight, a bit more important. So there was, I believe, some exultation on the part of the Canadian public in general over the fact that Newfoundland had decided by democratic, secret ballot to cast her lot with Canada and become a province. I suggest to you, however, that that is far from being enough from Newfoundland's standpoint. I would say that here in this gathering today—and I take it you are not all of the Investment Dealers; possibly not even half or quarter of all the investment dealers of Canada could find it possible to be here—but I would say that

you who are here for one reason or another have definite stakes in the provinces of Canada. You can't float a bond issue for a provincial government, for example; you can't help to organize a company or to help in the financing of a company in a province without coming thereby to have a sort of stake in that province. That puts you in the position where you must defend that province; you have become a sort of partner of that province and that applies to all of the nine provinces. But I wonder how many of you gentlemen here today have the slightest practical interest in the new province. You haven't assisted in the floating of any bonds, government bonds. You haven't assisted in the floating of any Newfoundland bonds, company shares or anything of that nature. I suppose actually, beyond a sentimental regard for Newfoundland, you haven't a great deal of interest in it because as yet you are not partners in Newfoundland's economy. You haven't played any particular part in the building of the Newfoundland economy because you haven't had anything to do with the floating of Newfoundland bonds or the sale of Newfoundland shares.

I have come to this conclusion: That so potent a body as the Investment Dealers of Canada have got somehow to be brought in as partners of the economy of Newfoundland. We have got to have—we in Newfoundland—something more than merely the general goodwill of the average Canadian citizen. We have got to have something more than that in Newfoundland; we have got to link ourselves to the Canadian economy, and the midwife of that, or the marriage broker for that, is exactly the Investment Dealer of Canada. I have been a little flabbergasted, just a little flabbergasted, by some of the completely abysmal ignorance of many Canadian fellow citizens on the "Mainland of Canada" about Newfoundland. It is just appalling. You know more about almost any state you like to mention of the American Union than you do about Newfoundland. I am allowing for exceptions, of course; I am speaking generally. Doubtless

there are gentlemen here today that know more about Newfoundland than I might, but I am speaking generally. The things I have heard said by perfectly good and otherwise well informed Canadian citizens about Newfoundland are incredible. The questions I have been asked about Newfoundland are equally incredible because they give clear, unmistakable evidence of the fact that the ignorance—and I use the word in its purely technical meaning, of course—the ignorance of "mainland" Canadians concerning Newfoundland is appalling. Well, I wouldn't like our Newfoundland people to know that the people of Canada as a whole know so little about them and misunderstand them as much as they do.

Newfoundland as a Source of Investment

Now, gentlemen, I don't know if you are aware of the fact that Newfoundland is very, very old. The oldest city of the western hemisphere is St. John's. We have been running down there in St. John's from 1497 continuously, which makes it the oldest settled part of the New World. For one hundred years, for a whole cen-

tury, Newfoundland was the only part of Britain overseas, Britain's only colony. For the first hundred years Newfoundland was virtually the only part of the New World that was actually well known to the people of Europe, and in coming off into the Hinterland—that is what is now the east coast of Canada—and to the wilderness beyond—that is what is now the eastern seaboard of the United States—mariners set their course for the well known haven of St. John's and from St. John's pushed out into the unknown. St. John's was the great rendezvous where all the mariners of Europe met to exchange news and to pick up their bearings when they wanted to go exploring along the coast of North America. Newcomers such as Halifax, founded in 1749—we look down our noses at places like that. We are very old in Newfoundland, which is a very cardinal point with us. You can't begin to understand us until you get that fixed firmly in your mind—we are extremely old for the New World, that is. Then you go over to England and you go into an old church built 300 years be-

Continued on page 14

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Continued from page 13

Private Enterprise at Work in Newfoundland

fore Newfoundland was even discovered and you begin to get a sense of perspective, of course, but in the western world Newfoundland is very very old.

Now, second, we are very British. We are more British than the British, more royal than the Queen.

Pre-Confederation Experience

Thirdly, we are very touchy and very cocky and very independent. When I first dared to suggest in Newfoundland that perhaps our destiny was linked with that of Canada and we ought to join Canada, I was dubbed promptly a "Judas Iscariot," "public enemy," "a Quisling," a "traitor" and a "dirty skunk" who was going to sell his country up the St. Lawrence. (Laughter.) That wasn't so funny when I had to go around St. John's with a bodyguard armed

with revolvers and clubs who met me in the doorway as I came out of my house, who didn't dare stand on the other side of the sidewalk where the car was waiting but stood in the doorway and surrounded me as I came out to get into the car and surrounded me in the car. It wasn't so funny then. Nor was it funny when a crowd of 3,000 people came down to my house to tear it down merely because I lived in it, nor so funny when the owner of the house, from whom I rented part of it, found that Lloyds of London wouldn't insure it while I lived in it against riot and civic commotion. It was not so funny as I was broadcasting in favor of Confederation one night over one of the radio stations in St. John's when truckloads of men came up to the radio station properly equipped with a stout rope with which to hang me. St. John's was,

of course, the stronghold of anti-Confederation. The businessmen of St. John's poured out a lot of money—I estimate half a million dollars—to pay the cost of the campaign against Confederation because they thought that Confederation meant their absolute ruin. To them union with Canada meant complete disaster. I would say that no part of our population have benefited more from Confederation than those people who feared it most and spent most to defeat it. I would say that the businessmen of Newfoundland today would be virtually unanimous, if they were now casting a secret ballot as to whether we should remain in or leave the Canadian Union, unanimously for remaining in.

Opponents in Minority

In passing may I say that that is true of virtually our whole population. The only people who would will take a stand against this Confederation of Newfoundland and Canada — and then I think only to save face, and I wouldn't answer for what they, even, would do in a secret ballot—but the only people that would still talk about it are those who on

Confederation Day, the date on which we became a province, flew black flags at their homes in St. John's, draped their front doors in black crepe, wore black ties and black armbands. Probably only they—the diehards, the extremists (how lovely it is, what a fine, comfortable feeling it is to be able to point to somebody else and call them extremists)—only they I think would pay at least lip service to the cause of anti-Confederation. But so far as the overwhelming majority of our people are concerned, they are

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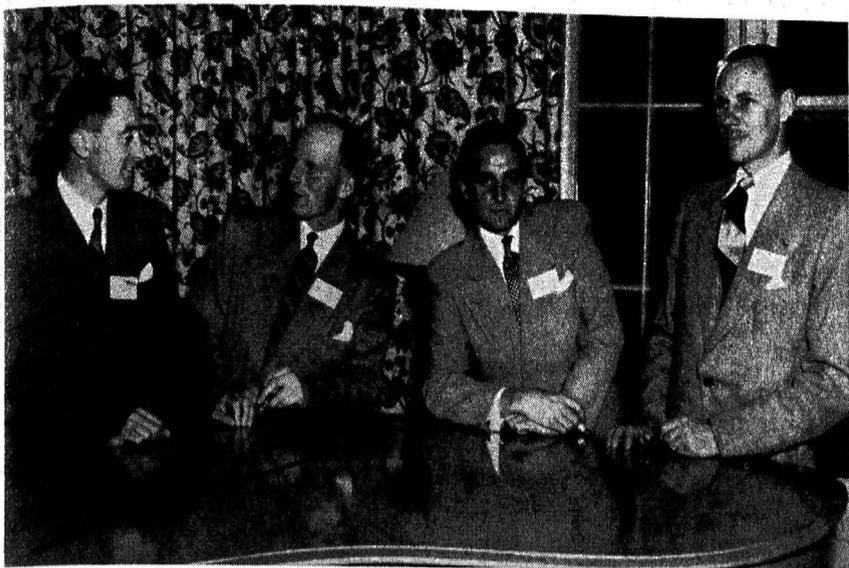
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quite happy, quite pleased. In a sense they look like the cat that swallowed the canary, and I don't know but that that is a good analogy because in Newfoundland Confederation doesn't mean exactly what you gentlemen probably think it means. In Newfoundland it means that Newfoundland has suddenly become enlarged, reaching all the way now, not from St. John's to Port Aux Basques, but to Victoria, and our population has become quite appreciably larger than it was, swelling from 361,000 souls to something of the order of 14,000,000. We have taken over Canada, we are the cat that has swallowed the canary.

There is very considerable satisfaction in Newfoundland amongst our people that we are indeed a Province of Canada. And now another fact I would like you to know is this: that although we are the oldest, we are the most backward Province of Canada—not in intelligence, I hope, not in character, not in sobriety, not in the habit of hard work. I think in these we probably lead this whole continent; nowhere in North America will you find

people more frugal, more saving, more anxious to work, because the average Newfoundlander's greatest ambition in life—so far at least as material things are concerned, and I make that distinction because our people are also a very religious-minded people, very devout—in material matters their greatest ambition is to get a job and, having got one, their second greatest ambition is to get overtime, to work at night as well as day.

Public Services Inadequate

No, when I say "backward" I refer, of course, only to our economy and I refer to our public services; and the public services of any part of the world, I suppose, are a reflection of its economy and the yardstick of its public services usually is its economy. Because our economy is so very, very backward, so very much underdeveloped, it follows, I think quite logically, that our public services are also highly underdeveloped. I will give you an example of that. Newfoundland is 42,000 square miles, not counting our vast dependency — is there

anyone here from Quebec?—our vast dependency of Labrador of 110,000 square miles. Newfoundland has 42,000 square miles with a population of 361,000 people, compared with little Prince Edward Island — little only physically, geographically, I may say, in case there is anyone here from Prince Edward Island—with 2,000 square miles against 42,000 and 96,000 souls against 361,000. Prince Edward Island has several thousand miles more of motorable roads than Newfoundland has. On any country road (motorable or not), hospitals, schools and all the ordinary and conventional things that go to make up public services Newfoundland is from 25 to 50 years behind the three Maritime Provinces. To move from Newfoundland into Nova Scotia for a motor tour, or to Prince Edward Island or New Brunswick for a motor ride, is to seem to pass from primitive, visibly undeveloped and underdeveloped areas into a virtual paradise of development and public services. Yet to move from Quebec or Ontario into the Mari-

time Provinces is to do exactly the same thing in reverse. Newfoundland is as far behind the Maritime Provinces in its public services as the Maritime Provinces are behind the provinces of upper and western Canada. That

of course is a very accurate reflection of the state of our economy down through the years, down through the centuries. That is another fact I would like you to get fixed firmly in your minds: *Continued on page 16*

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Continued from page 15

Private Enterprise at Work in Newfoundland

Newfoundland's economy is very backward. Newfoundland is very, very undeveloped and underdeveloped.

Newfoundland's Early History

Now there are historic reasons for that. If you were in the City of St. John's I could take you now to a building on Water Street which has chimneys in it built of brick. Most chimneys in Newfoundland are built of brick and you might wonder what was exceptional about it for a particular building. It is this fact, that it is the last building in Newfoundland of which I know that had wooden chimneys built of board; but the chimneys in that building were quite extraordinary; they didn't come straight out from the roof towards the sky — they led out through the back of the building and went north and then went

south and then went east and then went west and then went north again; twisted, zigzagged to try to carry the smoke so far away and disperse it and diffuse it so that the fact that there was a chimney in the building would not be noticed, because it was illegal, it was contrary to the laws of England, to have a chimney in a building in Newfoundland. And that law was repealed only many years after Nova Scotia, which only began the day before yesterday in our eyes, had got self-government, had got a university, had got a second university; many years after New Brunswick and Prince Edward Island were well developed and well ahead in the march, because the laws of England forbade settlement in Newfoundland. Actually, you weren't allowed to live in Newfoundland; it was illegal prior to 1811 and

the first road building on that island was in 1825. The first school that was legal and lawful in Newfoundland was only around the turn of the 19th century. You couldn't enclose a piece of land, you couldn't fence it; fences were illegal. Inhabitants of the island were not allowed by law to use the fore-shore on the coast until first the fishing vessels from the West of England had come, made their selections for the season; and then any fore-shore left could be used by the inhabitants who weren't there legally in any case and upon whom England, at best, turned the blind eye. It was a deliberate imperial policy of preventing the settlement of Newfoundland because Newfoundland, unlike the other parts of the Commonwealth and the Empire, was not a colony at all, it was a fishery. It was not even a plantation, it was just a fishery. As one man said, testifying before the House of Commons at Westminster, "Newfoundland is a great rock, a great ship moored in the midst of codfish on the Atlantic Ocean, a place to which our fishermen may go in the early summer to fish, returning with their fish to England and all their

equipment in the early fall of the year." It was the great nursery, they said, of the British Navy. By preventing settlement, by requiring that fishermen leaving England—if they went to Newfoundland at all—must return to England in the same year, they were building seamen for the British Navy—Newfoundland was viewed as the nursery of the British Navy. There were historic reasons, many of them, to account for the backward state of Newfoundland; but reasons apart, I just want you to remember, when you remember that Newfoundland is the oldest part of the British Empire and of the New World, that the people there are touchy, and proud and arrogant, very proud of their remarkable history. When you remember that, remember also that our economy has been extremely backward for reasons upon which I have merely touched and that as a result of the backward state of our economy you have the present rather appalling backward state of our public services.

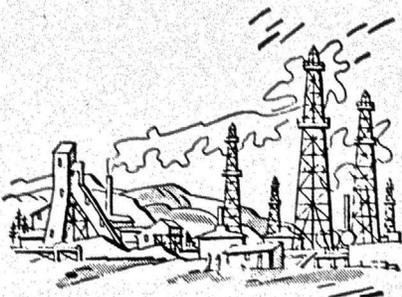
Newfoundlanders Demand Progress

Now what has all that to do with today's meeting? It has this

to do with it—that we are now a Province of Canada. Newfoundlanders feel, rightly or wrongly, that they must share in the greatness of Canada, in Canada's destiny. They are not happy — rather they are not content; they are quite happy—they are not content, not satisfied to share in Canada's world-famed social security measures, family allowances, old age pensions and the like. I never heard yet of people who refused to accept them in any Province of Canada, not only Newfoundland. They are pleased to have these, but that is not the measure of their ambition. That was not—contrary to what some people had said — it was not for the sake of family allowances and the other social security benefits from Ottawa that the people of Newfoundland voted to become a Province of Canada. It was rather that Newfoundland would share in Canada's greatness and Canada's destiny and that Newfoundland would break the shackles that had bound her for centuries, that a new freedom would come upon us.

Now, it is not enough, I suggest, for the mainland of Canada to know that in Halifax and in North

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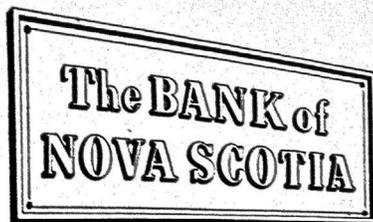


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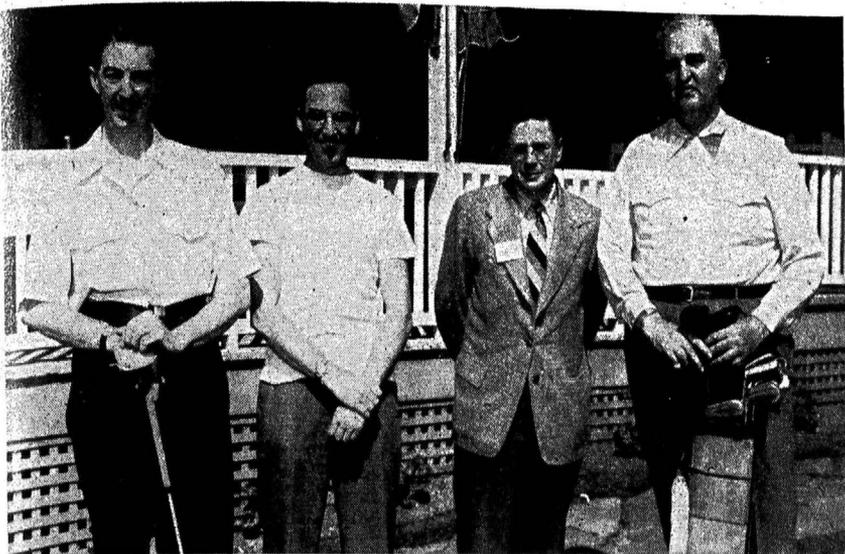
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Sydney the ports are blocked with ships and trains, trains carrying merchandise down to Newfoundland, that the Canadian National Railroad running across the Island of Newfoundland is virtually demoralized. I exaggerate a little here at this point but not too much—it is virtually creaking and groaning under the weight of Canadian mainland merchandise pouring into Newfoundland. Don't overlook the fact that before confederation we did our trade with the world; we bought from the United States when it pleased us, from England when it pleased us, from Canada, from any part of the world, and it did please us to buy from half the countries of the world. We had our own tariff, don't forget, and we exported where we could. Today, however, we import virtually only from within the boundaries of Canada as a whole, with the result that quite a fabulous increase has taken place in the quantity of Canadian made goods pouring into Newfoundland, so that on the Cabot Strait it is not enough now to have one boat plying between North Sydney and Port Aux Basques. Two are not enough, three are not enough, four, five and six are not enough. Go to North Sydney and ask them what has happened to the trade passing through, go to Halifax, go to the shipping people. It is fabulous but I say that it is not enough that Newfoundland should be merely a customer, another customer for mainland Canadian manufacturers, and I tell you why it is not enough.

All of Canada Must Be Developed

There is a certain logic which says this: That the smart thing

to do is to move all the people from Newfoundland, Prince Edward Island, Nova Scotia and New Brunswick, move them all away from there, from these Atlantic Provinces, this Eastern Coast of Canada, move them into Quebec and Ontario and British Columbia. There is a certain logic which would suggest that. I am not blind to that logic. Sometimes I ask myself if it isn't more than just logic. But do you suppose that you will build a great Canada that way? Suppose you had only three Provinces; suppose you have got to have Saskatchewan because that is where the wheat comes from and you have got to have Alberta because of the oil, but you might adopt the view, the rather logical view, that Canada should consist only of Ontario, Quebec and British Columbia, with the Atlantic Provinces reserved as a sort of game preserve and a place where tourists poke around. Alberta for the oil and Saskatchewan for the wheat but a sort of a hinterland frontier with the real Canada being Quebec, Ontario and British Columbia.

Now there is a certain logic in that but I don't know that a great Canada can be built that way. What is the alternative? Surely the alternative for men more worthy of their destiny—and may I say again I think that you gentlemen, whether or not you measure up to it, have a function to perform that is basically greater than that of the function of the Parliament of Canada, and that is not flattery. If Canadian industry, Canadian finances and Canadian statesmanship are worthy of their destiny, if they are not just little men with local and parochial patriotism, with limited outlook,

if they are really big men, if their concept of Canada is a great concept, they will, on one hand, reject the logic of depopulating, literally depopulating these Eastern Provinces to build two or three big Provinces. Don't forget if they all move to Quebec or Ontario, they would still not be as big as the one State of New York. Let's not forget that in passing. They will reject that logic and realize that Canada will be great only if every last part of Canada capable of development is developed; that the very codfish upon which the first economy of North America was based is not for nothing. When you go into the State Capitol at Boston you see the codfish hanging in the building. Massachusetts was built on cod, and so was all of New England and so was all of Eastern Canada—just cod—and that is the least esoteric of all the fish. There are aristocratic fish compared with the common cod—lobster and salmon and scallops and clams and a host of others. Even the common fish in the water is a god-given wealth and dare we Canadians spurn it? I won't give you a lecture on fish but would like

to remind you that Malthus, an accomplished gentleman who lived back a century or so ago, was rather disturbed in mind by the problem of population and the relation of the food supply to the population of the earth. He wrote some books about it. Fish is a great protein food, it is one of the great sources in the world of protein and the world is short of protein. Canada can achieve her destiny, really achieve it, but only by developing all of its resources, including the fishing industry. Oil is good, and I have a particular and selfish reason for saying that because we have John Fox spending this summer \$500,000 in Newfoundland drilling for oil. He told me on the telephone yesterday from Montreal, "Joe, I am getting oil in Newfoundland and I am getting it this summer"; so I don't despise oil and uranium and titanium and iron and all the other forms of wealth; but do not despise fish; and even Canada's destiny will not be fully realized if Canada neglects to develop to the limit her vast deposits of fish on the Pacific Coast and on the Atlantic.

And speaking of the Atlantic Coast, stick out your chest, as Canadians, just a little more when I remind you that Canada now has far more of the Coast of North America fronting on the Atlantic than has the United States. If you begin at Cape Chidley—you are still in Newfoundland—and come 1,500 miles in a straight line down the Coast of Labrador and then across the Strait of Belle Isle and down the Coast of Newfoundland to Cape Race and then down to the southern tip of the Canadian Mainland—that is a greater Atlantic Coast than the United States has. That is one thing we have done for Canada, anyway. We have given her a Coast on the Atlantic—she hasn't got one on the Pacific, as you know, or a very small one. And in these oceans—Pacific and Atlantic—if the good cod has given us something that the world needs, good protein food, then Canada, I suggest to you, has not accomplished her destiny until these resources, less flashy, less spectacular, less romantic than titanium and oil and

Continued on page 18

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Continued from page 17

Private Enterprise at Work in Newfoundland

timber and all the rest of it, are developed.

"Men of Vision"

When we joined Canada there was a great gleam in our hearts that we, too, would begin at once to share in the development that was going on. I will never forget as long as I live on this earth the sights I have seen amongst the Newfoundland fishermen in our ports. I have seen men who were willing to work from dawn to dark—and beyond dark—scarcely able to walk from beri beri. When you see a fine, strapping, fisherman of 40, with four or five children, who in his health could take any man here and fling him 20 feet away, that kind of a man reduced by starvation to a condi-

tion of beri beri, where he is able to get along only like this (demonstrating) just like this, creep along, scrape along on the ground and when he has walked 20 paces is out of breath and has got to sit down, all from starvation and hunger—that is something you will never forget. I have lived amongst the fishermen and you don't need to be sentimental about it, emotional about it; it is an ordinary fact, it is one of our facts, one of our Newfoundland facts before Confederation. So when you saw that kind of destitution you could feel a little happy in your heart that some of Canada's famous and ludicrous and ridiculous and absurd but nevertheless hard cash family allowance cheques would begin pouring into

those families. But that wasn't the reason why Confederation appealed to me. My principal reason for wanting Newfoundland to become a Province of Canada was that suddenly our population would increase from 361,000 to approximately 14,000,000. Then I said to myself, if we in Newfoundland have the energy and the initiative and the vision and if, somehow or other, we can find the capital—and that is where you gentlemen come in—to develop Newfoundland, at least we will have the market provided that we can do it competitively, in competition with the best and the biggest and the latest on the Mainland of Canada itself.

Natural Resources Studied

Of course that would be possible only if you had something to develop. That was one of the heartbreaking jobs that confronted me when I was asked to take over the Government in Newfoundland. What did we have? Just what did we have in Newfoundland? We knew we had fish. We also knew we had timber. The evidence of that was that we had the world's largest paper mill, Bowaters at Corner Brook; 1,200 tons a day; and at Grand Falls, established by Lord Thornecliffe, we had one of the world's largest paper mills with 750 tons a day. We knew we had timber. We suspected that we had water power. Just preliminary survey showed it to exist there in millions of horsepower. Just in passing, I sent engineers down to one falls—one falls alone—in Labrador, and not the Grand Falls of Labrador, which are 105 feet higher than Niagara and where you can take 5,000,000 horsepower—not that falls, just an obscure one with one million horsepower at a development cost to lay the power down to a site at 1.43 mills, less than one and one-half tenths of a cent. We didn't know we had that. We thought we had horsepower. We thought we had minerals. We thought we had timber—we pretty well knew we had timber but didn't know how much. Extraordinary as it may sound to you gentlemen, no Government in

Newfoundland had ever bothered to find out just what we did have. I have unfortunately acquired a reputation for being a politician and I am by no means a politician; I am not a politician, I am a misplaced businessman; I am a misplaced investment dealer. All my interest is in industry; I have no other interest except smoking. It is all industry and smoking and I read a little but that is all.

I still cannot understand how one Government after another in Newfoundland, including the one that was in power 15 years and appointed by his Majesty's Government of the United Kingdom, never even bothered to wonder, let alone to find out, how much timber we did have, what minerals we did have, what water power we had. So when I took over three and one-half years ago with this dream of development in Newfoundland, I had to begin quite literally from scratch. I had to start scratching to find out what we had. It has cost us a lot of money, and we had to begin from the beginning. It cost us, for example, \$200,000 that we paid the air photographic surveys of Toronto to go down and make magnetometer surveys. It costs a couple of hundred thousand dollars to the Power Corporation of Canada to go down and make field surveys of just one part of

our water power potential. It cost us many hundreds of thousands of dollars more to make other economic surveys. That is a simple basic job of just trying to find out what we have got to sell and blue print it. It is still going on. We must still spend many hundred thousands of dollars to measure what we have got.

Foreign Capital Attracted

I don't need to tell you gentlemen you can't go and raise capital, you can't get people interested until first you bring them at least enough data to convince them that the thing is worth taking a good hard look at. You have to get that much at least and even getting that much, unless we were prepared to wait for 10 or 20 years and do it in the slow and leisurely fashion, if we were to put real drive and pressure behind it, it would cost a lot of money, and it did and it will. The only pity is that it wasn't done 10 or 20 years earlier. This year we are going to get results. In 1951 we had in Newfoundland more mining companies employing more geologists of all kinds and spending more money in a search for minerals than we had ever had in any 25 years put together. That was last year. This year we have twice as many as we had last year and we hope that next year we will have

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twice as many as we had this year. That is because—but that is too long a story to tell—it is because we did these surveys. We got enough data reduced to map form to stir up some very genuine interest. You don't get Falconbridge Nickel and Frobisher, you don't get American Metals, you don't get Reynolds Metals, you don't get American Lead Zinc and Smelting, you don't get Freeport Sulphur, you don't get Anaconda Copper, you don't get American Lead, you don't get Selection Trust, which is perhaps one of the biggest of all the British mining concerns—you don't get concerns like that to move into Newfoundland and perhaps to spend many hundreds of thousands of dollars merely because they like Newfoundland or merely because some slick salesman has sold them the idea of going there. You have to have something basic to begin with. We have that.

Natural Resources Previously Ignored

Now it has cost us hundreds of thousands of dollars, as I described, to get that kind of basic information. It will cost hundreds of thousands of dollars more to

enrich that basic information; and, as it is enriched, we can go to other companies and say, "Don't you think this is worth your taking a look at?" Now, besides being up against that terrible obstacle of not knowing what we had, we were up against another obstacle of a perfectly mad character, and it was this: (it is old stuff to other Canadian provinces; they have gone through it often in the past): In Newfoundland the government always got its revenue the easiest way—ad valorem custom tariff—that was all. Well, in later years we did put on an income tax, but most of the time just an ad valorem custom tax was what they used for revenue. It is easily handled. Timber, minerals, water power were just trash; they had no value in the eyes of our government in Newfoundland in the past, so they gave it away to anyone who wanted it. If you had enough energy to ask for it, the government gave it to you. When you take a map of Newfoundland, just a geological map of Newfoundland showing who has what, you are astonished to begin to discover the government has nothing; they have given

it away. We in some cases began to find out who really did own it. We found that about 1860, before confederation, around 1860 the government of that day had given away a water power, which we now know will develop about a quarter of a million horsepower, for one peppercorn. So when I came into office I said, "Find that peppercorn." The peppercorn was gone, the water power is gone, and we are left with nothing. That is rather a dramatic example, but in most cases they didn't even get a peppercorn. All gone. Now we go out and spend good, hard cash, public money, to survey these areas and, having surveyed them, what can we do about them? Some private owner owns them; where is he? God in Heaven knows; we can't find him. There is a grandson of the old fellow who got it in the first place. Where is the grandson? We search titles; also we search records in England; we hire lawyers to try to trace the owners; we can't find them. In some cases we did and in some cases the owners are residents of Newfoundland; but whether you can find them or not, they are somewhere presumably and they

have done nothing. They haven't spent a dollar; they haven't prospected; they haven't surveyed; they have done exactly nothing. What should we do in a case like that? Here between us, just man to man, if you were in my job would you be strongly tempted to say, "To the devil with that stuff; let's take it all back!" That would be a human reaction; that would be the first reaction of any one of you gentlemen confronted by that piece of one thousand square miles of area given to a man in 1860 and he is dead for 40 years and his grandson is still there but has never done a

single thing about it. You would say, "In God's name, let's take it back to the Crown and see if the Crown can get somebody to develop it." That would be your first reaction; that was mine; it is very human.

Present Government Policy

I said, "No, you can't do that kind of thing, on the one hand, and on the other go and expect people of substance to come down and take an interest in your resources. You can't break your word." That is A-B-C, that is elementary; nevertheless it was a

Continued on page 20

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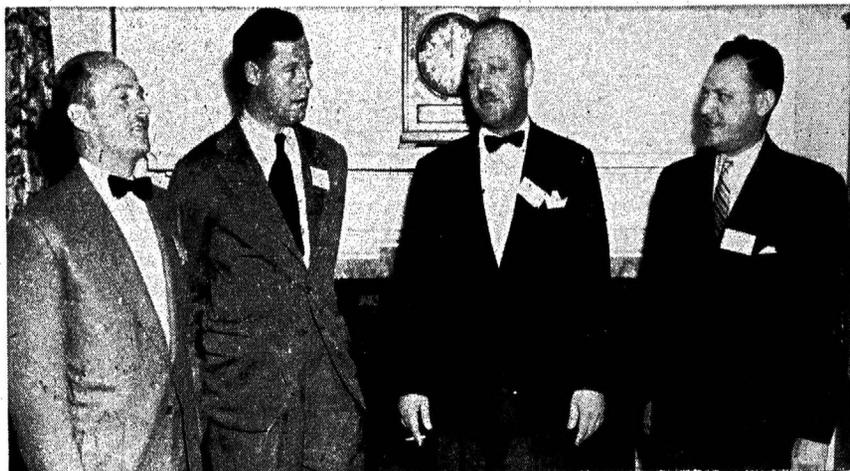
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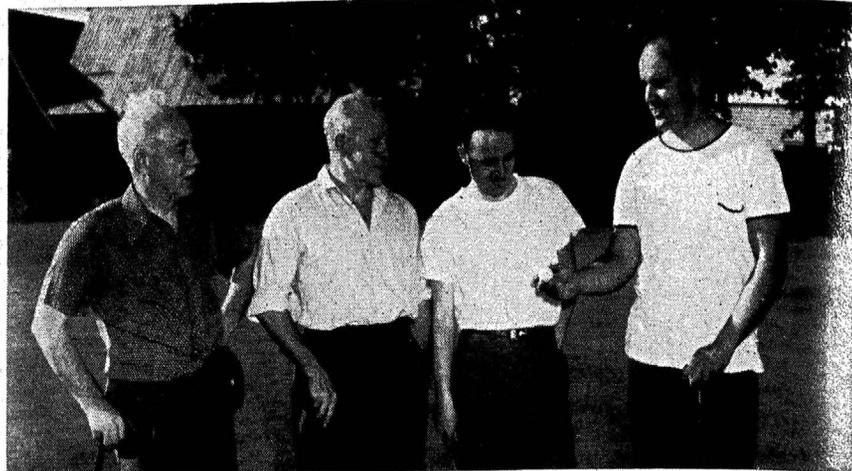
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Continued from page 19

Private Enterprise at Work in Newfoundland

powerful human reaction. So what we have done is this: we have passed a piece of legislation last session, four weeks ago. We passed it, got the royal assent. The Minister of Mines—don't forget we have been spending money surveying these privately held areas, completely undeveloped—the Minister of Mines now can certify a given area as an area on which, in the 10 years preceding, no development has taken place, no exploration, no prospecting, no-

ing; and when he certifies that to the Governor-in-Council, the Governor-in-Council may—he hasn't got to—he may certify it as an undeveloped area. Now, once it is an undeveloped area under the Act, the Government of Newfoundland—and only the government—has the right to give prospecting permits and development licenses; but anything that comes to the government as a result of any such development, the gov-

ernment must pass over as to one-third of it to the original owner. Now, some would argue that he shouldn't get any; we don't argue that way; we say he should get some. He hasn't done a thing about it, but we do all the expending; we expend all the effort as well. We get a Canadian or American or British company to come in and develop that area, and although he has done nothing we will give him a third of the proceeds that come in. So the problems pile up one after the other.

Government Debt Negligible

All I want to say to you, gentlemen, is this: Naturally, inevitably, sensibly, we must come to the mainland of Canada for capital for development. It is not the policy of our government to borrow. I don't know how long we can keep that up, but we haven't borrowed in Newfoundland since 1931 or 1932. Isn't that scandalous? So we are completely unknown to the money market, completely unknown; and I am afraid what little is known about us is wrong, or at any rate not very complimentary. Now, the government has no intention of borrowing to the last moment. Our policy—and we are rather proud of it—is to eschew public borrowing. Newfoundland is the only province without a public debt, almost literally—it has \$3¾ million net funded debt. That is almost literally none. I bet you find the City of Saint John has much more than that. Any sizable city of 50,000 or 60,000 people in Canada has more than that. We have some indirect obligations: Bowaters' great mill was built with a \$10 million bond issue guaranteed as to principal and interest by the United Kingdom Government and another \$10 million guaranteed by the Newfoundland Government; that was our share; it is down to about \$3 million. That is an indirect obligation; make the most of it. I don't think there is anything much to worry about; we have an indirect debt to Bowaters; we have guaranteed their bonds to that amount. I don't think it is likely we will ever be called upon to pay.

What we propose to do as long as it is humanly possible to do it, and that would be several years, I think, is to finance our improvements in public services, roads, hospitals, schools and the like out of current surplus. That is to say, each year we propose to collect more in ordinary account taxation than we spend. Year before last we had a surplus of \$600,000; at last year's ending, March 31 past, we had a surplus of \$1.3 million dollars; this year that we began on April 1, we budgeted for a surplus of \$6.3 million; we will go over that. It means rather heavy taxation. I think perhaps we are the only province of Canada that has put a sales tax on

food. The only food in Newfoundland exempt from the 3% tax is baby food and one or two items like that; also flour and barrelled beef and barrelled pork. Rather heroic, rather drastic, but our policy is not to borrow as a government if we can possibly avoid it. We have had rather a scalding in that respect back in 1931 or 1932; so did other provinces in Canada, but they were provinces of Canada and we were on our own. We got a bad scalding and it has burned into our consciousness. This may sound like treachery and traitorous talk to bond dealers, but we have a horror in Newfoundland of public borrowing, and so we propose to finance our capital account expenditures for public services and public works out of a current account surplus as long as that can be done.

Newfoundland Labrador Corp.

Now, for development, we have set up a rather unique organization known as the Newfoundland Labrador Corporation Limited; and the Newfoundland Labrador Corporation is a quite peculiar, quite distinct, quite different sort of body. It is a Crown corporation consisting of a partnership of the Government of Newfoundland and certain private interests, the private interests being primarily the firms of Harriman Ripley & Co. of New York, and Wood, Gundy & Co. of Canada. They have between them—they and one or two others—10% of the stock of the corporation and the government has 90%; that makes it a Crown corporation, to be frank about it, in certain ways that you won't find difficult to think of. To that corporation the government has ceded about 23,000 square miles of area, about the size of Nova Scotia, incidentally, and all the natural resources, minerals, timber, water power in that area, and they have been given by the Government a mandate to develop that area and, furthermore, to take over from us all our commitments and obligations in certain business enterprises into which Newfoundland entered in the past three years. For example, we built a cement mill, rather unusual thing for a government in Canada to do, but we couldn't find anyone else to build a cement mill, so we built it. We built a gypsum plasterboard-plaster lath mill and we built, thirdly and finally, a birch veneer and plywood factory. These projects cost about \$9 million and are just getting into production. The cement plant began shipping cement last week; the plasterboard mill began shipping plasterboard the week before last; the plywood plant began shipping plywood and flooring several weeks ago. We want to get rid of them. Naturally, we had perfectly good reasons for building them. At least we attracted attention to ourselves; at least we advertised Newfoundland; it might not have been the

best advertisement by government when a government begins building factories, but I think we knew what we were doing; it was a calculated risk and a calculated gamble. It has paid handsomely in the very direction we had in mind. Now we want private enterprise to take them over and the corporation is handling that. We want the corporation to handle all business matters for the government—I don't know but I should get out of government and join the corporation because that is where my heart is. We have the biggest businessmen in Newfoundland who have become directors. I would say the three biggest businessmen in Newfoundland have

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agreed to become directors of the corporation — the Vice-President and General Manager of Bowaters, Mr. Lewin; Eric Bowring, the head of Bowring Bros., and Mr. Pippie, the head of Newfoundland Tractor and 20 other concerns. These three are from Newfoundland, and the outside directors are Sir William Stephenson, of New York, and George M. Macintosh of Harriman Ripley & Co., Inc., New York; Colonel Griffin of Wood, Gundy & Co., and Claude S. Richardson of McMichael, Common, Howard, Ker & Cate, of Montreal, and Lyttleton Gould, of New York. The Attorney General and I are on the board representing the government. We leave the business affairs of the corporation to that businessmen who form the board. We have set up that corporation to be a sort of other government, a second government of Newfoundland to handle all economic matters, financial matters, business matters for the purpose of taking the government out of business altogether.

Private Enterprise Takes Over

Now, gentlemen, may I make a rather shrewd observation to you. The people who have condemned us for building these three factories, for having done a little unorthodox sort of thing, might remember this. There wouldn't have been any need for setting up the corporation if the government hadn't built these three plants. In short, there wouldn't be a corporation if we hadn't built the three plants, and we wouldn't have certain outstanding businessmen today forming the directorate of that corporation if we hadn't built them. So we knew what we were doing. Having accomplished the corporation to take over Newfoundland development, the government now is quite happy to bow out and confine its attention to the passing of laws, the collection of revenue and the spending of it, and the ordinary routine day-to-day affairs that you expect from any government.

Now, gentlemen, I could go on and on, because I think that Newfoundland is the finest of all the provinces and, thinking back, I like to talk about it. And meeting the precise group in Canada that we need now most of all in Newfoundland—the Investment Dealers—one is powerfully tempted to go on and on and on explaining Newfoundland and telling about it. I have given you the background, but I hope at least that I have said enough to make you feel that whatever you may have heard about us, that Newfoundland deserves some of your attention; that you bring yourselves up-to-date; that you get to know what the situation is as of today and not three months ago—that you bring yourselves up-to-date. I lay great emphasis on that—your bringing yourself thoroughly up-to-date if you are going to take any interest in Newfoundland. Base your thoughts, base your conclusions not upon a situation that existed three months ago or six months ago, but upon what the position is today, because there has been a great cut-off. The first three and a half years of our life is a period of daring, venturesome, unconventional, unorthodox activity on the part of the government. That has been cut off. It couldn't be cut off until first something was set up to take its place. That something has been set up, namely, the Newfoundland Labrador Corporation. Once that was set up, the government was able to step out and it has accomplished its great purpose of holding our people together, and you know the danger was that in the last three years 150,000 of our population would have moved out of Newfoundland into upper Canada. That was the danger. We have held them; we have held them together by a rather risky, venturesome and highly unorthodox program of having the government itself engage in the launching of industries. That was highly hazardous, but it has accomplished the purpose in mind, which was to hold our people. There is no use talking about developing a province if it loses its population. We have held them; we have done that; that is in the past. Now an entirely new approach, new for us, for this government, but old and conventional and orthodox. That is to say, we have passed over to private enterprise the business of developing Newfoundland.

land. We have given the start to it; we have started the ball rolling, so if you think of Newfoundland, gentlemen, please do not think of us as that queer and unorthodox province with the energetic but highly unconventional government that thinks it can take the place of private enterprise. Don't think of us in those terms any more. If you do, you are out of date. I think you owe it to Newfoundland, if you pay any attention whatsoever to it, at least to bring yourself up to date. Now, I want to thank you for your great courtesy and patience

I hope that it not next year, soon you will hold your convention in St. John's and let us give you a taste of our Newfoundland hospitality. Come down a year or two or three from now, and I hope that by then you will come—some of you—as partners and not as curiosity seekers, not as just observers but as men who have taken a part in the building of our Newfoundland, taken a part in really integrating the new province into the finances and the economy of Canada as a whole.

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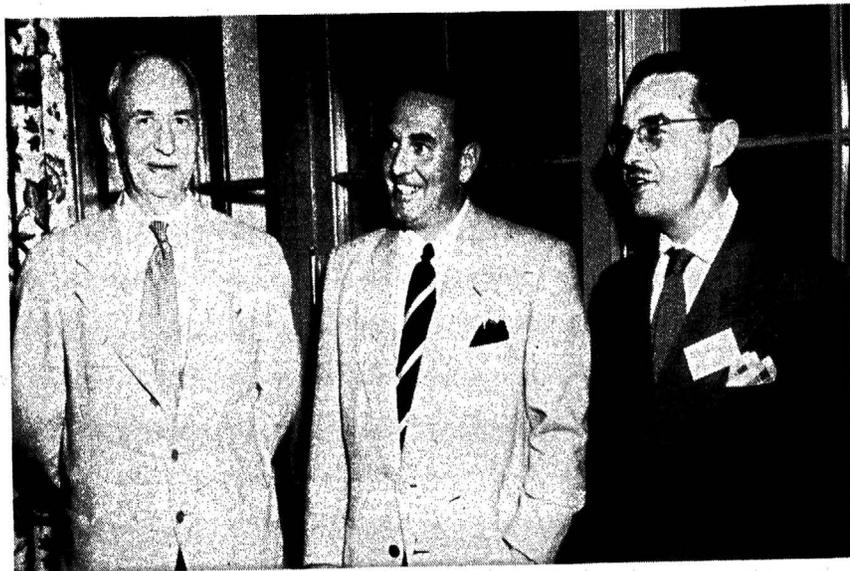
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Continued from page 6

Canadians Can Profitably Export Capital

other countries. I refer, of course, to the products of the forests, the farms, the fisheries and the mines. Such of these products as are not domestically consumed are exported and they form a very real basis for our economic health. The industries engaged in the production of these important items form the basis of a great and steadily increasing manufacturing industry engaged in production for the domestic as well as for the export market.

Export Trade Essential

In order to have a healthy economy, Canada must have a

healthy and prosperous export trade. This basic fact is abundantly clear when I remind you that in 1951 Canada's exports of goods and services were 24% of her Gross National Product—that is to say, 24% of the total of all the goods and services produced in Canada that year. Consequently, it is evident that a very large percentage of our population is dependent for its livelihood on our export business.

I have stated that Canada has long been recognized as a great exporting country. What is not so often realized is that she is a great trading country. We are not mere-

ly exporters; we are very large importers as well, and must continue to be large importers. Canada is the fourth ranking exporter and importer but she is by far the greatest trading nation in the world where that trade is calculated on a per capita basis. Of course there can be no question that our friendly neighbor, the United States, is now the most important country in international trade in terms of total volume. Nevertheless, it will be readily seen that international trade is not nearly as vital to the American economy as it is to the Canadian when one realizes that for the year 1951, Canada's foreign trade represented \$577 per capita whereas that of the United States was somewhat less than one-third that figure or \$168 per capita.

In spite of her great export trade Canada has had a deficit in her current trading account in the past two years. In 1950 this amounted to \$329 million and in 1951 to \$524 million. The influx of foreign capital during these two years, however, more than counterbalanced these deficits.

I have already said that Canada is fortunate in producing great quantities of products, large portions of which she cannot consume domestically and which are in great demand by other countries.

Dependent as they are upon our export trade, what must our businessmen—you men and all other Canadians engaged in the sale of goods and services—do in this troubled world we live in? The first thing, in my judgment, is to accept the fact that it is a troubled world and may be for some time to come. Do not postpone your efforts to seek new markets and to make your goods competitive in price, terms and quality.

You businessmen engaged in international trade carry a heavy and great responsibility. The sceptre of international trade held for so long by the Phoenicians, then by the Romans, by the Venetians and then the Portuguese and for many decades by that great trading nation, the United Kingdom, has now passed to the New World. With its passing, goes hand in hand the responsibility of setting the standards upon which world trade is to be conducted and of keeping open the channels through which this trade must flow. You are apostles of goodwill, you are ambassadors-at-large—in other lands your country is judged by your actions and your words. You are the men responsible throughout the world for the dissemination of cultural, political and economic thoughts and ideas—thoughts and ideas which, on the ceaseless loom of time, have been woven into the very fabric of our civilization. How very important it is, therefore, that you should meet businessmen from other lands at such a Fair [Canadian International Trade

Fair] as this, now in progress, in order to establish friendships and connections and to exchange such thoughts and ideas.

The unrest prevalent throughout the world has necessitated much effort being put into the production of goods and materials of war with the resultant tendency to maintain a large domestic consumer demand. The factors responsible for making this effort compulsory, we all hope and pray, will soon be eliminated but whether they are or not our exporters will need all the ingenuity, the courage, the salesmanship, the resourcefulness, they can muster to compete successfully in the international market with the capable businessmen of the countries represented by so many distinguished visitors here this evening.

History tells us that the development of most countries results—at least in part and often in large part—from the importation

of capital as well as capital goods. With certain readily explainable exceptions, history also shows that capital does not enter an area, develop it to a certain point and then depart. When capital is wisely invested, ably managed and fairly treated, it remains and grows with the country of its adoption.

Canada Should Export Capital

Another course I suggest you should seriously consider and mark upon is the direct investment in other countries for development purposes. Indeed, this is your duty to the world if it is true, as I have said, that the sceptre of international trade is now in this hemisphere. Nor do I mean by investment, investment by government. I mean investment by private enterprise. If these investments are carefully made, you materially stimulate trade between your own country

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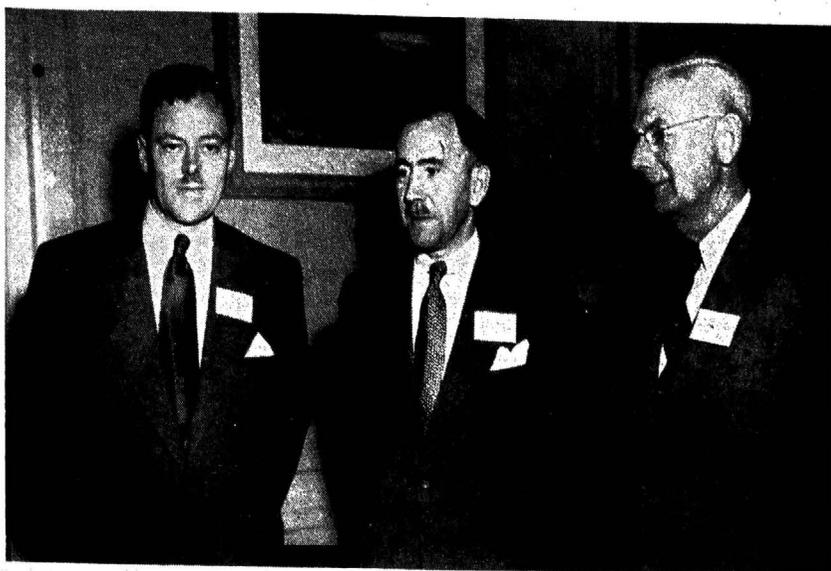
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and that in which you make the new investment.

A factor that gives point to the possibilities of developing foreign trade through the medium of direct investment abroad is that only six months ago the Canadian Government withdrew the foreign exchange control regulations that had been in effect since 1939. The removal of these restrictions can do more than facilitate the exchange of goods; it presents opportunities that have been lacking for more than a dozen years to increase our trade potential through the export of our capital and our abilities in order to participate in the development of other countries.

Involved in this course is the export of your knowledge and experience, important and valuable adjuncts to the export of physical goods. But whatever is done, one should do one's best to secure steady and continuous markets. These markets can be made steady

and continuous only by knowledge and understanding and the steady supply of goods or materials on a basis that is competitive in every way. And I must emphasize once more than I cannot help but feel that institutions such as the International Trade Fair in which you all are participating are important factors in developing that knowledge, understanding and goodwill so necessary to the success and continuity of international business.

South American Market

I hope you will bear with me and understand that, while I recognize to the full the value and importance to Canadians of many old and established markets, it is only natural if for a moment I turn the spotlight, so to speak, on that colossal market and trading world, the continent of South America. There we have a veritable giant, rapidly developing in-

dustrially and striving to interest other countries — some of them more fully developed in a material, but not necessarily, let it be remembered, in a cultural sense — in investing capital and joining with them in their march to greater economic development and a higher standard of living. On their part, these countries must prepare a proper climate for such investment by making available the necessary raw materials and by ensuring reasonable labor and financial legislation so that foreign capital and knowledge and experience may justifiably take the business risks inevitably involved in any new venture.

To take the steps to which I refer means that courage and a certain spirit of adventure must go hand in hand with capital and "know how." I believe that we in Canada have that courage and that we of this generation do not lack the adventurous spirit, which others before us have put to good effect.

Perhaps the point which I am endeavoring to make may best be expressed in the lines of Kipling:

*"Something hidden. Go and find it. Go and look behind the Ranges—
"Something lost behind the Ranges. Lost and waiting for you. Go!"*

Allow me to give you one example of what happens under such circumstances. Fifty years ago a small group of Canadians invested their own resources in a public utility in Brazil. Since that time this investment has grown to almost \$750 million, and the facilities that it supports are now supplying that country with a large proportion of its electric power, gas and telephone services . . . services, I am sure you will agree, that are of some considerable value to its citizens. But what, you may ask, has all this done for Canada? Just this: in the past five years Canadian supplies of goods and materials have received business in respect of capital goods to the extent of approximately \$50,000,000 and during the same period suppliers in other countries outside Brazil have received like business in an approximately equivalent amount. Canada has received over the years millions of dollars in the servicing of this investment while millions have gone to other countries which share in it. From the Brazilian point of view, the Canadian point of view and the world point of view, this has indeed been a sound investment. There is not the slightest doubt that this investment has stimulated the interchange of goods between Brazil and Canada and developed interest and knowledge in Brazil of Canada and in Canada of Brazil. These two great and friendly na-

Continued on page 24

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Continued from page 23

Canadians Can Profitably
Export Capital

tions, daughters respectively of England and Portugal, allies and traders of long standing in the Old World, are thus learning from one another that more trade, both export and import, may be sought and found in each.

Opportunities Abound for Overseas Investments

While I am conscious of the fact that most countries of the world have already passed the stage where initial investment of foreign capital for development of public utilities is required, nevertheless, I am certain that there are many opportunities of equal promise for the increase of trade by the direct investment of capital by private enterprise now being overlooked, not merely by Canadians but throughout the world.

Undoubtedly it is well within the memory of the vast majority of us here this evening—although with the kaleidoscopic nature of the momentous changes in the world of the last two decades our memories are inclined to become dim — when the currencies of the various countries of the world were freely convertible in the several international money markets.

We all realize full well the apparent necessity which exists in many countries for the imposition of import controls, exchange restrictions, and all the various devices currently being resorted to for the purpose of maintaining a trade balance. In many instances these controls tend to a temporary (at least) lowering of the standard of living and to bilateral trade agreements, and barter transactions become a permanent feature of our economic and political order. To the extent to which they do, they tend to stifle the free course of international trade and in the end to strangle it.

Sterling Convertibility Studied

In this connection, it is with the greatest interest and hope that businessmen throughout the world learned, following the Commonwealth Finance Ministers' Conference last January, that the United Kingdom was setting up two working parties — one to prospect the difficulties lying along the road to sterling convertibility and the other to study the opportunities for a more coordinated approach to investment and development programs within the sterling area itself. Let us all pray that the labors of these working parties may not be in vain and that

the day may soon dawn when sterling will once again be freely convertible and trade between the two great trading areas of the world, the sterling area and the dollar area, may flow once again with freedom based on private enterprise.

Of great significance, too, is the relatively recent conclusion of the peace treaty with Japan and last week with Western Germany. To businessmen these are highly important developments and open up once again great areas for trade.

It is heartening that Canada has been able to abolish foreign exchange restrictions. The pulse of world trade will quicken as the world tears down the prefabricated national barriers that have been erected, for we have only to scan briefly the history of commerce to know that, when cur-

rencies are freely convertible, trade flows more freely between the nations of the world.

Increased international trade should bring about increased understanding among the peoples of the world, and in this understanding there surely lies our best hope for peace.



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Continued from page 5

Canada and International Trade

some degree of validity. The difficulties to which they point have contributed, along with many other things, to a constant state of inflationary pressure in most countries in the world—pressure which has usually been relatively stronger in the non-dollar countries than it has been in the dollar area. There has been a constant attempt to do more than the resources of most countries would permit, even with such assistance as may have been received from outside sources. This situation is not surprising. There are growing populations to support, there is a

keen desire for improvement of standards of living and many forms of social security, and in some cases more leisure time. North America has no monopoly on these needs and desires. We are simply more fortunate in our ability to fulfil them up to a point.

The countries which find themselves in this situation, whose desire outruns ability to pay, inevitably tend to use up their foreign exchange reserves. When there is strong pressure on a country's economic resources—which is one way of describing an inflationary situation—some of the pressure

tends to spill across its borders, taking the form of an import surplus. If adequate foreign exchange financing to pay for this import surplus is not available from one source or another, the country soon finds itself in balance of payments difficulties. As we have seen time and again since the end of the war, the first reaction of countries in this position is to impose or increase restrictions on imports. If they have cash or credit in some currencies but not in others, the restrictions are likely to be discriminatory in character. In dealing with their payments problem by means of such restrictions, they are of course attacking the symptoms rather than the cause of the trouble, but it is often felt that getting to the root of the matter by anti-inflationary measures would set up intolerable political strains.

Now I did not come here today to inflict a philosophical discussion on you, so I will get to the main point which I wish to make, namely that import restrictions, for whatever reason they are imposed or retained, are contributing to a most serious weakening of the economic structure of the free world. Wherever they exist, you may be sure that labor and capital are being diverted to uneconomic uses, and this at a time when the need has never been greater for the most efficient use of capital and labor to build up the world's production of foodstuffs and primary materials as well as to improve the efficiency of manufacturing enterprises in countries best suited to their development.

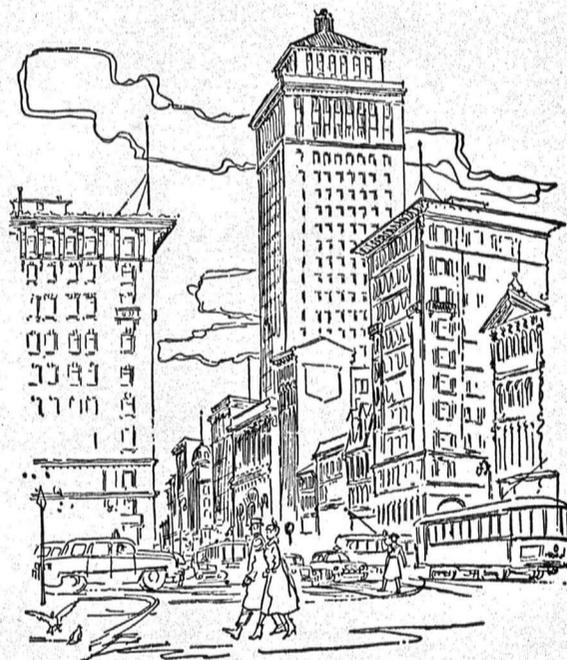
The distorting and weakening effects on basic economic structures of the developments I have been referring to are strikingly illustrated in the way in which the world's production of foodstuffs and raw materials has been lagging behind industrial production. These comparisons are usually made with figures for the immediate prewar period, and this is as good a basis as any other, provided one remembers the great increase in the world's population that has taken place during the last 13 years. I am not going to cite global figures because they tend to be misleading, but let me remind you that the population of the United States and Canada has increased by nearly 20% since 1938 and the population of the United Kingdom and Europe, west of the Iron Curtain, has increased nearly 10%.

World Production of Primary Products

In summarizing briefly the situation regarding world production of primary products, I think I can do no better than quote from an address made not long ago by John H. Williams, Professor of Political Economy at Harvard University

Continued on page 26

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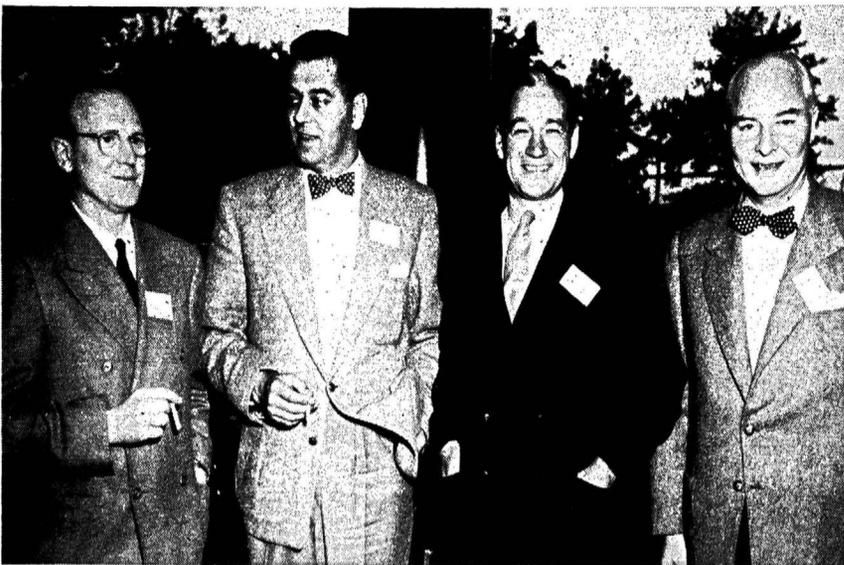
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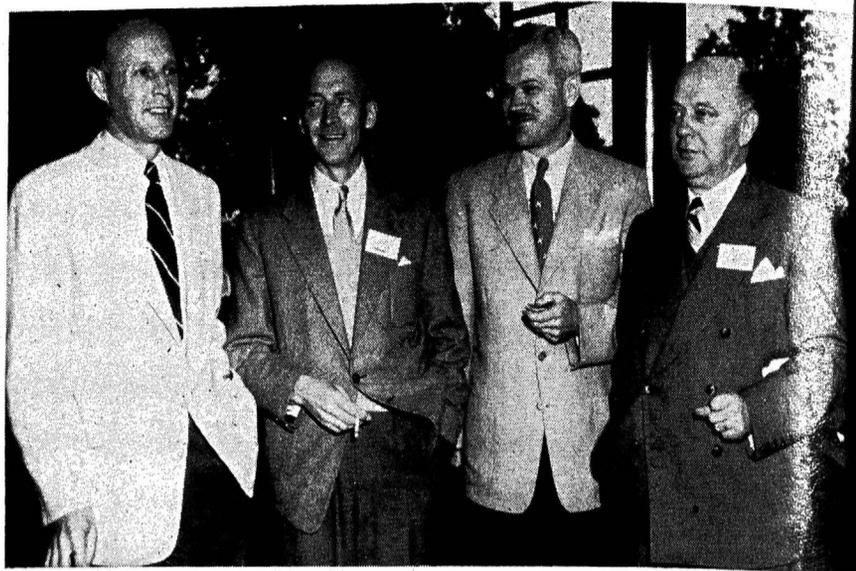
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Continued from page 25

Canada and International Trade

versity and a Vice-President of the Federal Reserve Bank of New York:

"A great change appears to be under way in the relation of industrial production and trade to foods and raw materials. For perhaps three-quarters of a century, the problem has been whether the industrial countries could absorb the food and raw materials which they had been instrumental in developing in other countries, on terms of trade tolerable to the latter. Now the imbalance appears to be swinging the other way. Owing partly to the expansion of industrial output of Europe under the Marshall Plan, and even more to our own absorption of raw materials, there is a general world problem of availability of supplies. Again, this problem has been much accentuated by the rearmament program; but it was becoming apparent even before

World industrial production since 1938 has grown by some 50% while the output of food and raw materials has at most increased by 10%. Some experts have estimated that, apart from the United States, the world's food production is now lower than before the war; and if we take out a few items, such as petroleum and aluminum, this may well be true also of the raw materials."

This decline in the relative importance of the world's production of foodstuffs and raw materials threatens to have serious effects both on the countries which have in the past produced surpluses of primary products and are now turning more and more to manufacturing industry, and on the consuming countries which are dependent on foreign supplies of foodstuffs and raw materials.

So far as the former group of countries are concerned, many of

them have shown in recent years an ardent desire to increase their manufacturing facilities. Factory chimneys belching forth smoke have come to be regarded as symbolic of economic progress. No doubt a greater degree of industrial development in under-developed countries is most desirable over a period of time. But when capital resources are relatively scarce, the question of priorities assumes major importance. The first law of economics applicable to a situation of inflationary pressure is that goods are scarce and have alternative uses. What the import restrictions do is set up false priorities; they make the worse appear the better alternative. By their effects on prices and profits, they encourage the development of secondary industries which are dependent on continued import restrictions or prohibitions for their survival. In many cases, these industries produce non-essential goods. Import restrictions produce a situation which draws people away from the country to the cities. They reduce the relative profitability of the production of exportable foodstuffs and raw materials which have to face world competition,

and they therefore operate to reduce the production of these essential things. In a word, the effect of the restrictions is to channel resources in the wrong direction to perpetuate inflationary conditions, and to weaken the basic economic structure of the countries applying them.

Development of Backward Areas

The economic development of underdeveloped areas is a task of great importance and urgency. These countries are poor and populous; their domestic savings are low; they need foreign capital for their development. Policies which weaken the basic economic structure do not make for attractive investment opportunities.

Turning now to the industrial countries, it is clear that developments along the lines I have been mentioning carry great risks in the way of reduced supplies of foodstuffs and raw materials, and

adverse terms of trade. If one excludes countries such as Canada and the United States, it is difficult to find many examples of substantial increases in the prewar level of production of foodstuffs and raw materials. Moreover, increases in domestic consumption in the producing countries have in many cases tended to reduce the size of exportable surpluses. These developments are of great significance for highly-industrialized European countries which have traditionally depended on overseas suppliers of foodstuffs and raw materials.

Canada and the United States are exceptions to the tendencies I have been describing: our production of foodstuffs and raw materials has increased quite considerably. But the fact that we are able to supply the goods does not get them into the hands of the United Kingdom and other industrial countries which need them:

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there is the slight matter of payment which intervenes. And unfortunately the same tendencies which have been operative in some of the primary producing countries have also, for somewhat different reasons, been operating in certain industrial countries, with debilitating effects on their economic structure and on their capacity to make payment for their imports in the only ultimately feasible way—by exporting the right goods to the right places at the right time at the right prices. In these industrialized countries too, inflationary pressures have been strong and have given rise to balance of payments difficulties: here too the difficulties have resulted in import restrictions. The consequence is the same: resources are misdirected and uneconomic production encouraged. Originally imposed to meet balance of payments difficulties, the import restrictions in effect in these countries, and the special discriminations which others practice in their favor, become props for industry to lean on, and on which industry ultimately becomes dependent. Temporary in their conception, the restrictions have con-

tinuing weakening effects. As the French, with their customary realism, point out, "Il n'y a rien qui dure comme le provisoire."

When a person from a country fortunate enough not to have import restrictions points to their evil consequences, it is often thought that his remarks are prompted only by a desire to sell more goods to other countries, and that in the process he develops into a preacher of perfection. I would not like to have it said of me that my capacity for taking a stern view of other people's duties is matched only by my ability to maintain a calm, philosophical attitude towards other people's troubles. I want to assure you, Mr. Chairman, that I have not fallen into the habit of preaching, that I am well aware of the difficulties confronting other countries and that I do not think there is any easy solution to the problems which I have been discussing. Perhaps I am just exercising the traditional right of the banker to "view with alarm." But in all seriousness, I do suggest that the present state of affairs constitutes a chink, and indeed more than a

chink, in the armour of the free nations and that it represents a weakness in the economic foundation underlying their defense efforts—a weakness which, if allowed to develop, could become very great indeed.

If I am right in these anxious thoughts, then we must hope that people will not be merely "against" the paraphernalia of import restrictions, special currency arrangements and so forth in the way that everyone is "against" sin. The world did not get into the present position because of deliberate choice, but because at each moment of time the immediate situation seemed to call for action along certain lines, and the longer-run future consequences seemed remote and unforeseeable. The future—or part of it—is at hand; and the longer-run consequences of past emergency measures are clearly perceptible in many fields. If countries are to get out of these entanglements, they must first of all base their policies on a clear recognition of the direction in which they wish to move, and then make sure that the measures adopted produce in-

centives which lead in this direction and not—as has so often been the case since the end of the war—in the opposite direction. If international balance at a high level of transactions, without import restrictions, is to be attained and the misdirection of economic resources avoided, we shall have to make an ally and not an enemy of the system of prices and incentives.

Conclusions

What lessons can we in Canada draw from the state of affairs I have been describing? We must, of course, do what lies within our power to influence the course of world events in a favorable direction. But we must also be prepared to keep our heads well above water even if developments

elsewhere are unfavorable. To do so we shall continue to need flexibility in our economic system, we shall have to maintain our productive efficiency at a high level, and to keep our costs on a basis where we can face world competition. We shall need, in short, to avoid the rigidities and the misdirection of resources whose weakening effect on the basic economic structure is only too apparent when one sees it in others. If we are successful in avoiding these mistakes, we shall be better able to deal with whatever vicissitudes the future may hold and to derive the maximum benefit from the great economic expansion which is now taking place in our own country.



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Continued from page 4

Highlights in Merchandising Of Securities

tion of the potential that can be realized when we and the rest of us in the financial industry really learn how to merchandise securities.

I want to emphasize that word "merchandise." Some people in our business say the only thing a broker or an investment banker has to sell is service. We disagree with that emphatically. If you are in the securities business, you have something else to sell—securities. And you are not going to sell securities unless you advertise them and promote them and develop the market for them.

The days are gone when a broker can justify his existence by catering to a few wealthy clients who "play the market." Sure, there are a few left—but our industry must look to lower income groups who have been the chief beneficiaries of the redistribution of wealth.

It is hard for us to realize just how drastically the economic revolution has altered the securities market, but it's a fact we can never afford to lose sight of. I suspect the picture in Canada is much like that in the United States where we know that the aggregate wealth of the top-income classes—those with \$100,000 a year, net after taxes—dropped 82%, down to a little more than half a billion dollars from 1929 to the end of the war. Meanwhile, in the same period, the middle income classes grew by leaps and bounds. Thus, the number of people with \$5,000 to \$10,000 net after taxes, multiplied almost

times, and their aggregate wealth rose 171% to a total exceeding 11 billion dollars. (These figures are from the Bureau of Internal Revenue's "Statistics of Income, 1946.")

There is today's big market for securities—and there is the market which we have still hardly scratched. In the States, only a little more than 10% of those earning \$5,000 or more own corporate securities. Probably much the same situation exists here.

Ignorance Is Reason Why There Are Not More Investors

Why don't more people own securities?

There is a one-word answer to that. Ignorance. Vast, appalling ignorance. Not long ago, the New York Stock Exchange tried to measure the degree of this ignorance. One finding alone tells the story. When the Opinion Research Corporation—representing the Exchange—asked people what they would do with extra money, how they would invest it if they had it, only 16% said they'd put any of it into common stocks. Government bonds, insurance, savings accounts, and real estate were preferred to stocks, by margins ranging from 3 to 1 to 5 to 1.

That kind of ignorance can only be counteracted by a broad, consistent, aggressive program of education.

Perhaps you think people don't want to be educated about our business. If you do, you're wrong. Over three years ago we first pub-

lished an advertisement entitled "What Everybody Ought to Know . . . About This Stock and Bond Business." A research agency told us that that ad—a full page of small, forbidding type—had three to four times the average readership of an ad. Why? For only one reason. People do want to know about our business. We've spent over \$100,000 on that ad. It's appeared in 107 newspapers and "Time Magazine" so far, and well over a million reprints have been distributed on request.

Education, of course, isn't a one-shot job. It's a painful, long-term job and a job that takes a lot of faith—the faith to remember that there really isn't any other way to meet the situation, and the faith to believe that there will be an ultimate payoff. We think it is paying off.

Here, I suspect, is the point where we in the securities business have the most difficult time readjusting our standards of value. All too long have brokers been inclined to think of advertising—if they thought of it at all—as a shot in the arm. If they spent \$1 on advertising today, they expected \$1.10 back tomorrow or at least the name of one hot prospect. There are some exceptions, and among the most striking are several in Canada.

Must Look to Advertising and Sales Promotion

That kind of an approach just doesn't do the job today. Instead we've got to look at advertising and sales promotion as all other successful merchandisers do—as a conditioning device, a method of piling one more impression—and another one and another one and still another one—on top of those we've already made. The impression that stocks and bonds are good things to own if you can afford them. The impression that there's nothing mysterious or complicated about the business. The impression that a broker is a reliable counsellor, willing and able to give help to investors who need it.

And that's what I mean by merchandising securities.

Remember, many people were afraid of the automobile when it was first introduced. They had to be educated first. Their interest had to be stimulated. The desire to own one had to be created. Is there any reason why we can't do the same job in the securities industry?

Last year, Merrill Lynch spent over a half million dollars on advertising in national magazines and local newspapers in some 100 cities. Although that advertising was not primarily designed to build up prospect files, it did naturally attract many inquiries. Some of these inquiries are requests for various educational booklets that the firm produces, but many of them are requests for Research Department help, because the bulk of our advertising is designed to tell people that we are here to help them with any individual investment problem—at no charge and no obligation.

Before telling you something about the other sales tools in addition to advertising that we use at Merrill Lynch, I would like to explain our organizational setup.

I have mentioned that our results are obtained from the efforts of 106 offices—106 separate operations, with their sales staffs of 1,000 men and women. Some of these offices have only three or four salesmen; the largest has over 60. Somewhere in that framework is an office similar to yours.

In each office there is a manager, responsible for the operation, who reports directly to the Managing Partner. Our Home Office

gives advice and guidance in the various phases of the business, but as long as the Manager conforms to firm policies, he has control of his office. He hires and fires, sets his own salary standards, and is rewarded according to results.

The sales promotion literature we produce provides our men with an effective sales tool which supplements our advertising. The Sales Promotion Department, as part of the Sales Division, in cooperation with the Research Division, plans and produces a number of publications. These include a quarterly Security and Industry Survey, booklets concentrating on a single industry such as Airlines, Petroleum, Public Utilities, and numerous studies on individual companies. We have just completed a booklet on Canadian investments. If any of you would like copies of any of these publications, just let me know, and I'll be delighted to see that you get them.

How do we distribute this material? Before printing, each manager is required to furnish us with an estimate of the number of copies he feels can be distributed advantageously in his territory. Not one penny of the cost of any advertising or sales promotion is allocated to the individual office. We fill requisitions in the quantity requested, and it is up to the Manager to see the publications get into the hands of customers and prospects most likely to be interested in their contents. By far, the most effective distribution takes place when the salesman delivers it in person, but of course, a lot is sent by mail.

Special News Wires

Another important sales aid is our special News Wire. With New York the transmission point, this wire supplements the Dow Jones news ticker, and appears in each of our offices on a page-type printer machine. The receiving ma-

chine is equipped with duplicating carbon, so that it is a simple matter for an office to run off as many copies as it wants of any particular item.

We use this wire to its capacity of 75 words a minute throughout the day for relaying information about securities and commodities. It is of particular value to us when we want to communicate with all offices simultaneously—with such information as the terms of a winning competitive bid; the details of a proposed secondary or special offering, reoffering scales on municipal or corporate issues.

Last year we made a movie titled "Fair Exchange." It runs for 22 minutes and tells the story of a young couple who buy common stocks for the first time. We have averaged about 100 showings a week so far this year, usually before Service Clubs such as Rotary, Lions, Kiwanis, etc. The film is shown by one of our Account Executives who uses the question period to answer questions provoked by the film. It has brought us new customers by the hundreds. At the end of this year we plan to make the film available to public schools for showing in the classroom.

As part of this educational effort, we have conducted investment courses for women all over the United States. These consist of four or five sessions of about an hour and a half duration, with our own personnel making talks about security ownership and the role our industry plays in a capitalist economy.

We have conducted many similar courses for business executives with the active cooperation of corporate management. At county fairs or conventions, we often stage exhibits where we distribute our publications.

Two of our better known booklets, "How to Read a Financial

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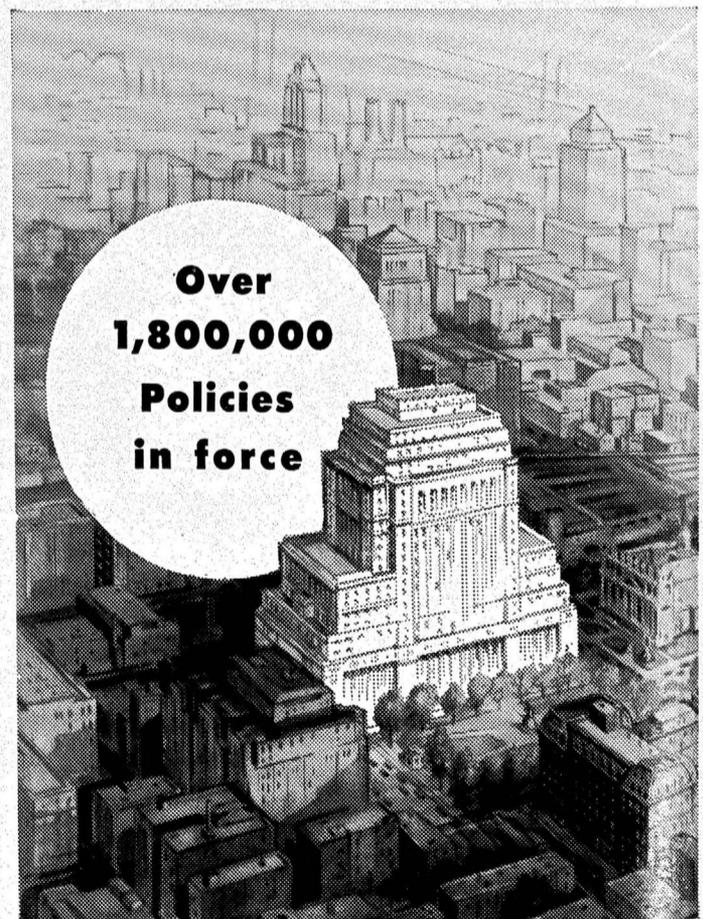
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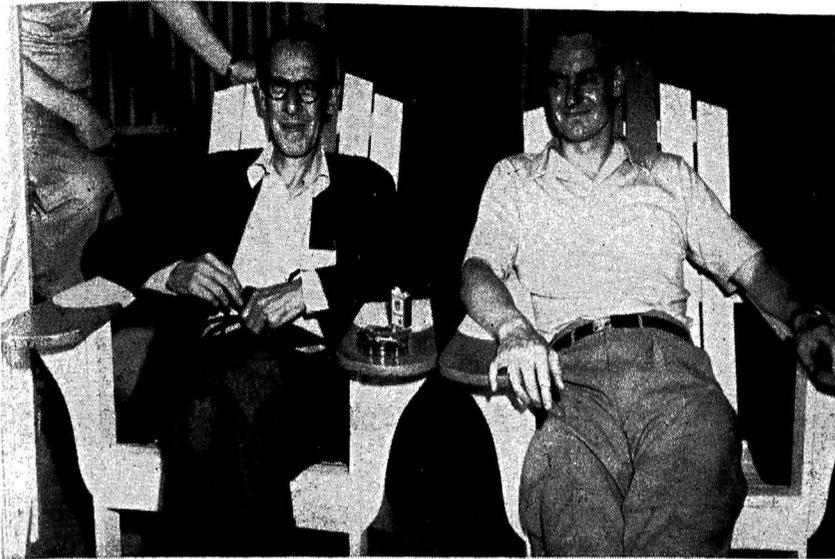
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Report" and "How to Invest," are used in over 300 colleges as textbooks, including Harvard, Yale, Cornell, Columbia, and many others. So far we have given away over one million copies of these two publications.

Still another recent educational effort was aimed at employees of large corporations. We prepared a booklet titled "They're Doing It—Are You?" designed to encourage editors of house organs to write articles on how the capitalistic system functions, and the part stocks and bonds play in it. We sent this booklet to 5,000 house organ editors. The response to date has been simply wonderful. Over 300 editors have told us they will publish such an article. A whole new and uninformed segment of citizenry is learning how our system works. Naturally, we hope when they do learn, they will want to participate in its ownership.

Each client with an open account gets a monthly statement. We usually enclose with these statements some printed promotion piece. Two months ago, for instance, we reminded customers of the millions of dollars lost through failure to exchange securities of merged, reorganized or recapitalized companies before deadlines. Another time, we warned about putting securities away and forgetting about them, and offered to review their portfolio.

Last year our Research Division handled tens of thousands of letters from the public, ranging from inquiries about how to invest \$100 to reviewing portfolios of many millions of dollars.

We make no charge for any service performed by our Research Division. In fact, we have no service charges of any kind. At times an analyst may spend as much as a week on one large port-

folio, and our only compensation will be the commissions at the usual rate when and if our recommendations are followed, and if, the customer elects to place his business through us!

As another informational service, we publish a magazine called "Investor's Reader," which we mail to 90,000 customers every two weeks. It is modeled after the business section of "Time Magazine" and has its own staff whose sole activity is the editing and production of the book.

There simply isn't time to dwell any longer on the merchandising tools used at Merrill Lynch. But tools are of little use unless they are in the hands of people trained to extract the utmost value from them.

I have mentioned that last year we ranked sixth among all underwriting houses in the United States. Only a few years ago we

Continued on page 32

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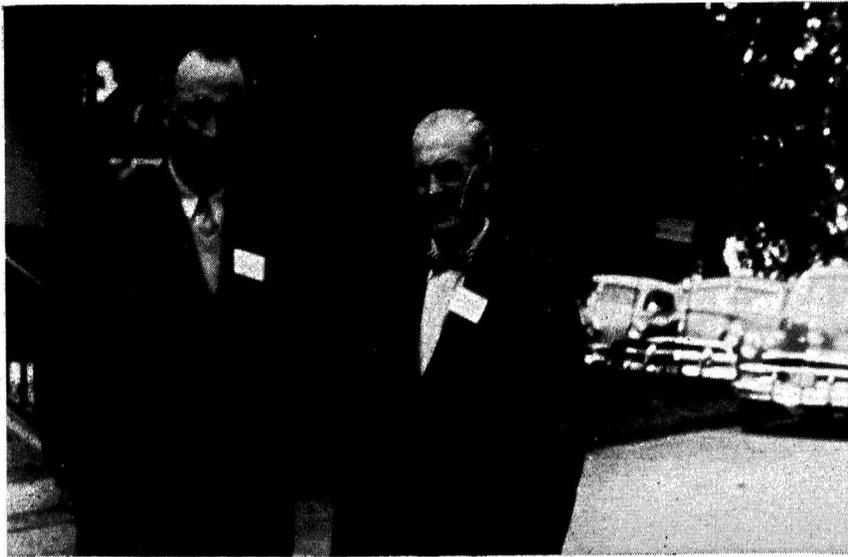
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Continued from page 9

Mutual Fund Investing in Canada

management investment company of the open-end type. This offering was highly successful. The books were closed on May 8, and the company began business as a mutual fund May 14. One month after Canadian Fund, Inc., became a mutual fund, total assets had grown to approximately \$13,000,000 and the company had over 7,000 shareholders. Underwriters and dealers offering these shares found many buyers who had never purchased mutual funds before. There were many owners of a diversified list of domestic securities who picked this method of placing that portion of their funds which they chose to set aside for foreign investment. The amount of the initial offering of \$10,610,000 net to the company was set so that the trust would be large enough to assure shareholders of adequate diversification and to permit the ratio of expenses to investment income to be kept reasonably low.

The natural leadership of Calvin Bullock in the Canadian investment trust field springs from their experience in the formation and management of Canadian Investment Fund, Ltd., which was organized in 1932 as an open-end trust for offering in the United States. When the Foreign Exchange Control Board became operative in 1939, shares of this trust were withdrawn from sale in the United States. Canadian Investment Funds, Ltd., shares continued to be offered in Canada and the trust grew until it now has over \$45,000,000 of assets and ranks as the largest mutual fund in Canada. The board of directors of Canadian Fund, Inc., a Maryland corporation, include the same persons who constitute the board of directors of Canadian Investment Trust, Ltd. Thus, the new trust has the benefit of 20 years of experience on the part of its board of directors and its advisors in handling the

investment of the largest mutual fund operating in Canada.

On June 4, 1952 another offering of shares in a mutual fund, Natural Resources of Canada Fund, Inc., was made to the public by Frank L. Valenta & Co., Inc., as distributor. The offering consisted of 1,966,383 shares of common stock which was offered at \$3.50 per share. Frank L. Valenta & Co., Inc., also manage Natural Resources Fund, Inc., a two-year-old investment company whose total assets are reported to be about \$4,200,000.

Doubtless, other investment trust groups will offer shares to meet the popular demand for diversified investment in Canada. This movement should be beneficial in many ways. First, the American investor benefits because he no longer need play a lone hand in selection; he may extend the diversification of his investments by country, and he may obtain some protection against increased tax burdens and the results of social changes at home. Second, Canadian industry will benefit as companies will seek to manage their operations and set up their financing plans so that their securities would qualify for institutional investment by these funds. Third, it should be pleasing to regulatory bodies and State Commissions that an opportunity has been created for the small investor to participate in the growth of Canada under conservative and skilled guidance. In other words, this new development of mutual fund investing in Canada should be pleasing to all hands.

EDITOR'S NOTE: Since receipt of the above article a third Canadian fund has been registered with the SEC and will be offered to the public shortly. This fund, General Canada Fund, will be closed-end in its initial form and will be underwritten by Bache & Co. and Paine, Webber, Jackson & Curtis. After the original offering, the fund will be open-ended and Vance, Sanders & Co. of Boston will be the General Distributor.

Continued from page 11

Nature and Size of Canadian Industries

as wallboard and fibreboard, electric cable insulating paper, paper containers, and photographic and sanitary papers.

Because of the strong and continuing world-wide demand, particularly for wood pulp and newsprint, in the postwar period, the industry has grown very rapidly in the five years since the end of

World War II. Employment provided by the industry almost doubled. Output increased more than four times in value terms since 1939 and was about double in volume terms. These increases have been achieved by various means in the different segments of the industry. In the pulp and paper fields a number of new

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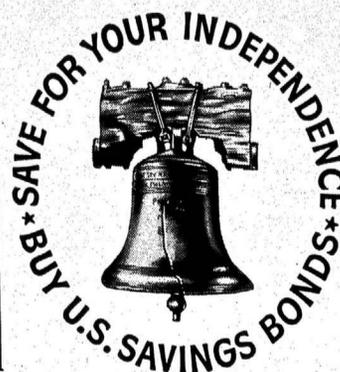
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plants have come into operation and others have been expanded. In particular, ten new pulp mills were built. From 1946 to 1950 some 14 new medium-sized and large firms have come into operation providing jobs for approximately 1,700 people. In the newsprint field most of the expansion of output has come from modernization of plant and equipment. Speeding up of machines and more efficient operations resulting from plant improvements have added 600,000 tons, or 12%, to the annual productive capacity of Canadian newsprint mills. As a result, output in 1950 reached 5.3 million tons. The continuing heavy demand for pulp and paper products has led to further expansion of plant capacity. Four new pulp mills and several paper converting plants were under construction in 1950.

Iron and Steel and Products Industry

There are four basic iron and steel producers in Canada who together account for over 80% of steel ingot output. These companies are vertically integrated to a large extent in that their operations include most processing and fabricating stages. There are in addition about a dozen smaller steel companies which make either iron or steel and which vary in degree of vertical integration. The major part of the industry is located in Ontario, with one of the large companies situated in Nova Scotia. The Canadian primary iron and steel industry has an annual capacity of 2.6 million tons of pig iron, over 3 million tons of steel and over half a million tons of special alloy steels, with further expansion under way. Manufacturers of secondary steel products (excluding transportation equipment, which is dealt with separately) are operating in some 2,400 establishments in various parts of the country, but with the major concentration in Ontario and Quebec. Primary iron and steel produc-

ers and steel products manufacturers together turned out a gross value of output of \$1.5 billion in 1950 and provided employment for some 161,000 people. The industry contributed 14% to the total net value of manufacturing production. Close to three-fifths of the firms in the field operate as incorporated companies and do over 95% of the business. The remaining companies, doing less than 5% of the industry's business, are enterprises owned by individuals or run as partnerships. The Canadian iron and steel industry supplies about two-thirds of total domestic requirements. Imports of steel commodities are important in such items as large structural steel sections, certain sizes of skelp (material for steel pipe), Bessemer skelp, wide steel sheet and plate, heavy gauge hot- and cold-rolled strip and wire for wire rope. Imports are also significant in the machinery and equipment field. They include such items as farm machinery, mining and metallurgical machinery, textile machinery, and components for the manufacture and assembly of a wide variety of products. Exports, while significant, are much less important than imports, and were running at about 12% of domestic production in 1950.

The industry has been growing more rapidly than most other manufacturing industries. Employment provided by the industry in 1950 comprised 14% of total manufacturing employment as against 11% in 1939. In that period the industry about doubled the number of plants in operation and jobs provided. The gross value of its output rose to more than four times the level of 11 years earlier, or more than double if allowance is made for price changes.

Transportation Equipment Industry

The transportation equipment industry employs over 100,000 people in more than 600 plants

and yards, and produces equipment valued at over \$1.2 billion. In terms of net value added, its output accounted for 9% of total manufacturing net value in 1950. The automotive industry has a peacetime capacity of about 200,000 passenger cars, 120,000 trucks and over 1,000 buses and other commercial vehicles a year. The railway rolling stock industry has a peacetime capacity of some 500 locomotives and 15,000 freight cars a year. The shipbuilding industry is equipped to build 500,000 gross tons of ocean-going shipping annually. In addition 100,000 gross tons of shipping can be built each year at yards on the Great Lakes. Although the aircraft industry has reduced operations considerably under peacetime conditions, it has maintained many of the establishments which during World War II turned out a total of 16,000 planes valued at nearly \$400 million. Close to one-half of the firms in the transportation equipment business are incorporated companies and these are responsible for 99% of the output. The industry takes care of over three-quarters of domestic requirements, the remainder being met by imports, mainly from the United States and the United Kingdom. The tendency has been toward a reduction of imports, particularly since the establishment of diesel locomotive plants in Canada. Exports have been about 15% of domestic production, although in 1950 they amounted to less than 7%.

Non-Ferrous Metals and Products Industry

The industrial group operates over 900 plants and employs over 100,000 people. In 1950 its gross value of production was about \$1.8 billion. But much of the industry's output, particularly non-ferrous metal products, was destined for sale abroad. For example, Canada exported about 85% of her aluminum output in 1950, 69% of copper, 81% of lead and 88% of zinc, all in various stages of refinement. For the industry group as a whole, exports comprised about one-fifth of output and imports were 11% of domestic consumption. Almost two-thirds of the industry consists of corporate enterprises doing about 98% of the business. The remaining firms are owned by individuals or operate on a partnership basis.

Non-Metallic Minerals and Products Industry

In 1950 there were more than 1,100 plants turning out non-metallic minerals, petroleum and coal products. The industry produced a total of close to \$900 million worth of commodities in that year and employed some 45,000 people. It contributed 5% to the net value of all manufacturing production in the same year. About one-half of the firms in the field were incorporated companies doing 98% of the industry's business. Canadian producers met over three-quarters of domestic requirements, the remainder being imported chiefly from the United States. Exports have been running at less than 8% of production.

The industry has grown substantially in the last decade. Some of this growth has been associated with the Alberta oil and natural gas development which has come very much to the fore in the post-war period. In terms of employment and output the industry has grown about as much as the average manufacturing industry, but in terms of expenditures in plant and equipment it has spent a considerably larger amount than most other industries. Further, about 50 new medium-sized and large companies have come into existence since the beginning of 1946 and these have provided jobs for close to 2,000 people.

Chemicals and Their Products Industries

The industry operates about a thousand plants. Of these approximately three hundred are manufacturing some 200 different basic industrial and fine chemicals, the remainder producing a variety of allied products. The industry as a whole gives employment to some 40,000 persons, who in 1950 turned out a gross value of production of more than \$600 million. This is 5% of the net value of manufacturing production. About three-quarters of the firms are incorporated companies doing 98% of the total business of the industry. The remaining firms are operated either by individuals or as partnerships. The chemical industry supplies about three-quarters of domestic requirements, the rest being imported, mainly from the United States. Foreign markets absorb about 17% of Canadian production.

The industry grew rapidly during the war, with most of the gains consolidated in the postwar period after a period of readjustment in 1945 and 1946. In the years that followed further expansion of the industry took place. It was based in the main on three factors: (a) The continuously growing demand for peacetime chemical products in Canada; (b) the availability in this country of new sources of basic substances, e.g., ethylene glycol; and (c) the increasing commercial use of research findings, particularly important in the plastics field. Em-

ployment in the industry almost doubled between 1939 and 1950. Some 200 new establishments were opened up, most of them by existing companies. There were also new entrants into the industry. Some 44 new medium-sized and large firms have become established in Canada since the end of the war, providing added employment for about 1,400 men and women.

Miscellaneous Manufacturing Industries

What this industry group lacks in size—it contributes only 1% to total manufacturing gross output—it makes up in variety of products. Major commodities produced include: Brooms, brushes and mops, fabricated plastic products, musical instruments, pens, pencils, typewriter supplies, professional and scientific instruments and equipment, sporting goods and toys, and a miscellaneous array of articles such as beer dispensing equipment, artificial flowers, lamp shades, artificial ice, novelty goods and zippers.

Since 1939 the number of establishments in this industrial group has risen by about 70% and employment has more than doubled. Output has increased by four times in dollar terms in the same period. Some 73 new medium and large-sized firms entered the field between 1946 and 1950, providing about 2,000 new jobs.

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BRANCHES IN THE PRINCIPAL CITIES OF CANADA

Continued from page 29

Highlights in Merchandising Of Securities

ranked 45th. This progress was achieved chiefly because we were able to train a larger number of men to become successful retailers of new issues of stocks and bonds. Because of our ability to distribute nationally large quantities of securities, we are among the first firms to be sought as an underwriting partner.

Men grow old. Following the stock market crash in 1929, a

whole generation of young men decided that other fields offered more promise than the securities business. We were startled to discover in 1945 that the average age of our sales force was 52, and we decided to do something about training a staff for the future.

Account Executive Training Class

In December, 1945, we started our first Account Executive Train-

ing Class. It was open to men with a college degree, or to those who had achieved officer rank in one of the military services. Starting salaries were from \$250 to \$350 a month, dependent upon previous experience and family obligations. There were over 300 applications for that first class, from which we selected 25.

For a period of six months these men went through an intensive course of study about our business. Most of the instructors were recruited from colleges and universities in and near New York, supplemented by some instruction from our own staff members. This latter effort by our own people was chiefly indoctrination in our philosophy about the business.

The trainees learned accounting, economics, security analysis, corporate finance, commodities, even public speaking, from trained professional teachers. We tried to provide them with a sound background in fundamentals that would get them off to a good start in this business.

At the conclusion of the training period, each man was assigned to a branch office. Some went to localities they came from, but a larger portion went to communities where they were total strangers. While it might appear easier for a newcomer in our business to get started in familiar surroundings, there is not one instance to my knowledge of a man

who felt himself handicapped in a new and strange environment.

In the early years of this program, there was a large reservoir of young men coming out of the services ready and willing to go anywhere in search of a career. Their average age in entering our employ was 27. During the past two years as our ranks swelled, the program has been modified, and now the burden of recruitment is on the Manager. He selects his candidates, lets them work in his office for about three months to make sure they are suited for this business, and then sends them to New York for the formal classroom training that has proved so successful. The New York phase of training, all of it in the classroom 9 a.m. to 5 p.m., has been shortened to three months. And now, the graduate usually goes back to work for the Manager who selected him.

These training classes have been going on now for six years. At the end of 1951, our sales staff included 220 graduates, who accounted for \$5¼ million of our 1951 income, exclusive of interest gain. About half produced more than \$25,000 in 1951, and 25 had income credits in excess of \$50,000. Three of these men had income credit over \$100,000.

Of the 24 men still in direct sales work who attended the first two classes, only three produced less than \$25,000 last year. Eight had between \$25,000 and \$40,000; five had between \$40,000 and \$50,000; and eight had over \$50,000.

While all these young men started out as Account Executives, some graduated into other phases of the business. One is in charge of our Trading Department which handled about 16% of our total business last year. Eight are Managers of an office. Others are scattered through Research, Commodity, Underwriting, in administrative capacities.

We are continuing this program in 1952. One group of 38 has already been graduated and is in the field. Another group of 28, which includes five Canadians who will go to our Toronto office on completion of their training, is in session at the moment. A third group is scheduled to commence early in the fall.

How have these men fared in compensation? Last year, six earned over \$15,000; 24 earned between \$10,000 and \$15,000; 47 received between \$7,500 and \$10,000. None of these men have been in the business longer than six and one-half years.

We are presently working on an analysis of income and compensation to see if there is a pattern showing what can be expected from a man who has been in the field six months, a year, two years, three years, etc. I think we will be able to demonstrate that those who adhere to our policies, work with a reasonable diligence, can attain financial rewards in this business comparable with the most lucrative available in any field.

I have merely sketched highlights of our merchandising operations, and our training program, and there may be time to answer a few questions about details. I believe, and I'm sure you believe the securities business is an important business, and that we who are in it have something important to sell.

Somebody said about a book salesman: "When you sell a man a book, you don't sell him just 12 ounces of paper and ink and glue; you sell him a whole new life. Let's apply this philosophy to the selling of securities."

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What kind of help can we give you? Well let's be specific. We are not in the business of providing market tips, inside information, or "sure things."

This firm's motto has always been "Investigate—Then Invest." But we do believe it's our duty to help investors do their investigating. The men in our Toronto Office are equipped to provide this help because back of them in our headquarters office stands a Research Department, 100 strong. They can always call on that Department to provide the available facts on particular securities, to review and analyze the securities in any portfolio, or to prepare a suitable investment program for any sum, any objective. There is no charge for this help. As

a matter of fact, there are no service charges of any kind at Merrill Lynch. For instance, without charge we will also keep your securities for you, collect your dividends or bond interest, credit them to your account, and render detailed monthly statements showing exactly what securities and cash are in that account.

All you ever pay us is the commission we earn on the orders we execute for you. And we charge only the minimum commissions permitted by the Toronto Stock Exchange, the New York Stock Exchange, or any of the other principal exchanges of which we are members. It is also our policy to handle the purchase or sale of "over-the-counter" securities on a comparable cost basis.

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