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ESTABLISHED 1839

In 2 Sections—Section 2

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

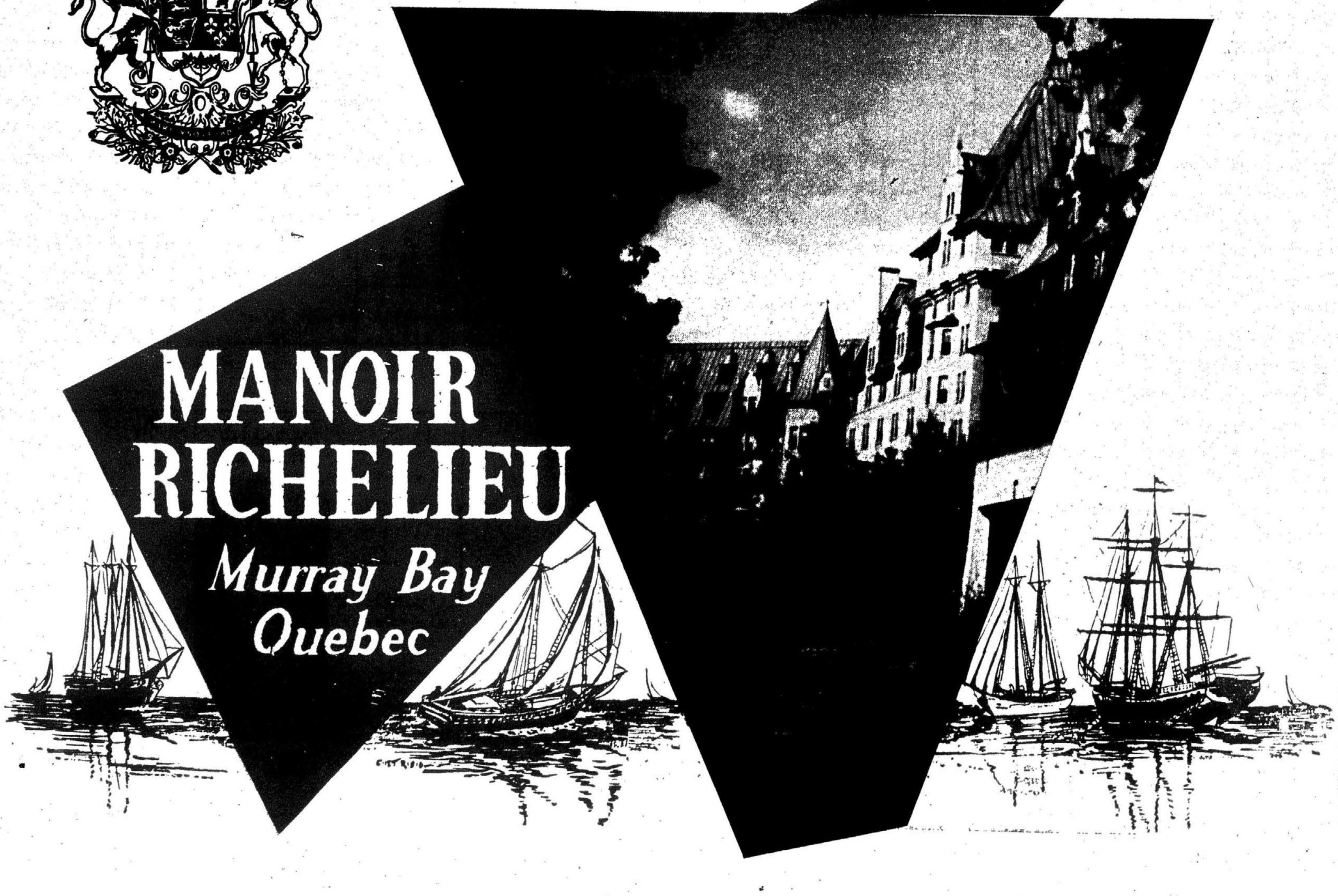
Convention Number

New York 7, N. Y., Thursday, July 3, 1958

Price 50 Cents a Copy

I-D-A- of Canada

42nd ANNUAL CONVENTION
June 18-21, 1958



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Notes on the Canadian Economy

By R. H. DEAN*
Nesbitt, Thomson and Company, Ltd., Montreal
President, Investment Dealers' Association of Canada

Head of Canadian investment dealers believes low point in Canadian corporate profits and output has been reached and that economic activity will rise at a gradual rate—supported by housing and governmental expenditures—in its approach to the next expansion phase requiring increasing output of basic materials for a growing world demand. Mr. Dean analyzes the considerable changes in the structure and distribution of his country's public debt; favors broader distribution and lengthening of government debt, and broader distribution of guaranteed mortgages; supports interest rate policy high enough to encourage savings and capital in-flow and yet not induce a premium on Canadian dollar; and detect lessening in inflationary forces and sees no need to be alarmed about a half to one billion dollar rise in government debt.

R. H. Dean

The members of the Investment Dealers' Association are the distributors of investment securities in Canada. As such, they are aware that it would be in the interests of the Canadian economy to have a larger proportion of Canada's debt in longer - term securities distributed broadly to private Canadian investors. This would have the effect not only of improving the market for long-term Government of Canada bonds, but would also help to render more effective any measures that may be taken in the next expansion phase of the economy to control the money supply.

A study of the structure and distribution of the Government of Canada's debt indicates that a broad distribution of new Government of Canada bond issues is not only desirable but is easily possible, provided the incentives are present that are necessary to effect such a Canada-wide distribution.

The debt represented by outstanding securities has changed considerably in the last 10 years. Not only has the debt been reduced in size, but the proportion of the debt in the form of marketable securities in the hand of the public has also been reduced. This has taken place during a time when the Canadian economy has undergone considerable expansion in terms of population, production, incomes and savings.

There is, therefore, from an economic point of view, no reason to believe that Canada could not support a higher public debt, and the prospect of having the debt increased this year by from one-half to one billion dollars is not alarming.

Direct Debt

The total direct debt of the Government of Canada, including treasury bills, amounts at the present time to about $14,743 million. This is after giving effect to the new issues in April and the redemption of outstanding issues on May 1 of this year. This compares with the Jan. 1, 1948 figure of $16,144 million and shows a decline of 8.67%.

It is interesting to note that Canada's direct debt now amounts to about $873 per capita, which compares with a per capita figure of $1,259 at Jan. 1, 1948. During this same 10-year period, the Gross National Product increased from $1,074 to $1,839 per capita. If the direct debt per capita had remained unchanged during this period, Canada's total direct debt would now be over $21 billion, or about $6½ billion greater than at present.

The direct debt at present is roughly equivalent to 47% of 1957's Gross National Product, whereas at Jan. 1, 1948 it was equivalent to about 117% of 1947's Gross National Product.

About 25% of the direct debt is represented by assets held by the government, and the net debt position is therefore roughly in the order of $11,000 million.

Term of Direct Debt

The proportion of the direct debt in securities of over five years in term has decreased from about 72% at Jan. 1, 1948 to about 50% at the present time. The proportion in short-term treasury bills has increased during this time from 2.78% to 11.02% of the direct debt.

A much larger proportion of the direct debt is now in the form of non - marketable securities represented by Canada Savings Bonds, which now amount to $2,596 million or 17.6% of the total as against $1,440 million or 8.9% of the total at Jan. 1, 1948.

When the non-marketable securities are excluded from the total direct debt, the proportion of securities of over five years in term reduces to about 40%, which compares with about 70% at Jan. 1, 1948.

Distribution of the Government's Direct and Guaranteed Debt

Available statistics on the distribution of Canada's debt includes both direct and guaranteed debt. A comparison of such distribution at Jan. 1, 1958 with that at Jan. 1, 1948 is shown in Table I.

The foregoing table shows a drop of over $2,000 million, or almost 20%, in the General Public's holdings of Government of Canada direct and guaranteed debt securities.

Carrying our analysis further and excluding Canada Savings Bonds, we then find that the General Public's holdings of marketable Government of Canada securities were decreased in the 10-year period by about 33%. A breakdown of these holdings of marketable securities at Jan. 1, 1958 compared with Jan. 1, 1948 appears in Table II.

The largest drop in dollar amount of the holdings of marketable securities was in those held by the Canadian General Public other than corporations and governments. To some extent this drop has been offset by the increase in the last 10 years of Canada Savings Bonds held by individuals. However, if all the Canada Savings Bonds outstanding should be added to the marketable securities held by the General Public other than corporations and governments, there would still be indicated a substantial drop in the combined holdings of these securities as reflected in Table III.

An apparent reduction of $582 million of Government of Canada securities held by the General Public other than corporations and governments took place during a period when personal incomes in Canada were increasing from $10,390 millions to $22,855 millions, and while savings deposits with the chartered banks

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*An address by Mr. Dean before the Annual Meeting of Investment Dealers' Association of Canada, Manoir Richelieu, Quebec, Canada, June 19, 1958.

Who's Fooling Whom?

By A. E. WALL*
Vice-President in Charge of Agencies
Confederation Life Association, Toronto, Canada

Mr. Wall, an experienced insurance executive, offers investment salesmen pointers on selling, and underscores the economic contribution made by salesman. Before he discusses three different personality roles a salesman should adopt and six faults he should avoid, Mr. Wall examines what makes a country grow and warns against the fallacies of emitting more dollars as the way to solve our economic problems and of pricing ourselves out of the domestic and export markets.

We are engaged in the most challenging . . . the most worth while, and the most satisfying vocation in the world—salesmanship. We are the ones who make the wheels of industry turn, we create and control markets which are responsible for the tremendous progress and development of our modern way of life. We have built on the North American continent, through a system of free enterprise, the highest standard of living, the greatest security for individuals as well as the happiest and most interesting way of life in the world. Our research, our growth, the development of our professions, the challenge of our school system, the pattern of our religious life, the obligations of our social life . . . in short the finest democracy the world has ever known—these are the accumulated results of salesmanship in all these areas. Every salesman carries prosperity as a side-line.

A. E. Wall

Creative and sound salesmanship has had a major role in our economy, not only in the maintenance of our present standard of living but in the further development and expansion of our present way of life. Upon salesmanship in its broad aspects depends the prosperity of the future of Canada and the United States. Markets both home and abroad are essential to our continued progress. Our free enterprise system is one of production, investment and consumption under which private individuals and business firms, largely of their own initiative and responsibility, make full use in their communities of the labor skills, management skills and capital to produce the bulk of goods and services that men want. Salesmanship is the power and the ability to overcome complacency, to stir up dormant or vaguely felt wants in people, to create the desire and ambition for a fuller more satisfactory, more efficient and more enjoyable life, including all the products and services that go along with such a developing scale of living.

*An address by Mr. Wall before The Investment Dealers' Association of Canada, at Manoir Richelieu, Quebec, June 19, 1958.

Two Problems to Overcome

We must always remember that we are on the verge of a recession at all times. Relax the pressure on people not to better their lot, to improve their standard of living and our expanding economy slows down. As soon as people become satisfied with their present scale of living or become fearful of the future, they slow down on both spending and investing money. This in turn cuts down the demand and as a result production lags. There is a very dangerous and erroneous feeling, even a belief, in many quarters that by putting more dollars in the hands of consumers we provide more purchasing power. Such inflation only does this to a small degree and reaches a point where the results are disastrous both for the individual and for the nation. This type of history has been written in blood for many nations over many ears. Increased purchasing power can only come from increased production. Until we realize this and do something about it, we are headed for trouble and we will get further and further away from the resumption of our climb to further prosperity.

Labor costs per unit of output in manufacturing have risen constantly over the past 10 years. We in Canada and the United States are slowly pricing ourselves out of not only our export market but our own domestic markets. Until we realize that greater production is the key to national and individual prosperity and until we take more seriously the fact that the maintenance and further improvement of our present standard of living is dependent on productive efficiency—we shall not continue on the healthy highway to progress that has marked our development over the past few years. Greater productivity is dependent on many factors, the most important of which are:

(1) Sufficient capital for further development and to supply additional technological improvements and expansion.

(2) Interested and capable employees willing and anxious to give full value for their day's pay.

(3) Efficient and dedicated management organization and methods. This brings it down to each one of us individually.

We will start back up the road to not only full recovery but a continuation of our progress towards much greater prosperity once every man and woman comes to the conclusion that whatever work or responsibility they have, it is their individual challenge to work as efficiently, as productively and as creatively as they possibly can during their working hours. Then and then only when our job is taken very seriously will we both nationally and individually begin to realize our potential and accomplish our overall goals.

As investment men you must be thrilled with your overall contribution to our modern way of living, both from the angle of your business in general and also from the viewpoint of your contribution as individuals to our present way of life. You understand and believe thoroughly I'm sure that enterprise capitalism, which you are providing, has been the main instrument in giving us the highest standard of living both material and moral, that the world has ever known.

(1) **Capitalism** rests on the impetus to risk accumulated savings in the hope of making a profit.

(2) **Profit** makes possible all the economic activities of our society.

(3) **Profit** rests basically upon productivity and productivity on competent people.

(4) Therefore to a large extent, our present standard of living rests soundly on past investment activity.

Sees More Savings Needed

Canada's future requires increasing amounts of savings invested per individual. We today are living on an island of free enterprise, surrounded by socialism and communism. When you sell securities, you are putting dollars to work . . . you are helping to preserve for your children and their children what our forefathers won at so great a cost. Free enterprise out produces other systems, providing more people with more security. Capital makes this possible. Capitalism puts machines in the hands of the enterprising individual, not in the hands of the state. Security salesmen are the advanced agents for our economic society of tomorrow. Every dollar that is invested through your efforts and reinvested makes a continuing contribution. Every client you find and persuade to invest his savings becomes automatically a capitalist in his or her own small way. Each one of them has more of an interest in the future of our country, in the resources and the development of our country than ever before.

The first requisite for top-notch salesmanship is a sound sincere belief in the product or service that you have to offer and the knowledge that the product or service is of real value both to the individual who purchases and also in making a contribution to a wider progressive and rapidly developing Canada. Always remember therefore that selling is a two-way relationship. The sales must benefit both your prospect and yourself, otherwise a continuing relationship cannot exist. "Putting over the deal" may give you "an immediate buck" but fi it does not benefit your prospect, it is harmful to both of you. The important job of any salesman is to

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Building a Growing Future on Solid Ground

By HON. DONALD M. FLEMING*
Canadian Minister of Finance

Canada's finance minister: (1) perceives hopeful signs indicating the end of recent recession; (2) bases his revenue forecast on the assumption that 1958 GNP will be 2% higher than 1957; (3) anticipates that the budgetary and non-budgetary net cash requirements for this fiscal year of $1.4 billion and re-financing of maturing marketable debt of $1.9 billion will necessitate total financing of about $3.4 billion; and (4) emphasizes that only a minimum of deficit financing will be done through the banking system and will include efforts to help lengthen average term of public debt without unduly burdening longer-term market. Mr. Fleming calls for continued splendid cooperation of investment dealers, Bank of Canada and government and asks for constructive criticism and suggestions to achieve full partnership in formulation and execution of debt management for a better Canada.


Hon. D. M. Fleming

I am very pleased to have this opportunity of addressing the members of the Investment Dealers' Association of Canada at their Annual Meeting. For me the occasion is most opportune following as it does immediately upon the presentation of my first budget and not long before the occasion of the Government's next public financing effort. The influence of government policies and activities on the economy of the country under modern conditions and the size of the financial requirements of government have brought the Government, its fiscal agent the Bank of Canada, and the investment dealers' profession into very close relationships. This is particularly true in days when resort is had to deficit financing to meet economic conditions.

I am aware that your Association was formed in 1916, and from modest beginnings has grown until it now includes more than 200 member firms operating nearly 500 offices from coast to coast and employing some 7,000 people. Your membership embraces substantially all the firms in Canada engaged as principals in the underwriting, distribution or trading of securities, other than dealers specializing in highly speculative shares. You are to be commended for your insistence on high standards of conduct and financial responsibility on the part of your members and thus to earn public confidence. I recognize the very important role which you play in the marketing of government securities.

I believe there is an increasing awareness in Canada of your contribution to the development of a well rounded capital market in this country. Your efforts during the war in connection with the promotion of a wide distribution of savings bonds attracted wide attention. More recently, the growing desire of Canadians to share more fully in the ownership and control of their own resources has focused attention on the work of your members. Finally, and by no means least, the strenuous and substained educational programs which you sponsor have done much to spread the habit of systematic saving and investment by individual Canadians.

The Budget is still very fresh in my mind, if not in yours. Perhaps you would be interested to know something of its preparation. The detailed work of preparing the Budget occupies ten weeks. During that time many delegations were heard, many briefs were studied, hundreds of letters requesting consideration of tax problems were perused, many Budget conferences with the officials of the Department of Finance and the Department of National Revenue reviewed many hundreds of tax, tariff and fiscal questions, and finally came the drafting of the Budget Speech. The imperative necessity of preserving the strictest secrecy with respect to every aspect of the Budget can never be absent from the mind of the Minister of Finance at any stage of the work on the Budget. The technical problems are many.

This affords me a welcome opportunity of paying tribute to the faithful officials of the Department of Finance and the Department of National Revenue. I have the deepest sense of gratitude to them for the service they have rendered not only in the preparation of this Budget but in the performance of their important other duties. They have demonstrated an exemplary devotion to public duty and have worthily maintained the highest traditions of the Canadian public service. I should like to acknowledge also my indebtedness to the officials of the Bank of Canada for all their assistance and expert advice. I place a very high value upon their counsel, as you would expect.

In my Budget Speech Tuesday evening, June 17, and in the White Paper which I tabled in the House of Commons on Monday, June 16, I reviewed in detail the economic forces in operation, as I see them, during 1957 and the early months of 1958. Today I should confine the review to some of the more salient features.

Economic Review

Some slow-down in economic activity was to be expected after the excessive pace of 1955 and 1956, a pace which was straining our resources of men and materials despite very large borrowing abroad.

The most important change which emerged during 1957 was the decline in the importance of business capital investment as a dynamic force in our economy, particularly investment in our resource industries. A somewhat larger decline in capital investment occurred in the United States.

Although business capital investment ended the year on a weaker note than it had begun, the reverse was true of housing. The expansion of housing investment had come to an end in the middle of 1956 when the keen competition for loan funds resulted in a shortage of mortgage money and brought about a decline in home-building. During 1957, however, the competition for loan funds became less active as the year progressed and, more important, in August and again in December government funds in a total amount of $300 million were made available to augment the loan funds supplied by insurance companies, banks and other private lenders.

Government expenditures contributed to the maintenance of economic activity. At all three levels of government they rose by almost 7% despite some decline in defense expenditures. Transfer payments especially rose rapidly and for the latter half of the year they were an important element in sustaining and increasing personal income and consumer demand. The largest elements in this increase were the greatly increased payments from the Unemployment Insurance Fund, larger payments to the aged, the blind and the disabled, larger veterans' allowances and pensions, and increased family allowances.

In 1956, and again in 1957, a substantial part of our investment program was financed from abroad. The deficit on current account in 1957 amounted to $1.4 billion. This deficit was financed to some extent by direct U. S. investment in Canada but sales of securities, as in the previous year, were the major source of external capital. A good part of the rapid rise in imports which took place in 1956 and early 1957 was the result of heavy imports of machinery, equipment and industrial materials connected with our capital program. The importation of these items helped us to escape some of the pressures connected with the high level of domestic investment. The converse of this situation is that the decline in investment in machinery and equipment has fallen to a very considerable extent on imports which have shrunk markedly in the last few months.

I have reviewed the main changes in the strength of the underlying economic forces during 1957. The reduction of the pressures and demands which characterized 1956 led to a mood of greater caution with regard to new capital ventures and was reflected in a declining rate of increase in job opportunities. Despite these conditions, there were more people at work in each month of 1957 than in the comparable month a year earlier. The increases over the preceding year became smaller as the year progressed and in January, February and March of 1958 employment

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*An address by Mr. Fleming before the Investment Dealers' Association of Canada, Manoir Richelieu, Quebec, Canada, June 19, 1958.

A New Britain—A New Word

By RT. HONORABLE THE LORD COLERAINE*
London, England

Lord Coleraine sketches a picture of a solidly remarkable recovery by Great Britain, and calls for a Commonwealth Bank, similar to the World Bank, to attract and stimulate investments within the Commonwealth. Finds indispensable Canadian-Great Britain, and free world, relations. Makes clear that new Britain is not to be confused with anachronistic picture of old Great Britain.

It may be that some people have in their minds a picture of Britain as a country bled and impoverished by half a century of war, of a people whose fibre has been sapped by the Welfare State, a picture, in short, of a society displaying most of the symptoms of degenerative disease and old age. The reality is very different. The real picture is one of a society buoyant, vigorous, adaptable and of a people loyal to itself and united, as the British people, beneath the surface, have always been.

Hon. Lord Coleraine

Britain entered the first World War as the greatest creditor nation in the world and the greatest exporting nation. She emerged from the second World War not as the world's banker but as the bankrupt, with an export trade which had disappeared, and with the traditional exports, coal and cotton, in a state of permanent decline. Today, thirteen years later, Britain finances 40% of the world's trade. She has doubled the volume of her exports as compared with 1938. Once again she is investing abroad, especially in the Commonwealth. The £ is growing stronger when stronger currencies are weakening.

Britain today is no longer the greatest exporting nation. There is one greater—the United States, with three times the British population. The United States does 25% of world trade in manufactures. Britain, with a third of the population, does 20%. The United States exports $60 per head of the population; Britain exports $150. Britain carries a burden of defense unparalleled in peace times and devotes to it a greater proportion of the national income than any country except the United States. Of every dollar's worth of production, 35 cents goes to defense and the export market.

In spite of heavy taxation and the Welfare State, personal savings in Britain have nearly doubled since 1938 as a proportion of the national income. Savings in Britain as a proportion of the national income are nearly twice the savings in the United States. Productivity has increased since the war at a greater rate than in any country save the United States and Sweden. It is increasing more rapidly than in Germany. The expansion of British exports has not been through the development of traditional products through techniques. It has developed with new products and new techniques. A considerable proportion of British exports today consists of products which did not exist before the war. The British electronics industry has developed fivefold since the war and it is now the second largest in the world. So is the petro-chemical industry. Every gas turbine aircraft in the free world has an engine of British manufacture or British design, and Britain is in the forefront in the peaceful application of nuclear energy.

*From a talk by Lord Coleraine before the Investment Dealers' Association of Canada at the 42nd annual meeting held at Murray Bay, Que., June 20, 1958.

New Products and Industries

The idea that Britain is an old man's country in which the young feel, if they have any sense, that they must get out as quickly as they can is not true. Over a great part of British industry, nuclear energy or electronics, it is the young who bear the responsibility and who blaze the trail. Britain today is a young man's country—and a young woman's too, for they are very much involved.

It is sometimes thought that Britain is a country wracked with trade disputes and riddled with restrictive practices. In fact this is almost the opposite of the truth. In the last year for which comparable figures are available 190 days per thousand of the working population were lost in Great Britain through strikes; 850 days were lost in the United States and 660 days were lost in Canada. In fact the days lost through strikes in Britain are a good deal less than in any industrialized country except Sweden and Switzerland. It is true that there are restrictive practices in British Industry which date from the days of mass unemployment. There are too many of them but they are gradually and surely being broken down.

For example, on the railroads in Britain the trades units concerned have agreed with the Transport Commission that diesel locomotives should be manned only by a single driver and without a fireman. Canadian experience has not been the same. One of the reasons for the shaky financial condition of American railroads is the continued use of firemen on diesel locomotives. It is not only in Britain that restrictive practices are to be found.

There has been a revolution in Britain during the last 50 years. There has been a world revolution too. Indeed the world revolution has been one aspect of the British revolution.

British sea power and British Empire were the expression not only of the strength of Britain. They were the expression of world order. With the loss of British sea power and with the withering away of the British Empire, world order has given way to world anarchy. The problem which faces the world, and not only Britain, is how to restore order.

This is a task which cannot be done today as it was done a hundred years ago by any one nation, however powerful. It can only be realized through what Prime Minister McMillan has described as "Interdependence."

Commonwealth Bank Proposed

Much is to be hoped for from the coming Commonwealth Conference in Canada and from the increase of trade between Canada and Great Britain. There is scope for a Commonwealth Bank parallel to the World Bank to attract and stimulate investment within the Commonwealth. The problem is not one that can be solved by Canada and Britain alone or even working within the Commonwealth. It is a problem in which all the free world is involved, Canada, Britain and the Commonwealth, the United States and Europe. But Canada with its roots on both sides of the Atlantic, on both sides of the English channel has, with Britain, a unique and indispensable role to play.

The association between Canada and Britain, the sympathy between the two peoples, is greater today than it has ever been. That is something of good augur, not for Canada and Britain alone, but for the whole of the free world.

How to Combat Recession in Canada

By A. C. ASHFORTH*
President, The Toronto-Dominion Bank, Toronto, Ontario

Toronto bank head's non-gloomy examination and diagnosis of the Canadian economy leads him to expect that the existing—almost record—level of business activity will prevail until well into 1959. Mr. Ashforth prescribes remedial measures in the areas of tax reform, small business financing, investment incentive, productivity and medium-term export financing, and advises that the recession provides a "second-wind" opportunity to meet the challenge of building a solid economic base from which sound growth can again take place. Labels improved exports key to economic growth's resumption and adds that the upturn's timing and extent will also depend on the pace of U. S. activity.

A. C. Ashforth

On an occasion such as this a banker seems to be expected to make some observations about the economic climate and I would not wish to disappoint you. At the moment, as members of the IDAC well know, the economy—like the weather—is a little cloudy, though there are still bright spots on the horizon. But visibility is not too great and the question seems to be whether the clouds will lift or sink lower.

The actuality of the recession, or business setback, in Canada has been apparent for some months. Economic activity has lost its buoyancy. Growth is no longer apparent and in some circles there is gloom and lack of confidence. Too many people think things are going from bad to worse, when they have not yet reached the level of being even bad.

The onset of the recession, except in the matter of unemployment, has not been substantially greater than in 1953-54—which was a mild setback to say the least. The total volume of business has held up very well. As in 1953-54, the impact of the recession upon sectors of the economy and sections of the country has been uneven. Some industries have been hard hit. Others have hardly felt the decline. Still others have achieved further gains in business. However, most industries are feeling some pressure on sales and profits and in most cases there has been some easing of employment.

Better Than in U. S.

Much the same situation exists in the United States, and once again we seem to be more fortunate than our good neighbors to the south. To date, the recession in Canada has lagged behind the setback being experienced in the U. S. and this seems to be a historical trend. The slight recession of 1949 was hardly felt in Canada. In 1953-54 the decline in business activity was slower to develop in Canada than in the U. S. and was not as great, and we were a little slower to resume an upward trend. The same lag is being experienced in the current setback, but only time will tell whether the pattern is to be the same throughout. One thing is certain, the Canadian economy is again demonstrating greater stability than that of the U. S.

Opinions of businessmen about the U. S. recession differ widely. Economists are far apart in their views. Some feel that signs of an upturn are evident. Others expect the recession to bottom out later this year. Still others think it will be well into 1959 before there is any resumption of economic growth. I am not going to try to predict the course of the U. S. economy other than to say there are encouraging signs of a leveling off in business activity. At the same time, I would remind you that what happens in the U. S. has an influence on the level of business in Canada—both directly and indirectly — and Canadian businessmen should keep a watchful eye on basic trends in the U. S.

Contrary Trends

A moment ago I mentioned that overall business activity has held up very well. At the same time a number of contradictions are evident. Though business activity has been declining, the upward trend in prices and wages has persisted. The stock market has demonstrated strength in the face of lower corporate earnings. Bank deposits are rising. These developments are not usually associated with declines in economic activity. Their meaning is difficult to determine, but perhaps they are an indication that the setback will be of short duration. The fact that the recession is not feeding on itself is a good omen. The much feared deflationary spiral has not developed.

This brings me to the question of the outlook for the Canadian economy. Here, I imagine, you will wish me to be a little more specific and in this connection I would like to discuss briefly the three main forces which have been responsible for the high level of prosperity in Canada in recent years.

First, let us look at the one in which you and I are active participants from day to day. I refer, of course, to consumer spending. Labor income this year to date has been ahead of the same period last year. Consumer spending as measured by retail sales is also slightly ahead of 1957. The increase is not of the magnitude recorded in 1957 and 1956 but consumer expenditures, on balance, have been a stabilizing force. You may suggest that the alleged hesitancy of the consumer in making commitments for certain types of durable goods has been a contributing factor in the reversal of the upward trend in the level of business. This may be true, but I wonder if the position of the durable goods industry is due, in part, to a shift in buying habits and desires.

Consumer Spending to Remain High

Indications are that consumer spending will continue to be a stabilizing force throughout the remainder of the year. With labor income at a record level, spending should remain at a high level despite the fact that some consumers are caught in a squeeze between higher prices and a shrinking pay envelope. In view of scare headlines and gloomy talk, the consumer has remained surprisingly confident and there is no reason to believe that this mood will not continue. At the same time there are no grounds for expecting consumer expenditures to turn sharply upwards—a development which some people look for to put new steam in the economy.

Briefly, gentlemen, as far as 1958 is concerned, I expect consumer spending to be a stabilizing force rather than an expansionary influence.

Now, I come to the question of exports.

Exports have always been of vital importance to the Canadian economy. As a ratio of the gross national product, export trade has declined somewhat in importance in the postwar period, but it remains a major generator of economic activity. Budget exports influence the level of consumer income and of capital investment. To a very large extent the Canadian economy is dependent on an expanding export trade for growth and prosperity.

This year our exports have held up surprisingly well. In the first four months they were lower by about 2½% when compared with the same period last year. This is a minor decrease when compared with that experienced by the U. S. Then, again, we should also keep

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*An address by Mr. Ashforth before the Investment Dealers' Association of Canada, Manoir Richelieu, Quebec, Canada, June 20, 1958.

The Right Honorable The Lord Coleraine, London, England; Mr. & Mrs. W. C. Jackson, Jr., *First Southwest Company*, Dallas, President of American Bankers Association of America

F. J. Brennan, *F. J. Brennan & Co., Ltd.*, St. John, N. B.; Georges Bray, *Gairdner, Son & Co., Ltd.*, Quebec, Que.; Ivan A. Martin, *Royal Securities Corporation, Ltd.*, Montreal

Canada's Monetary and Economic Status

By ULRIC ROBERGE*

General Manager, Banque Canadienne Nationale
President, The Canadian Bankers' Association

Canadian Bankers Association's President expresses pessimism regarding current recession's degree of severity and recovery prospects compared to the last one experienced, 1953-54, and optimism about long-range prospect for Canada's continued expansion, progress and prosperity. Alongside unfavorable short-term factors cited, Mr. Roberge arrays such encouraging signs as recent prediction regarding capital investment, upward pace of retail sales and turn in industrial production, and current threshold point of resumed inventory purchases. Presses for increased automation in banking and is certain this will not destroy well known personal touch characteristic of Canadian banks, nor displace personnel.

As I come to the end of my first year as President of The Canadian Bankers' Association, I must thank all members for their unfailing cooperation and assistance during that time. These have been eventful days in the banking business and you have made my task easier by a consistently helpful attitude.

I would like to sketch, in broad general strokes rather than in detail, the monetary and economic pictures as I see them and then spend some time on a subject of interest both to bank customers and bank staffs, automation in banking.

First, let me say that I have complete and abiding faith that the long-range prospect for Canada is continued expansion, progress and prosperity. The recession we face today is a temporary condition and in time will be regarded merely as a pause on the onward and upward path that is Canada's certain destiny. There is too much inherent strength in our productive machinery and too many raw materials still awaiting development — to say nothing of the innate stability and industrial skills of the Canadian people—to think otherwise.

But I must in all conscience, paint the economic picture as I see it, judging from the business reports that flow across my desk every day. We are in the grip of the most severe set-back our economy has experienced in the postwar period. It is true, but poor consolation, to say that practically every western nation is in the same condition, particularly the United States.

It is now fully apparent that the current recession is deeper, sharper and more widespread than the last one we experienced, that of 1953-54, I cannot tell you whether we have hit the bottom or when the general turning point will come, although there are some hopeful signs that the upturn will not be too long delayed.

An Unusual Situation

It may be that the recovery will not be as strong or as rapid as it was in 1954. My reason for saying that is that there does not seem to be today the same volume of unsatisfied demand for goods of all sorts that existed in 1954. Another reason is there is not today the same lack of productive capacity that existed in 1954 and which caused the surge in capital expenditures that spearheaded the boom that extended through 1956.

Moreover, we have to cope with an unusual and paradoxical situation. Hitherto, in periods of recession, the price level would move down as demand and business activity lessened. This customary evolution was deemed to be a kind of economic law. As a matter of fact, lower prices had a remedial effect inasmuch as they stimulated consumer demand and hence production and employment. Today, in the midst of a recession, most prices, instead of declining as they used to do in the past under similar circumstances, keep on rising. So while present conditions seem to require some degree of stimulation, the economy is still threatened with inflation.

In this general picture there are some very definitely encouraging signs. One is the official forecast of capital investment in 1958, expected to be only 2.3% less than last year, with new construction 1.2% higher and the overall decline concentrated in expenditures on machinery and equipment. Since new construction has a high domestic content — in contrast to machinery and equipment, much of it imported — the capital investment program for 1958 should represent a strong and

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*An address by Mr. Roberge to the Bankers' Association's annual meeting marking the end of his first year as President, Montebello, Que., June 13, 1958.

Mrs. R. H. Dean; Mme. Gagnon; Wing Commander G. Taschereau, Aide de Camp to Lieutenant-Governor, Quebec, Que.; R. H. Dean, *Nesbitt, Thomson and Company, Limited*, Montreal, President of Investment Dealers Association of Canada; The Honorable Onesime Gagnon, Lieutenant Governor of Quebec, Quebec City, Que.

A. C. Ashforth, *Toronto-Dominion Bank*, Toronto; The Right Honorable the Lord Coleraine, London, England; The Honorable Donald M. Fleming, Minister of Finance, Ottawa, Ont.

In Attendance At Convention

ALMOND, L. F.
Investment Dealers' Association
Montreal

ALEXANDER, N. J.
James Richardson & Sons
Winnipeg

ANDREWS, H. W.*
Graham Armstrong Securities Ltd.
Montreal

ANNETT, J. W.*
Annett & Company Limited
Toronto

ANNETT, W. S.
Investment Dealers' Association
Toronto

ARCHAMBAULT, A.
Nesbitt, Thomson & Co., Ltd.
Montreal

ARMSTRONG, ANDREW*
Graham, Armstrong Securities Ltd.
Montreal

ASHFORTH, A. C.*
Toronto-Dominion Bank
Toronto

ATKINSON, F. C.
Nesbitt, Thomson & Co. Ltd.

BAKER, P. J. F.*
Wood, Gundy & Company Ltd.
Toronto

BAKER, T. H.*
Ross, Knowles & Co. Ltd.
Toronto

BARTLETT, P. H.*
Dominion Securities Corp. Ltd
Toronto

BARTLETT, W. T.*
Bartlett, Cayley & Co. Ltd.
Toronto

BEAUBIEN, ANDREW S.
L. G. Beaubien & Co. Ltd.
Montreal

BELANGER, J.*
Belanger Inc.
Montreal

BELL, L. L.
James Richardson & Sons
Toronto

BIENVENU, MARC MASSON*
La Maison Bienvenu Limitee
Montreal

BOLAND, T. G.
Bank of Canada
Montreal

BORLASE, A. E.*
W. C. Pitfield & Co., Ltd.
Montreal

BORRIE, W. J.
Pemberton Securities Limited
Vancouver

BOULET, J. CONRAD*
J. C. Boulet Limitee
Quebec City

BOUTIN, R. L.
Nesbitt, Thomson & Co., Ltd.
Montreal

BOXER, D. E.
Burns Bros. & Denton Ltd.
Toronto

BRAY, GEORGES*
Gairdner, Son & Co. Ltd.
Quebec City

BRENNAN, F. J.
F. J. Brennan & Co. Ltd.
Saint John

BRETTINGHAM, S. J. A.*
Financial Counsel
Montreal

BROOKES, J. E.*
Greenshields & Co. Inc.
Montreal

BURNS, L. C.
Burns Bros. & Denton Inc.
New York

CAMPBELL, C. D.
Pemberton Securities Limited
Vancouver

Continued on page 26

*Denotes Mr. and Mrs.

Mr. & Mrs. W. H. A. Thorburn, *Mills, Spence & Co., Limited*, Toronto; Mr. & Mrs. D. W. Mitchell, *Pembertson Securities Limited*, Vancouver

Mr. & Mrs. D. Humphreys, *Bank of Canada*, Ottawa; John Graham, *John Graham & Company Limited*, Ottawa; Mr. & Mrs. J. B. MacFarlane, *Bank of Canada*, Ottawa

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Notes On the Canadian Economy

were increasing from $3,452 to $6,248 millions.

Life Insurance Companies' Holdings of Direct and Guaranteed Securities

There has been a spectacular but quite understandable drop in the holdings of Government of Canada marketable securities by the life insurance companies, who, during the war period and as an important factor in the prosecution of the war, purchased Canada Bonds greatly in excess of peace-time requirements. Later, a large part of these funds went into development. The drop in the holdings of Canada Bonds by life insurance companies is pointed up in the statistics in Table IV of 12 major life insurance companies:

Guaranteed Mortgages

As at April 23 the chartered banks held mortgages under the National Housing Act of 1954, 98% guaranteed by the Government of Canada, totaling $619 million.

The I.D.A.C. and others have been looking into possible ways and means by which a security backed by guaranteed mortgages might be broadly distributed to Canadian investors.

This would have the effect of making available for residential mortgage purposes a larger proportion of the personal savings of the people of Canada.

TABLE I
Direct and Guaranteed Debt

	Jan. 1, 1948	Jan. 1, 1958	Increase or Decrease*
	(Millions of Dollars)		
Held by:			
Bank of Canada	$1,881	$2,366	25.8%
Chartered Banks	2,648	2,781	5.0%
Government Accounts	1,415	1,328	6.1%*
General Public	10,763	8,629	19.8%*

TABLE II
Estimated Distribution of General Public Holdings of Govt. of Canada Marketable Direct and Guaranteed Securities

	January 1— 1948	1957	Increase or Decrease*
	(Millions of Dollars)		
Held by:			
Non-Residents	$1,030	$584	43.3%*
Life Insurance Companies	1,754	601	65.7%*
Other Insurance Companies	173	333	92.5%
Quebec Savings Banks	85	45	47.0%*
Trust and Loan Companies	196	162	17.3%*
Other Financial Institutions	187	350	87.1%
Non-Financial Companies	727	650	10.6%*
Provincial Governments	334	507	51.8%
Municipal Governments	120	54	55.0%*
General Public other than corporations & governm'ts	4,667	2,929	37.2%*
Total General Public	$9,273	$6,215	33.0%*

The Money Supply

The easier availability of money this year will no doubt act as a stimulant to economic growth when and as corporations may find it necessary to finance expansion. There has been a considerable drop since August of last year in the cost of short and medium term money. Long term money rates declined in October and November of last year but have since held at a fairly steady level. Much of the corporation financing thus has been carried out so far this year through the sale of securities to the public and has been for the purpose, in part, of repaying short term indebtedness incurred last year for capital expansion purposes. This, together with the decline in the demand for bank loans, has placed the banks in a more liquid position.

Inflation

Inflationary forces are no longer as serious as they were a year ago. The wholesale prices of industrial materials have dropped below their levels of a year ago, and while the general wholesale price index has risen in recent months, it is still below its level of a year ago. The consumers' price index, however, has been rising to new peaks, being influenced largely by increases in food prices. These increases in turn can be attributed to poor crop conditions in the United States which have affected prices for vegetables and fruits, and also to the heavy export of Canadian livestock to the United States to offset the beef shortage in that country, which shortage is the result of several years of widespread drought in the southwestern States. Thus, the major influences on the consumers' price index at the present time can hardly be laid to permanent inflationary pressures on the economy but rather to temporary conditions that will eventually adjust themselves.

The government continues to be concerned however, about the remaining inflationary pressures and issued a warning in the Speech from the Throne urging upon all groups in our society to recognize the dangers and inequities of inflation and the need to restrain demands which will give rise to increases in prices and the cost of production.

It is unlikely that the monetary authorities will be interested in seeing interest rates fall far enough to discourage domestic savings and the inflow of capital from outside the country. It is possible, however, that there could still be a substantial increase in the money supply with interest rates being maintained at fairly high levels.

An indication of such a policy was given by Mr. Coyne in the Bank of Canada's annual report:

"If an early readjustment of the Canadian economy to a lower level of capital investment, i.e., to a lower rate of growth, is not desired, the continuation of a high rate of growth (higher than that in the outside world) requires a sound money policy and an interest rate structure which will encourage both a high level of domestic saving and a sufficient inflow of outside capital to make up whatever deficiency remains."

It would be reasonable to expect this year a vigorous attempt

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Neil Fergusson, *G. Tower Fergusson & Co.*, Toronto; R. T. Hutchinson, *Cochran, Murray & Co., Ltd.*, Toronto; Mrs. Neil Fergusson; Mrs. R. T. Hutchison

on the part of the government and the monetary authorities to promote the most efficient use of possible of the savings that are available within Canada, for any substantial increase in capital inflow over that which is actually required to balance Canada's trade deficit could result in a fairly high premium on the Canadian dollar. A high dollar premium could seriously affect the position of Canada's domestic industries through encouraging the purchase of imported goods at competitively lower prices, and also could affect the earnings positions of most of Canada's exporting industries. These effects would be particularly harmful in the current year in their influence on levels of production and employment.

Corporation Profits

A factor that will undoubtedly have some influence on the capital expansion plans of many companies has to do with the outlook for corporation profits. Profits before taxes of Canadian corporations in the fourth quarter of 1957 were down about 12% from the same quarter of 1956, while cumulative profits for the whole year were down by about 7%. First quarter reported earnings for many companies have shown a considerable decline this year and in some cases are uncomfortably close to regular dividend rates. When assessing the earnings prospects for the full year however, we must consider not only that first quarter earnings are invariably at a low point in any year, but this quarter in particular was at the low point in the current recession. An expected increase in the volume of operations later this year is likely to result in a greater relative increase in profits. This will be due not only to the usual dynamic effect of volume on profits but also to the fact that many companies are operating more economically and in many cases with decreased working forces.

The Outlook General Business

There is evidence that the business recession in Canada has now run its course and an assessment of the short term future must at this time deal with the prospects for and the extent of a return to a normal rate of economic growth.

TABLE III

	Jan. 1, 1948	Jan. 1, 1958
	(Millions of Dollars)	
Marketable Securities Held by the General Public other than corporations and governments	$4,667	$2,929
Non-marketable Securities (Canada Savings Bonds)	1,440	2,596
Total	$6,107	$5,525

TABLE IV

Twelve Major Life Insurance Companies

	1949	1957
	(Millions of Dollars)	
Holdings of Government of Canada Securities (including guaranteed bonds)	$1,176	$427
As % of total assets	38.6%	8.3%

In this respect we must realize the difficulty of determining what might be considered a normal growth pattern. Certainly for some time prior to the recession the economy was growing at an extraordinary rate which brought with it rather serious problems. These problems included inflationary pressures, restrictive monetary measures, a large trade deficit and too high a premium on the Canadian dollar, and these had much to do with the recession that followed.

Another factor that must be considered in assessing the short-term economic outlook is that in spite of the recession, the economy is still operating at a level which is high in relation to the levels of previous years. Incomes are currently higher than they were a year ago, the number of people employed is now higher than it was last year, capital expenditures for 1958 are estimated at $8.5 billion which is down slightly from a year ago, but considerably higher than in any other postwar year. Spending by the Federal Government will reach a new high record of around $5.5 billion, and it is anticipated that housing starts for the year will reach a new record.

It is true that certain areas and certain industries have been affected more by the recession than have others, but looking at the overall situation one can hardly claim that the Canadian economy is in a state of depression. A number of adjustments have taken place during the last 12 months and to this extent the economy is in a sound position to undertake a recovery, although, because all adjustments have not been completed, it is likely that the recovery will be of a gradual nature.

Much of the present overcapacity in many of Canada's basic industries reflects a combination of the heavy capital expenditures that have been made in these industries in recent years and the lessened world demand for raw and semi-processed materials. It is not likely that this situation will adjust itself for at least a year or two. It is inevitable, however, because of rising world population and because of the pressure to raise standards of living throughout the world, that Canadian industries will find it necessary in the not too distant future to again consider further expansion of their productive capacities. This situation will undoubtedly result in further periods of dynamic growth.

In the meantime, however, economic growth in Canada is more likely to be guided by internal influences, including an increased rate of home building, the resultant demand for household furnishings, and the need for many Canadian industries to replenish inventories. In addition, there will be large public investment programs by both Federal and Provincial Governments and by municipalities. Projects already under way such as the St. Lawrence Seaway, will result in continued heavy capital outlays, to which will be added expenditures for many new projects including the power developments in the Maritimes and elsewhere. The Speech from the Throne early in May referred to several important projects including the South Saskatchewan Dam, the Pine Point railway to the south shore of Great Slave Lake, and the construction of roads in the Yukon and Northwest Territories.

The Capital Spending Estimates

The capital expenditures program for 1958 of $8½ billion was greater than was generally expected, being less than 2½% below the record expenditures of last year but more than 6% above the expenditures in 1956. Table V covers capital expenditures for the 10 years 1949 to 1958, with the annual percentage increase for each year.

A significant feature of the capital expenditures program for 1958 is that while estimated expenditures for construction are up by slightly more than 1%, estimated expenditures for machinery and equipment are down by almost 10%. This reflects a lower level of expenditures by business enterprises and a higher level of expenditures for housing and by governments, as shown in Table VI.

If the overall capital spending program for 1958 should fall short of the $8½ billion mark, the chances are that the drop will be of rather minor proportions, perhaps not more than $100 to $200 millions. While business capital spending may be adjusted downward during the year because of a lower level of business expectations, it is likely that any such adjustment will be offset in large

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Mr. & Mrs. A. I. Matheson, *Dominion Securities Corpn. Ltd.*, Montreal; Mr. & Mrs. Rudy Casgrain, *Casgrain & Co., Ltd.*, Montreal

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Notes on The Canadian Economy

part by upward revisions in the capital spending plans of government.

Population Growth and Unemployment

Canada's population grew last year by an estimated 543,000 persons, while the labor force grew by about 184,000 persons. An important factor in such growth was a total of 282,164 immigrants, and this factor undoubtedly has had some influence on the present high rate of unemployment.

It would be incorrect, however, to claim that the current unemployment situation can be laid entirely to immigration. All immigrants are consumers and as such they add to the total demand in the economy for food, clothing and housing. A considerable number of new jobs therefore can be attributed directly or indirectly to such increase in demand. Again, as immigrants are usually less restricted by local ties than are other Canadians they are more mobile, and many of them can fill jobs in labor-scarce areas where certain jobs would not otherwise be filled. In these ways then they have the effect of adding to the number of jobs in the economy. In addition, it should be pointed out that while all immigrants are consumers, roughly only about six out of every 10 are added to the labor force.

Housing

The government has recently amended the National Housing Act in order to provide a further $350 million to be used by the Central Mortgage and Housing Corporation for the financing of housing construction. It is intended that this money will be used to foster the government's small homes plan, to provide direct loans for houses in the smaller centres of population and to finance limited dividend corporations which will undertake to build low rental dwellings for older people and those in lower income groups. It is expected, however, that the bulk of the money required for the building of houses this year will come from private lenders who have more funds available for this purpose than they did last year.

Consumer Spending

Consumer spending comprises a very large proportion of Gross National Expenditures and thus can have a strong influence on overall levels of production and employment.

The volume of consumer spending usually depends on the level of personal disposable incomes and on the degree of confidence that consumers may have in the relatively near future. If consumers are disposed to spend, their effective purchasing power can be raised by dipping into savings from past incomes, or by borrowing from future incomes through the use of consumer credit.

While incomes rose in Canada in 1957, the current level of unemployment and the larger proportion of the employed who are working on part time will no doubt by now have resulted in diminished earnings. These influences will be offset in part however, by a higher level of social security payments, and by the influence of wage increases granted during 1957.

Among the factors that could influence consumer spending in future months are a possible rise in employment, some increases in wage rates, price reductions in certain consumer goods lines, the increase in housing completions which should result in an increase in the demand for household durable and non-durable goods, easier and less costly credit terms, and any increase in the confidence of consumers in the outlook.

If a substantial rise in consumer spending should come about a replenishing of inventories by retailers and the placing of new orders with manufacturers could have a favorable influence on industrial production and employment, and this in turn could be reflected in still higher income levels and consumer spending.

Conclusion

To summarize, it is expected that economic activity will rise at a gradual rate during the remainder of this year with much of its support coming from an almost record level of capital expenditures including a record volume of new housing starts. Industrial production will rise during the year, but not fast enough to absorb the excess capacity that exists in many industries. Employment will rise, but as the labor force will also be growing, it is anticipated that unemployment will continue to be at a higher level than in previous postwar years. Inflation will not be the problem that it has been in recent years, and money will be in easier supply. Corporation profits should begin to rise with increases in the volume of production and as a result of recent economies. And the economy will be approaching, gradually, the next expansion phase when Canadian industry will be called upon to produce ever increasing quantities of basic materials for growing world demand.

TABLE V

Year	Capital Expenditures (Millions $)	% Increase Over Previous Year or Decrease*
1949	3,502	-----
1950	3,815	8.9%
1951	4,577	19.9%
1952	5,285	15.4%
1953	5,841	10.5%
1954	5,620	3.7%*
1955	6,350	12.9%
1956	8,024	26.3%
1957	8,721	8.6%
1958 Estimated	8,521	2.3%*

TABLE VI

	1958	1957	Increase or Decrease*	% Increase or Decrease*
Private—				
Business Enterprises	$3,885.1	$4,572.2	687.1*	15.0%*
Institutions & Housing	1,825.1	1,556.2	269.0	17.2%
	$5,710.3	$6,128.4	418.1*	6.8%*
Public—				
Federal Government	940.8	837.7	103.1	12.3%
Provincial Governm'ts	1,147.8	1,092.3	55.1	5.1%
Municipal Governm'ts	722.1	662.6	59.5	8.9%
	2,810.7	2,592.6	218.1	8.4%
Total Private and Public	$8,521.0	$8,721.0	200.0*	2.3%*

Mr. & Mrs. Murray Cox, *Anderson & Company, Limited*, Toronto; Mr. & Mrs. W. D. McAlpine, *Brawley, Cathers & Company*, Toronto

Mr. & Mrs. William Warner, *James Richardson & Sons*, Edmonton; Denis Hagar, *Hagar Investments, Ltd.*, Victoria, B. C.

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Who's Fooling Whom?

build a satisfied clientele. The techniques for building clients are, I believe, a more advanced form of salesmanship than the more opportunistic techniques which convert prospects into buyers on a one-time basis. The attitudes and services that make clients are characteristic of men who regard selling as a profession and practice it as such. These attitudes everyone of you must have in abundance.

Until someone sells an idea, a product, a service . . . nothing happens but when we do our job enthusiastically, efficiently and complete a sale then we start a chain reaction—and all hell breaks loose. The money comes out of the bank, goes into governments, into industry, into businesses, into homes, into securities . . . that money goes to work and starts to circulate and as a result,—men are hired, salaries are paid, construction starts, and continues, more products or services are produced, a butcher is paid, people buy cars, homes, television sets, telephones and hydro. As the money becomes active, it leaves in its wake more employment, a better standard of living. Salesmanship is the human atomic energy of modern economic times.

Pointers on Salesmanship

Books by the thousands, articles, speeches have all been made on salesmanship. Formulas have been set down for salesmen to follow. Back in 1898 Sir Elmo Lewis set down a simple sales formula AIDA which has borne the test of time. The letters represent the four major routines that salesmen must follow:

(1) Attract attention.
(2) Maintain interest.
(3) Create desire.
(4) Get action.

This was a simple and sound formula. Over a period of years many writers have stated this in different ways and have expanded it almost to the point in many cases of confusion. Recently one prominent sales authority wrote down the sales technique into 18 definite steps that a salesman must follows. Rules and Regulations that go with top Sales Technique have been so expanded, talked about, written about, that confusion results. Many salesmen now belong to the **KAIC** club. **They say an expect is one who is thorougly confused about a subject but who presents his material in such a way that you feel the confusion is your own. I hope I don't end up in that category today.** The technique of salesmanship is not a complicated set of rules that must be followed it is as simple as the Golden Rule and I would like to put it before you today in as simple a way as I know.

Investment men have one of the most important and responsible jobs under our free enterprise system. Your job is to bring together clients on the one side who have money that could be invested; and governments, corporations, industries on the other side who require money for development and expansion . . . you are the middle man. You are dealing with the public who range from ultra-conservative to the type who are willing to take certain risks with their capital, even up to the individual who wants to gamble. Without you the money from millions of Canadians would not be available to other people who need it—want it and can use it and are willing to pay interest or a profit for the use of that money. Let's look at YOU for a moment.

Since the beginning of time, man has been on the search for security and security for the individual involves money and income. We all want it and require it. Income comes from two sources: men at work . . . money at work. If man wants to increase his income above normal salary level and can invest his money to provide an additional return — his objective is accomplished. He also wants income later on when he is unable to work and that means he must invest his money during his earning years profitably so that income will be available for his retiring years. So, you are performing and making it possible for a man to provide income from money at work . . . for man to assure financial independence in the future if he will save and invest his money during his earning years.

In seeking the answer to how he should invest his money . . . where . . . what . . . how much . . . why, the public needs proper guidance and competent service. A man in whom they can place their trust and confidence . . . an intelligent well informed sincere salesman than can give each individual answers to his questions. On other words, YOU—the modern investment counsellor.

Three Little Men in One

Every salesman must develop **three personalities**—to be a success—every salesman has a triple function to perform:

(1) You must approach a sufficient number and carefully chosen people.

(2) You must advise people.

(3) You must be able to get favorable action from people.

It helps to look separately at each of these functions you must perform—you are really three men in one. These men must work closely together and each one uses different techniques and skills. These three little men should work for you and together they make up a successful sales personality—each must efficiently and competently fill the role that is assigned to him or your results will suffer. Each has his own job to do . . . each must have a special store of knowledge in his own special set of skills. The degree of the success of each of these three little men determines your success as salesmen in any line of work. Let's look at these three little men separately.

(1) **JOE** is your Public Relations man—he has three jobs to do:

(a) He must build a market in which you work.

(b) He must arrange interviews under favorable circumstances.

(c) He must plan and analyze your work so that you are not only busy but busy efficiently.

JOE is concerned mainly with the market in which you are going to work with—where you are going to get names and information about people in sufficient quantity and selected carefully enough so that your time is spent with people who are prospects—not just suspects. Just where you get your names in the investment business, I do not know, but certainly judging from the insurance business, your best sources are your own personal and social connections. people and mixing with people in

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Mr. & Mrs. Reg Findley, *Deacon Findley Coyne Ltd.*, Toronto; Mr. & Mrs. Dutch Fisher, *Deacon Findley Coyne Ltd.*, Toronto

Mr. & Mrs. George Sythes, *Fairclough Co., Ltd.*, Toronto; Mr. & Mrs. Denis McBride, *Bell, Gouinlock & Company, Ltd.*, Toronto; George E. Murdoch, *Belanger, Inc.*, Montreal

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Who's Fooling Whom?

You should be active in meeting the right strata of income groups.

In building your list of names, JOE must always be conscious of adding to that list day in and day out. Willie Sutton, the bank robber, when asked why he robbed banks answered "That's where the money is." Maybe there are "Cat and Dog" lists in your own office—people who have once dealt with your firm. I know you can buy professional lists—there are shareholder lists, lists of directors, names from the paper on promotions, business changes, estates passing from one to another, direct mail, and so on. You know the sources for your own business better than I do but JOE, as your Public Relations man, must know where to get names of this type for you. JOE must build a list, carefully selected, plenty of places for you to go at all times because a busy salesman is never a discouraging salesman. JOE must develop a number of skills in finding and following up these names. He must know the reasons why a person will give you an interview. He must develop skills that will arouse a client's interest to the point that a conversation will follow.

You must develop for JOE a track not only to get names and information about people but also to make the approach to the interview that will build prestige for you and your firm—one that will create interest. He is the man who sets the stage for the solid part of your interview. He is the one who controls what you say when you first walk in—how you introduce yourself and your service—how you get interest that leads into the solid part of the interview.

Public Relations Aspect Is Difficult

JOE's job is one of the hardest of the three personalities. I am quite sure if your firm offered you 200 a week to go out and do nothing but to develop names and information about people—the Public Relations type of job—and you had to turn in 25 to 30 tested names a week to your firm of people who had been qualified to a degree, and someone else was to follow them up, your job was only the development of qualified names . . . within three months you would have developed methods, ideas and techniques that would make you the best prospector in your firm. Your firm does not do that however — JOE works for you—it is his job to develop these leads for you and your success as a salesman to a large extent depends upon the degree of efficiency that your JOE performs. How much thought, help and guidance have you given the JOE that is working for you? How much time do you allot to JOE as your Public Relations man?

JOE has another very important responsibility. It is in his hands that lie the technique of planning and organizing your work . . . keeping you busy . . . laying out your calls for the day and seeing that you keep minimum but adequate reports of your activity so that you can analyze the pattern of your work. I might illustrate JOE's responsibilities by referring to some of the tools he uses in the life insurance business. Here's a **Prospect's card** on which is listed the name, the information and all the detail you can find out on each person you are going to call on. Here is a **Memorandum Book** which each salesman carries week in and week out—this helps them to plan their day's and week's work well ahead and helps them tabulate their work—call—interviews—sales and new prospects—permits them to analyze their work efficiently. Each new man, after a basic period of training, we know for instance has to **average about 30 calls to get 10 interviews** which **result in one sale** with an **average of about $6,000 life insurance.** Breaking this down to dollar value, each call we know is worth about $3.00—each interview is worth about $10.00.

So much for the first of the three little men who assist you towards your objective. JOE is the Public Relations man and your organizer — someone has to do these jobs — why not separate them and set a time each day for JOE to go to work.

Salesman As a Judge

The second of the three little men is JUDGE — the success of each interview is JUDGE's responsibility. He is the adviser to your clients—he is the man who must have the knowledge of the various securities that you have to offer. He is the man who knows the markets, keeps up-to-date, reads financial magazines—knows as much as possible about trends in the industry as well as the many individual types of securities. He is the man who understands people — who is able to build confidence in an interview to get the prospect to open up and tell you what his present holdings are—what his own ideas may be—if he has certain pre-determined likes and dislikes. He finds out what needs the individual has—what his problems are and how many of them can be solved from an investment angle.

Right from the start, **JUDGE** regards every interview as an intelligent conversation between two intelligent people. He must respect his potential client and command similar respect for his firm. He is very much at home with the many advisory services handled by many of your firms. He uses your research men — he must develop certain skills in the interview, **first,** by putting the prospect in the picture right away and talking about his interest, his problems and his holdings. He must have the answer to questions at his finger tips and be able to impart this information in an interesting way. His story is usually built around a graphic presentation making use of two senses—hearing and seeing. He must at all times control the interview. He is somewhat in the position of a top-notch doctor who commands respect because of his experience and skill but who is able to diagnose situations and prescribe the right medicine or treatment.

JUDGE is a man who must be very well read—he must be studious—he must know the markets, investment conditions, he must know human nature and he must at all times be able to command the respect and the confidence—because of his knowledge and his firm's prestige and service—so that when he is actually talking to a real prospect such a person will never have any doubts that JUDGE has his best interests at heart.

Mike As the Motivator

Now we come to the third of our little men—MIKE. **MIKE is the Motivator** . . . the closer. He takes over after JUDGE has explained the situation fully—making certain recommendations and it is his job to get favorable action as soon as possible. His job is very seriously affected by the efficiency of both **JOE and JUDGE.** If there has not been a good public relations job done to begin with—he is under a handicap. If the client's portfolio has not been analyzed properly, or, the recommendation has not been made clearly—he is going to have difficulty. Only about 20% to 25% of people will act without any push from MIKE, if JOE and JUDGE have done their work thoroughly. MIKE's job is with the other 75% to 80% who want to think it over and have trouble making up their minds—who begin to use objections, such as the following:—

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Right from the start **MIKE** must realize that when dealing with individuals anywhere most of them expect to be motivated and must be motivated to act now. **MIKE** realizes that people buy what they want, not what they need. There are **three emotions** which are all powerful—

(1) **Cupidity** which brings in selfishness — greed — desire for profit.

(2) **Fear**—this is worry about future security—also brings in the fear of loss of either capital or income that may be sufficient to

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persuade the man to change from one investment to another.

(3) **Vanity**—this is keeping up with the Joneses—the power of other successful people taking this action. The desire to get in on the ground floor to make right decisions.

MIKE has to be able to create desire to make the individual want to own the stock, bond or security of any kind. He has to be skillful in making it easy for the person to take action and he must be ready with motivating reasons why today is a good time to make the decision. He usually gives a man who hesitates a choice of what might be called the "Fatal Alternative"—whichever decision he makes a sale results. "Would you like to buy 50 shares or do you think 100 would be a good move at the present time?" MIKE is a good listener—he uses short questions such as — Why? . . . how? . . . What do you mean?—to get the prospect to talk. He has developed a remarkable ability to keep quiet at the proper time and let the prospect think—there is nothing more impelling, once you place the plan in the prospect's lap than to sit back and wait for him to say something. He must be full of confidence that what JUDGE has recommended is the right move and he must never be afraid to ask the man to buy or act now. He is prepared to vary his appeal a number of times and he is ready with sufficient illustrations to back up JUDGE's recommendation.

So, we have our three little people who make a competent successful salesman—**JOE, JUDGE** and **MIKE.** Their responsibilities, as far as you are concerned, must be clear . . . you must continue to improve their techniques in each one of their jobs. Analyze your own pattern over the past six months—if you are not entirely satisfied with some of your results, where are you falling down in the area of JOE? JUDGE? or MIKE? then set out to improve the techniques of each little person whot ogether make such a wonderful contribution to your success as a top-notch investment man. It is not complicated—selling is just as simple as the jobs of those three little men and it will be surprising to you as you improve the techniques of each one or all of them in their own area what tremendous differences in results and earnings will result.

Introduces Six Negative Examples

Now let's swing over into the reverse. I am going to illustrate in a negative way some of the faults of salesmen that I have met. I am going to introduce six of the greatest **alibi artists** in the world. Men with real abilities and personalities who could be leaders in their organization, but who due to some idiosyncrasy, weakness or failing are not measuring up. I am going to exaggerate the shortcomings of these men substantially but I would like to say any similarity or likeness to anyone is of course purely coincidental. These peculiar behaviorisms have become part of them and frequently they even do not recognize their faults.

(1) First, may I present **EXECUTIVE ELMER.** He is an office salesman—chained to his desk. He does not believe in expending too much energy to go out and call on people. Years ago someone phoned in and he has gotten the odd order over the telephone so he uses it continually—tells his clients what he has to offer . . . how good they are . . . does not believe in making courtesy calls or service calls. He will write letters—send Christmas cards or calendars. Considers himself to be an executive rather than a salesman. He loves to meet the other salesmen from other houses and talk about methods, techniques and he does most of the talking but basically he just does not like to go out and see enough people.

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He is not very successful from a financial angle . . . Who's Fooling Whom? Is he fooling his sales manager — his clients or other salesmen? Elmer is only fooling himself and his own family—they are the ones who suffer. You have to make the calls to get the results.

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Mr. & Mrs. Reg Findley, *Deacon Findley Coyne Ltd.*, Toronto; Mr. & Mrs. Dutch Fisher, *Deacon Findley Coyne Ltd.*, Toronto

Mr. & Mrs. George Sythes, *Fairclough Co., Ltd.*, Toronto; Mr. & Mrs. Denis McBride, *Bell, Gouinlock & Company, Ltd.*, Toronto; George E. Murdoch, *Belanger, Inc.*, Montreal

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Who's Fooling Whom?

You should be active in meeting the right strata of income groups.

In building your list of names, JOE must always be conscious of adding to that list day in and day out. Willie Sutton, the bank robber, when asked why he robbed banks answered "That's where the money is." Maybe there are "Cat and Dog" lists in your own office—people who have once dealt with your firm. I know you can buy professional lists—there are shareholder lists, lists of directors, names from the paper on promotions, business changes, estates passing from one to another, direct mail, and so on. You know the sources for your own business better than I do but JOE, as your Public Relations man, must know where to get names of this type for you. JOE must build a list, carefully selected, plenty of places for you to go at all times because a busy salesman is never a discouraging salesman. JOE must develop a number of skills in finding and following up these names. He must know the reasons why a person will give you an interview. He must develop skills that will arouse a client's interest to the point that a conversation will follow.

You must develop for JOE a track not only to get names and information about people but also to make the approach to the interview that will build prestige for you and your firm—one that will create interest. He is the man who sets the stage for the solid part of your interview. He is the one who controls what you say when you first walk in—how you introduce yourself and your service—how you get interest that leads into the solid part of the interview.

Public Relations Aspect Is Difficult

JOE's job is one of the hardest of the three personalities. I am quite sure if your firm offered you 200 a week to go out and do nothing but to develop names and information about people—the Public Relations type of job—and you had to turn in 25 to 30 tested names a week to your firm of people who had been qualified to a degree, and someone else was to follow them up, your job was only the development of qualified names . . . within three months you would have developed methods, ideas and techniques that would make you the best prospector in your firm. Your firm does not do that however — JOE works for you—it is his job to develop these leads for you and your success as a salesman to a large extent depends upon the degree of efficiency that your JOE performs. How much thought, help and guidance have you given the JOE that is working for you? How much time do you allot to JOE as your Public Relations man?

JOE has another very important responsibility. It is in his hands that lie the technique of planning and organizing your work . . . keeping you busy . . . laying out your calls for the day and seeing that you keep minimum but adequate reports of your activity so that you can analyze the pattern of your work. I might illustrate JOE's responsibilities by referring to some of the tools he uses in the life insurance business. Here's a **Prospect's card** on which is listed the name, the information and all the detail you can find out on each person you are going to call on. Here is a **Memorandum Book** which each salesman carries week in and week out—this helps them to plan their day's and week's work well ahead and helps them tabulate their work—call—interviews—sales and new prospects—permits them to analyze their work efficiently. Each new man, after a basic period of training, we know for instance has to **average about 30 calls to get 10 interviews** which **result in one sale** with an **average of about $6,000 life insurance.** Breaking this down to dollar value, each call we know is worth about $3.00—each interview is worth about $10.00.

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R. E. Ramsay, *A. E. Ames & Co., Limited*, Montreal; J. Trevor Thompson, *Molson Securities, Ltd.*, Montreal; Mr. & Mrs. H. A. Cascadden, *Annett & Company, Limited*, Toronto; Latham Burns, *Burns Bros. & Denton, Inc.*, New York

Mrs. Albert G. Lang, Toronto; Mr. & Mrs. Peter S. Gooderham, *Wills, Bickle & Company, Limited*, Toronto; Mr. & Mrs. James Knowles, *Ross, Knowles & Co., Ltd.*, Toronto; Mr. & Mrs. Harry Andrews, *Graham, Armstrong Securities Ltd.*, Montreal

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Who's Fooling Whom?

manship. He does not have to study new techniques or modern sales methods . . . he has heard all that before. He loves to tell clients off . . . none of his buyers are as clever as he is. He could tell them all how to make a lot more money and he frequently does in no uncertain terms. He has many definite ideas and he loves to expose them. He never hesitates to contradict a client. He has a strong personality . . . lots of confidence but he rubs a lot of people the wrong way. In fact he has only a superficial knowledge of what he has to offer. He seldom worries about his clients. He is usually working on two or three big orders but very few of these big orders ever mature.

He is apt to dress flashily . . . usually has a cigar or cigarette in the side of his mouth . . . lives beyond his means . . . puts up a brassy front but frequently has to touch his friends or associates for a small loan . . . just to the end of the week of course, but usually it is hard to get it back from him. **EGBERT** is a Big Shot in his own opinion and is condescending to his clients. He has a tendency to play himself up by belittling or running down the other fellow. Who's Fooling Whom?

Now let me present **GROWLER McGURK.** We have seen this salesman in every line. GROWLER always has a chip on his shoulder. Goes around with a scowl on his face. Criticizes his firm for not doing enough advertising of the right type. They do not pay him enough . . . they do not advise him of changes that occur . . . they do not give him prompt replies to his questions . . . deliveries are not handled properly. GROWLER is a hard worker . . . uses a lot of energy but he turns a lot of people against him because he usually has a tale of woe. He is never very interested in taking part in community life. He is apt to criticize other firms and other salesmen and he will criticize the client for some of his purchases not realizing that by belittling the client he is making it more difficult for himself. He is experiencing as Scott once said "The sickening pangs of hope deferred." He would rather make a fuss than make a sale. He will likely end up with ulcers and the trouble with ulcers is that you may end up with them and still not be successful. Who's Fooling Whom?

If Growler could only get that chip off his shoulder . . . other people have trials, worries and problems and they are not interested in his. If he would put a smile on his face and look at the positive side of things about his business, he could go a long way.

(4) Now let me introduce **LACKADAISICAL LARRY.** Larry is an extremely likable chap who loves to visit. Nothing is too much trouble for him to do for anyone else. He knows quite a lot about securities but just has no idea of the value of another person's time. He will discuss last night's hockey game . . . last night's TV show . . . some news out of the paper . . . the weather. He takes a lot of time to get down to business—very careless — drops cigarette ashes on the client's desk, floor or counter. As soon as he comes in the client wonders how he is going to get rid of him, much as he likes him . . . they hate to give him the brush off but they hate to waste a lot of time.

Fundamentally **Larry** is so lazy that he will not follow an organized method to be successful. He is not overly ambitious . . . he just cannot accept the fact that there is no substitute for hard work.

Larry is a joiner—he belongs to a church, lodge, to any organiza-

Mr. & Mrs. Jean P. W. Ostiguy, *Morgan, Ostiguy & Hudon, Ltd.*, Montreal, arriving on the steamer at Murray Bay

W. H. A. Thorburn, *Mills, Spence & Co., Ltd.*, Toronto; Frank D. Lace, *Matthews & Company, Ltd.*, Toronto; Jim Annett, *Annett & Company Limited*, Toronto

tion that starts . . . everybody likes him. He is so busy being a good fellow, mixing and meeting with people, especially making a pest of himself . . . in other words he never gets very far. His associates call him Theory because he seldom works. He plays around . . . kids and finds it easier to adjust himself to problems that go with a small income than to force himself to follow a planned routine work which will bring him success. Who's Fooling Whom?

(5) Let me introduce **ROTATING RALPH.** Ralph knows his business . . . has a few good clients who deal with him from year to year and he just goes back over those same people. He is not looking for new fields or prospects—after all he has been on the territory for years and there are just no new prospects. His competitors are digging them up but he runs around with a small circle of clients because he cannot find any other place to go and they get rather fed up with him. He never knows where he is going first thing in the morning . . . he usually takes his time over a leisurely breakfast . . . then off for a cup of coffee with some of the fellows in the drug store . . . drops in for a game of pool and by then it is time for lunch. He may make one call in the afternoon on somebody he saw a couple of weeks before. He visits for awhile and then it is time for another cup of coffee in the afternoon.

He usually lunches with some of his pals instead of with a client. He is haphazard about his appointments . . . about getting information about his prospective new clients . . . never jots them down. His circle of clients is getting smaller and smaller. You will often see him standing around the room wondering where he is going and what he should be doing, not realizing that every top notch salesman is opening new accounts—expending their energy. Who's Fooling Whom?

He is in a fine territory but he does not realize the many opportunities that are right around the corner because he is like a horse with blinders. Who's Fooling Whom?

(6) As my last alibi artist I would like to introduce **G. HOWIE PHAILS.** This is another very definitely exaggerated caricature but he represents an inefficient salesman. He does not realize that people like to deal with successful people. He does not dress the part . . . he is not well groomed . . . his shoes are seldom shined . . . his suit seldom pressed . . . his linens leave something to be desired. He contacts a lot of small buyers but has not been able to develop enough courage and ability to go after big accounts . . . has not been able to raise his sights to realize that a YES in the right quarters makes four times as much business as a YES in some other quarters.

He is very careless with his time . . . he loves to do a lot of the shopping for his wife. He slips home often during the day to carry out the ashes or shovel the snow or some little job around the house. He tries to sell on sympathy . . . after all he has been around for a long time and given people good service . . . they should buy something from him. He very seldom does any servicing on his present clients . . . he depends on spur of the moment ideas when talking to people. Some new piece of advertising will come out and instead of studying it, he puts the folder in his car and often will read it for the first time in front of a possible buyer.

He is a **very poor closer. He somehow has an idea that when a person buys something from him they are doing him a favor.** When the client says NO for the first time, he is beaten. He does not want to be considered a high pressure salesman so his closing ability and confidence are very poor. He does not realize that if the buyer is not interested in one security that there are many others in which he may be interested. His manners are apologetic—ingratiating—negative. Who's Fooling Whom?

Now I realize that very few salesmen in your line of work are anything as bad as these caricatures, yet many of us have these faults to a greater or lesser degree but do realize it. If we could eliminate their failings and shortcomings and yet retain and develop their strong points, each of us would develop into more successful salesmen. If we could be as **efficient in our desk work** as Executive Elmer . . . if we could have the **confidence** of Egotistical Egbert . . . if we could **work as hard** as Growler McGurk and keep better control of our temper . . . if we could **like people** and enjoy their company as Lackadaisical Larry . . . if we could have the **stick-to-itiveness** as Rotating Ralph . . . the ability to sympathize and **understand other people's problem** as G. Howie Phails and eliminate their other weaknesses.

Add to that a thorough investigation and appraisal of your work under the philosophy of the three little man, JOE, JUDGE, and MIKE. Set your objectives high . . . plan your work . . . keep records and analyze your work . . . follow a pattern so that you are busy day in and day out . . . broaden and improve your public relations . . . your ability to get new names . . . new prospects . . . information about them . . . never let a day go by without adding names to your prospect file—this is all in the area of JOE. Set aside a few minutes of every day

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Alan Chippindale, *Calvin Bullock, Ltd.*, Montreal; Liam S. O'Brian, *Cochran, Murray & Co., Ltd.*, Toronto; Rob Roy, *Goulding, Rose & Co., Ltd.*, Toronto

Eric Scott, *J. H. Crang & Co.*, Toronto; Mr. & Mrs. D. A. Thompson, *Dominion Securities Corpn., Limited*, London, Ont.; Philip Bartlett, *Dominion Securities Corpn., Limited*, Toronto

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Who's Fooling Whom?

at a time that is not too busy for reading financial publications — trends of the time — business conditions — financial reviews. Continually study the offerings you have to make to the public—improve your actual presentation to new clients so that you can tell a powerful and clear story. Don't be afraid to come through with a strong recommendation. This is all in JUDGE's area.

Then let us inject a bit more enthusiasm into the close. Once a prospect has money, let's be well prepared to give him all the reasons why he should act and act now. This is the area of MIKE. When we put all these together, what do we have—YOU, YOU, AND YOU, continually striving to improve day by day . . . conscious of your responsibility to your firm . . . to your clients . . . to yourself . . . living day by day by the Golden Rule — "Do unto others as you would like them to do unto you." Then your career as a salesman will be much more challenging . . . much more satisfying and even much more successful. Instead of flirting with our job as some of us are inclined to do—you marry the girl and settle in our mind once and for all that our future, and a wonderful one it is, lies with the firm we are now with and that we are very willing to pay the price in planning and in hard work to the point where we are going to be leaders in our organization.

Admits There Will Be Ups and Downs

There will be ups; there will be downs. There will be times when bonds are moving; times when they are not. Times when the stock market is up; times when it is down. Times when money is quite available and credit is easy; there will be other times when it is restricted. You will be talking to optimistic people as well as to pessimistic people. A salesman's life can never be run on an even keel and you must believe above all else that the seed of success is in you—that that seed will not grow unless it is nurtured, fed, and watered.

You cannot get heat from a stove unless you put wood in it and light a fire. It all depends on the price you are willing to pay yourself. Only five men out of over 100 achieve wealth at 5; another five will have to go on working for a living some way, somehow — the other 54 who are alive, even in our good times, are dependent to a greater or lesser degree to individual friends or society. What is the difference—the few at the top realize that they had to pay a price in hard work, study, planning as they went along—they had a goal that they were willing to sacrifice to achieve. The rest wandered through life without such an objective.

The successful salesman, above all people, in all other lines needs clear concise goals and objectives. He must know where he is going and how he is going to get there. There is so much room at the top in any sales line that the disturbing factor is that so few people reach the summit. Everyone wants to — the desire is there but too many salesmen come to believe that they are frustrated by environment and circumstances and gradually slip into the easy way of living of the crowd, losing sight of their objectives.

The one thing that religious leaders over thousands of years and great philosophers of our time, even though they differed on many things, they did agree on one thing —Man is Master of his Fate—he is the Captain of his Soul.

Most of us go through life using anywhere from 30 to 40% of our abilities and talents and seem satisfied. The few who get to the top BELIEVE in themselves and their ability to overcome any obstacle or hurdle that is in front of them. They know where they are going and they do not let anything get in their way.

Most people are like ships in a harbor — without a captain and crew you can imagine what would happen when the engines are turned on — without guidance, without a goal, without plan. It would be luck if it got out of the harbor — would likely be sunk — battered about or end up on some distant shore a derelict. On the other hand, a ship well steamed up with well experienced trained captain and crew aboard who start out for a definite destination — 99,999 times that ship will arrive at its destination.

Last Bit of Advice

I am going to tell you something that if you will do and if you follow—if you will practice it night and day it will change your life. It will bring within your range any objective you want to set for yourself. Try it for the next 30 days and don't get off the track.

Sit down tonight at home and set on paper what your objective in life is. **Where do you want to be five years from now? Success is different to different people.** What is your idea of your success —put it down—get it clearly in your mind—look at it day in and day out — that is your guiding light never let it grow dim. Once you have that clearly focused then **put down some of the things you must do day in and day out which will contribute to that goal.** These are your minor objectives but you will find whether they are the number of calls you are going to make each day — the number of people you are going to see — the number of new prospects you are going to find — the improvement of your sales technique — whatever they are the fact that you are productively busy every moment of the day . . . **the accomplishment of each of these minor goals will bring satisfactions and enthusiasms—a feeling of accomplishment and you will get up the next morning raring to do. YOU ARE ON YOUR WAY.**

If each of us could only have some sort of beam, like the pilot of our airships have which would sound a different signal in our ears once we got off the track so we could get back on quickly, we would follow the shortest course to our definite goal as they do. These minor objectives or work habits or plans **are your radio beam** and each evening when you analyze your results for the day you will find where you have

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Claude W. Renaud, *Royal Securities Corporation, Limited*, Montreal; Mr. & Mrs. Robert Ouimet, *Dawson, Hannaford Ltd.*, Montreal

gotten off course—then make the necessary adjustment so tomorrow you will be back on the beam. This suggestion is not easy, it is going to take all the concentrated ability and will-power that you have but if you will do it for a month, you will develop habits which will never leave you.

Successful salesmanship is nothing but doing sufficient of the right things at the right time in areas of Joe, Judge, and Mike, and making sure that nothing detracts you away from your goal. Your whole life will change. Week after week your success pattern will improve. Your success—your goal is entirely within your own control. It all depends on the price you as an individual are willing to pay!

Summing Up the Ending

Every salesman must develop three personalities to be a success. Every salesman has a triple function to perform in addition to knowing his business thoroughly:

(1) You must approach a carefully selected number of people.

(2) You must be in a position to advise them.

(3) You must be able to get favorable action from people.

Each of these functions should be looked at separately so you are really three men in one. These men must work carefully together but each one uses different techniques and different skills. Each has his own job to do. The degree of success with which each little man performs his own skills with efficiency determines your overall success as a salesman. The three little men I call JUDGE, JOE AND MIKE.

JOE is your public relations man—he has three main jobs. He must build the market where you operate. He must arrange for interviews under favorable circumstances. He must plan your work so that you are not only busy but busy efficiently.

JUDGE is the adviser — the counsellor. He is the man who knows your product thoroughly. He takes over in the interview after the introduction. Skillfully finds out what the needs, wants and requirements are and prescribes a solution which will be of benefit to you as a prospect. His job is very similar to that of a doctor who must diagnose before he prescribes and with the best interests of your client at heart, JUDGE goes to work to analyze the situation to see how he can be of help.

MIKE the third little man is the motivator—the closer. He takes over at the end of the interview making certain recommendations and it is MIKE's job to get favorable action as soon as possible. Only about one in every five prospects will act, even on a good idea, entirely on their own accord and without some motivation. MIKE must be able to meet objections carefully and honestly. There are so many demands on a person's income, so many ways to use the capital that a person may have that it is often confusing to a prospect as to whether or not he should act now. Providing MIKE has thoroughly sold himself, that if he were in that prospect's shoes, it would be in his best interest to act now then it is MIKE's job to persuade the prospect to do it now rather than put it off.

So these three little men of JUDGE, JOE AND MIKE all go together to make up a competent successful salesman. If you will analyze your own techniques in the three areas mentioned above and improve the skills of each of these three little men then your overall ability as top investment counsellors and salesmen will improve day by day, but always remember one thing—don't confuse salesmanship by a complicated set of rules. It is as simple as the Golden Rule, in fact it is the Golden Rule "Do unto others as you would have them do unto you."

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Building a Growing Future On Solid Ground

was slightly lower than a year earlier. However, by April, 1958 employment was again higher than a year earlier.

To some extent the pressures generated in 1956 did not have their full effect on prices until 1957. Thus, the consumer price index, which began to rise in mid-1956, continued upward until last October, and experienced another short period of increase in the first four months of this year. Wholesale prices, on the other hand, reached a peak in January, 1957, declined 1.4% during the succeeding 10 months, and have risen again moderately since November. The rise in consumer prices offset about half the increase in average wage rates so that advance in real income during the year was about 2%.

Guarding Against Inflation

In the absence of immediate inflationary pressures I would not expect any general increase in prices during the balance of 1958. But this is not something we can take for granted. It is the duty of all groups and classes in our society to ensure that the prospects for a sound recovery are not dimmed by a spiralling of costs or that efforts to stimulate recovery do not lend strength to a new inflation. Inflation remains a very real danger against which we must remain on guard.

I have dealt with some of the more significant economic trends which have developed over the past several months—with the declining strength of business capital investment and with the consequences from an employment standpoint of the slackening of demand. The natural economic effects of these tendencies have been softened and reduced by government action on a number of fronts. I have already referred to the large amount of money made available for housing. In addition, in line with the government's intention to proceed with a comprehensive program of national development and at the same time to alleviate current unemployment, a major program of public works is now being implemented.

Additional financial assistance being given to the provinces will enable them to proceed with needed capital improvements in the provincial and municipal fields. Social Security benefits have been substantially increased during the past year. Benefits under the Unemployment Insurance Act have been expanded. The Unemployment Assistance Act was amended so that the Federal Government now participates equally with each province in the cost of assistance to those not drawing unemployment insurance.

Taxes were lowered. The exemption for children receiving family allowances was raised from $150 to $250 and for other children from $400 to $500 per annum. There was as well a reduction in the rate of personal income tax. The special excise tax on automobiles was lowered by one-quarter and small businesses were benefited by an extension of the corporation income bracket subject to the 20% tax rate from $20,000 to $25,000. The total reduction in taxes last December amounted to $178 million in a full year.

Monetary Policy Changed

Monetary policy also changed in the latter part of 1957. The money supply was expanded rapidly after mid-August, and partly for this reason and partly because of a reduction of demand in certain credit fields, monetary conditions in Canada generally became easier and interest rates declined substantially. Banks have now for some time been in a position, so at least some people tell me, to meet all credit-worthy demands for commercial and personal loans. Market rates of interest in almost all categories of borrowing have declined substantially.

I can conclude this analysis of our economic situation by saying that there are hopeful signs that we have reached the end of the recent decline. Moreover, the problem has moved more clearly into the domestic field. Although the influence of external demand was important as one of the origins of the current adjustment, the direct effect of the decline in certain basic exports has been less significant that the indirect effects on business capital investment. Now that capacity in a number of industries has overtaken or exceeded current demand it seems obvious that relatively less of our energies will for a time be directed to creating new capital fa-

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Roger Leblond, *L. G. Beaubien & Co., Ltd.*, Montreal; Mr. & Mrs. L. P. Letarte, *La Corporation de Prets de Quebec*, Quebec, Que.; A. Archambault, *Nesbitt, Thomson & Co., Ltd.*, Montreal

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cilities in the business sector. As a result we shall be able to devote more of our energies to filling some of the gaps which have developed over the last few years in housing, in municipal services and in other requirements for social capital in Canada, and in laying the basic foundations for the new period of business expansion which will not be long delayed. The policies of this government are assisting the growth in housing and social capital. The expanded role of social capital is illustrated in the 1958 Outlook for Private and Public Investment published by my colleague, the Minister of Trade and Commerce. Present investment intentions of business for capital outlays in 1958 are about 11% below the 1957 level. Planned outlays for housing, government departments and institutional services on the other hand are 14% higher.

With all these factors in mind and with due regard for the resourcefulness of the Canadian people and the government's determination, I had no hesitation in budgeting on the basis of a resumption this year of the rise in incomes and production. Assuming normal crops, stable prices and no untoward external events, I based my revenue forecast on a gross national product of $32 billion, which is about 2% above the record level in 1957.

Government Financial Operations 1957-58

Subject to final check when the books for the year have been closed, our revenues for the fiscal year which ended on March 31, 1958, were $5,047 million, our expenditures were $5,086 million and there was a deficit for the year of $39 million. The decrease in revenues of $97 million as compared with the forecast is less than 2%. The expenditures were only $21 million, or less than one-half of one percent higher than I had forecast in December. I can assure you that we are endeavoring to exercise the closest possible control over our financial operations as I think these figures will demonstrate.

In addition to our budget outlays, we met substantial non-bugetary obligations. All were financed without any increase in the government's outstanding unmatured debt by reducing our cash balances by $163 million.

Our public debt operations during 1957-58 included the redemption and refinancing of a very large volume of government securities. Net sales of Canada savings bond series 12 amounted to $1,177 million, an all-time record, and other new securities amounting to $1,350 million were issued, in addition to the refunding of treasury bills which matured weekly. During the fiscal year outstanding securities amounting to the very large sum of $2,650 million, including $1,050 million of previous Canada savings bond issues, were redeemed. After taking into account the net sales of securities amounting to $123 million from our securities investment and sinking fund accounts, the unmatured debt held outside these government accounts was almost exactly the same at the end of the fiscal year as it was at the beginning.

During the first five months of the fiscal year interest rates generally as in the previous period continued to rise, reaching a peak in August. Thereafter the rates began to fall and this downward trend continued to the end of the fiscal year. The average interest rate paid on the government's unmatured debt was 2.98% at the end of the fiscal year compared with 3.05% at the beginning of the year. Treasury bill rates reflected a similar but more pronounced trend. The yield on the first issue in the fiscal year was 3.69%. In August the yield rose to a high of 4.08%, falling thereafter to a low of 2.27% on the

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last issue of the fiscal year, and the most recent issue was at 1.76%.

Government Financing 1958-59

For the new fiscal year which commenced on April 1, I have estimated our budgetary expenditures at approximately $5,300 million, which is $215 million higher than our expenditures in the last fiscal year.

Admittedly this is a substantial increase but it includes all the new expenditures on health and welfare introduced by the government such as the increases in old age pensions and veterans' benefits and the initial cost of hospital insurance which begins on July 1. It also includes large expenditures for national development which, let us remember, will improve our productive capacity and efficiency and in due course add to our collective wealth and income.

Furthermore, all these expenditures to which I am referring, by providing employment and sustaining private incomes, will help to maintain the level of the national income during this temporary period when export demand for certain of our staple products has been softening and during the pause which this has caused in some sectors of capital investment.

I emphasize that with respect to all government expenditure we shall continue to search for economies to eradicate inefficiency, waste and extravagance wherever we find them.

The forecasting of revenue expectations in times like these presents an even more difficult problem than estimating expenditure. My forecast after the further reductions in taxation made by the budget is that our total revenues will amount to $4,652 million, which is $395 million less than our revenues in the previous fiscal year. I should point out at once that of this reduction more than one-half is the result of tax reductions made last year, and less than half is due to a decline in our tax base. Almost all of this decline is the result of a reduction in corporation profits.

The estimated budgetary deficit is, therefore, $648 million. In addition to this sum we must take account of our large cash requirements outside the budgetary figures.

During the current year, 1958-1959, we will require about $400 million for housing loans, about $250 million for the C.N.R.'s capital investment and refunding programs, nearly $250 million of cash advances to the St. Lawrence Seaway, the Northern Ontario Pipe Line and to other Crown companies and agencies; and other non-budgetary cash requirements, including the liquidation of the defense equipment account, will be about another $240 million.

Against this we shall have available in this fiscal year some $50 million in our securities investment account, about $65 million from the repayment of loans made in earlier years, and we can expect to receive net about $240 million of cash into our various annuity and superannuation accounts.

The net requirement of cash for these non-budgetary transactions, excluding the exchange fund account, is thus about $775 million, and this we shall need to borrow. We shall also need to borrow the funds to cover our budgetary deficit of $640 million, and our net new cash requirements in this fiscal year will, therefore, be of the order of $1,400 million.

In addition to this, some $1,950 million of our marketable funded debt will be maturing during this fiscal year, and these maturing securities will require to be paid off by an equivalent amount of new borrowing. In other words, during this fiscal year we shall need to sell bonds or other securities in a total amount of close to $3,400 million. This is a major financial operation and will require the closet cooperation between the Department of Finance, the Bank of Canada, the chartered banks, and all investment institutions and dealers.

We have already made a good beginning. Since April 1st we have sold issues totaling $950 million, of which $350 million was new cash. We still have before us the need to refund $1,350 million of maturing bonds and to raise more than $1,000 million of new cash.

We shall be making every effort to promote a good sale of Canada Savings Bonds next autumn, but whatever net new cash we obtain from that source will still leave us with a very large financing task.

Emphasizes Non-Commercial Bank Borrowing

This is an appropriate time to review the principles which we consider should be observed in the development of a large program of public financing by the government. Perhaps the most important general objective was referred to in the Speech from the Throne on May 12 as follows:

"My Ministers remain mindful of the importance of financing their large program of expenditures in such manner as will best safeguard against the recurrence of inflationary dangers in future."

This means that we must to the greatest feasible extent seek to raise funds from private investors, both institutional and individual, and hold to a minimum the amount of financing done through the banking system, particularly where this is associated with overall monetary expansion.

Obviously the Government must plan its bond issues in such a way as to make the maximum appeal to investors and must in so doing take account of the desire and needs of investors and of the general psychology of the investing public. This means that there must be a considerable proportion of medium-term and long-term bonds in any debt management program as well as an appropriate amount of short-term securities.

From the point of view of the Government also it is very desirable to achieve a well-balanced maturity distribution in our public debt. Excluding Canada Savings Bonds which are redeemable on demand, the average term to maturity of our funded debt measured from today is 5¾ years; ten years ago the average term was 8¾ years; 20 years ago it was 10½ years. If, for example, all maturing bond issues were refunded over the next five years for a consistent term to maturity of, say, only three years, then at the end of the five-year period the average term of the outstanding debt would have shrunk to 3½ years. If this steady trend towards a shortening average term is maintained, we shall soon be confronted with progressively larger and more frequent refundings which could impair the efficient operation of both the new issue market and secondary markets. Therefore, I hold the view that we should seize opportunities to create new long-term issues whenever these opportunities occur. I recognize that the large-scale placement of long-term bonds has been more difficult than money market operations in recent years for a wide variety of reasons but we must not shy away from a desirable course simply because it is a difficult course to follow.

Before considering further the program of issuing marketable securities I should like to remind you of the importance of the Canada Savings Bond program. As I indicated in my Budget Speech, there will be another issue of Canada Savings Bonds this Autumn, which will be Series No. 13. This I trust is not an ill-omened figure, but on the contrary will inspire us to strong endeavors to make this the most successful issue ever made, particularly in terms of the amount of new money raised over and above the sums required to provide for the year's volume of redemptions of previous issues. You will recall that sales of the last series reached, as I have mentioned, the record total of $1,217 million or $317 million more than the previous record which was established in 1953. Even though as much as half of this record sale may have consisted of conversion by investors of part of their holdings of earlier series, it was nonetheless a tremendous merchandising feat to obtain applications from 1,293,000 Canadians. Investment dealers and banks alike deserve full credit for this achievement.

Turning now to consideration of marketable securities, it will be apparent that the Government will have to come to market with large scale offerings approximately every three months. We shall continue to provide a broad range of choice to investors as we did on the last occasion. The terms of new issues will be tailored to attract participation by all types of investors. To develop the full potential of any market, even the best merchandise must be sold. Within reasonable limits we wish to take any and every step that will improve our sales organization and sales promotion.

Government policy regarding the management of the public debt cannot follow any rigid formula;

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Mr. & Mrs. Reg. Findley, *Deacon Findley Coyne Limited*, Toronto; Mr. & Mrs. Gabe Sauriol, *J. R. Timmins & Co.*, Montreal

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Building a Growing Future On Solid Ground

it must be adapted to economic conditions and to market requirements. While I do not propose to place an undue burden on the longer term bond market, I emphasize again that it is most desirable to keep our maturing debt reasonably spread out over the years. To refinance maturing issues chiefly in the short-term market would only build up greater difficulties for ourselves two or three years hence. It will be our aim to offer acceptable volumes of longer term bonds whenever suitable opportunities occur, and to spread the remainder sensibly between short and mid-term maturities.

While the prospective increase in our debt will be quite substantial during the next year or two, the net burden of the public debt will remain well below what we carried quite easily only a few years ago. While our net debt at the end of this year is higher than it was at any time during the past ten years, its burden while measured as a percentage of our Gross National Product will be significantly lower than it was three years ago.

The raising of a total of approximately $3,400 million by the sale of bonds or other securities is indeed a formidable undertaking. We hope to do it without causing an undue strain upon the financial resources of the Canadian investment market and with due consideration of the needs of provinces, municipalities and business in the same market. Moreover, the policy of the government has naturally been to seek to do its financing at the most favorable interest rates. In short, in the light of all these factors we shall need the fullest possible cooperation on the part of investment institutions and dealers, and I appeal to your patriotism as well as your good business sense in seeking your cooperation in this task.

Together we shall be offering to the Canadian people the best security in the world—an opportunity to invest in Canada.

Tax Policy

There has been much discussion in the press and in financial circles as to what fiscal policy is appropriate to existing circumstances. Most of this discussion has centered around the relative merits of tax reductions, public investment programs and income maintenance policies. It has seemed to me, if I may say so, that too many of the protagonists of these various policies tend to take up rather doctrinaire and exclusive positions.

The advocates of tax reductions argue that by leaving more money in the hands of individuals, consumer spending will be stimulated and more savings will be available for productive capital investment. But I believe experience has shown that while this may happen to some extent, unless other stimulating measures are taken much of the tax saving to many taxpayers tends to lie idle. It is neither wholly spent nor put into productive investment.

A program of public investment has the obvious advantage of providing employment for idle or under-employed manpower and equipment. But it cannot be a complete answer. In a country as large and as economically diverse as Canada it takes time for some programs to exert their maximum benefit upon the under-employed resources of the secondary industries and of many districts.

The third approach to the problem — the extension of income maintenance policies — has the essential value of relieving hardship and somewhat equalizing the burdens of recession, but apart from maintaining a reasonable level of consumer spending, such measures make a limited positive contribution to the resumption of healthy economic expansion.

My own view is that just as there is no single remedy for the problems of inflation, so there is no one way to meet the problems of recession. We need to use all the effective means available to us. The essence of sound policy lies in using the right balance or the best "mix" of the various means, and to apply them in a timely fashion.

This I believe we have done. I mentioned that last December we introduced tax reductions which are saving the taxpayers

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Mr. & Mrs. E. McNeil, *Geoffrion, Robert & Gelinas, Inc.*, Montreal; Mr. & Mrs. J. C. Leclerc, *Rene-T. Leclerc, Inc.*, Montreal

of Canada $178 million in 1958. We have introduced new programs of public investment in housing, in resource development and in improvements to transportation that add up to many hundreds of millions of dollars, and the provinces and municipalities under the much easier money conditions are proceeding with further hundreds of millions of dollars worth of social capital investment. By increasing old age pensions, improving veterans' benefits, extending unemployment insurance benefits and developing programs of farm income maintenance we have put additional hundreds of millions of spending power into the hands of those who would otherwise have been most harshly affected by the forces of recession.

I believe, moreover, we have done all these desirable things at about the right time. We took action on housing last August and again in December. We took action on farm incomes, on old age pensions, on veterans' benefits and on unemployment insurance in November, December and January. We have taken more action on housing, on unemployment insurance and on hospital insurance in the month that the new Parliament has been in session, and we have further constructive measures on the sessional program.

As a result of such timely action the recession has taken a much more moderate course in Canada than in other comparable countries. On a seasonally adjusted basis our retail sales are running ahead of last year; in the United States they are down about 6%. Industrial production in Canada has declined about 5% from its peak; in the United States the drop is 12 or 13%. Total labor income in Canada has hardly declined at all; in the United States it is down about 3%. I do not take any satisfaction in these somewhat greater declines in the United States, for nothing could benefit Canada more quickly than an early resumption of business expansion in the United States. But we are entitled to take some satisfaction, I think, for the relatively stronger economic position in Canada.

With a budgetary deficit of $648 million and a total cash requirement, new cash of about $1,400 million, I could not consider any further major tax reductions to be necessary for economic reasons. The stimulating effect of the policies that we have already and promptly put into effect should, in the absence of any further adverse external events, sustain economic activity and provide the economic climate for an early resumption of economic expansion. Moreover, the main factor in bringing about the slackening in our rate of expansion has been the decline in the export demand for some of our basic resources, and at this stage further general tax reductions would not improve the external markets for our forest products or our base metals.

To go still further into deficit financing at this time could create conditions in which overt inflation of a degree very difficult to control might re-emerge. Indeed even now we have the somewhat paradoxical situation of simultaneous symptoms of both recession and inflation. If we go too far in the measures we take to combat what is, after all, a fairly mild recession, we might find that we had planted an inflationary time bomb which might later go off with a dangerously explosive effect. Admittedly, it is not an easy matter to judge just the right degree or balance in these matters; but in the present circumstances, it seems to me that we have, for the time being at least, a fairly sensible balance of fiscal policy, investment policy and income maintenance policies.

While for these reasons I did not find myself in a position to recommend any major reductions in taxation, I have submitted to Parliament a rather large number of particular tax proposals, each of which will be significant to the particular groups or persons affected and which I believe will collectively constitute a considerable measure of improvement in the equity and efficiency of our tax system.

High Cost Economy

I wish to take advantage of this opportunity to give expression once again to my concern over costs of production and prices in Canada. Only by keeping our costs of production in line with those of our competitors can we hope to achieve expanding employment and progressive improvement in our standard of living.

We are in danger of becoming a high-cost economy. Such a prospect is particularly perilous in the case of a country like Canada, which must sell so much of its production in markets abroad. Moreover, Canadian producers are encountering increasing difficulty in retaining their domestic market in the face of keen competition from abroad. Many of them under these circumstances turn to the government for a solution of their cost problem.

In a free society there is no simple formula by which the government can maintain stable prices and there is a limit to what governments can do to assist producers to hold down their costs of production. A wise government can, of course, help to promote an environment which is conducive to price stability and this government gives a high place to that duty; but to an important extent prices are the result of competition among the various economic groups which compose our nation, each striving for a greater share of the national product. I echo the warnings issued by the Prime Minister to all sections of the Canadian people in appealing to all, whether employers, employees or self-employed, to have regard for the general interest in the returns they seek for their services and products. In a free society there is no omnipotent arbitrator who can set prices and wages at stable levels. One must depend upon the sense of responsibility of free men and women not to demand more than their fair share of the national income. As I have said on other occasions, in the conditions of today increases in incomes can be justified by increased productivity and by increased productivity alone.

Conclusion

I am most anxious, in conjunction with the officials of my department and the Bank of Canada, to maintain close liaison with the investment dealers and banks who are the primary distributors of new government issues. I am well aware of and value highly the informal and close contacts which already exist. I know that the Bank of Canada is making a continuous effort to improve and to extend their liaison with the market-place. I hope that all the firms represented here today will cooperate with us wholeheartedly. I urge you to bring the full weight of your ingenuity and experience to bear on the challenge confronting us. I respectfully urge you to participate in the "blue-printing" of the program by giving us periodically your views and suggestions. I urge you also to re-examine the techniques of distribution employed in your own organizations to ensure that the widest possible coverage of potential investors is achieved in each and every new offering. In short, I invite you to become full partners in the formulation and execution of a debt management program which will enable us to build Canada's glowing future on solid foundations and in a manner consistent with our belief in free enterprise and free markets.

Walter L. Downes, *Kippen & Company, Inc.*, Montreal; Mr. & Mrs. Stuart Fish, *Collier, Norris & Quinlan, Limited*, Montreal; Bill Dalton, *R. A. Daly & Company, Limited*, Montreal

Mr. & Mrs. W. G. Pepall, *Bell, Gouinlock & Company, Ltd.*, Montreal; Mr. & Mrs. Grahame Johnson, *Credit Interprovincial, Ltd.*, Montreal; Mr. & Mrs. Telfer Hanson, *Burns Bros. & Denton, Ltd.*, Toronto

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How to Combat Recession In Canada

in mind that they are the second highest on record.

"Darlings of Fortune"

A moment ago I said that our exports have held up surprisingly well. Looking over our experience of the postwar period one cannot help but feel that we have been "darlings of fortune." Over and over again declines in some export categories have been offset by increases in others, or by shipments of new products. For instance, iron ore exports were important factors in 1956 and 1957. This year it is uranium which has kept our exports up. Exports of industrial raw materials are down but wheat, aircraft, uranium, and farm machinery are up. In this there would appear to be at least an element of luck.

There is some question as to whether the present level of exports can be maintained. If our export sales continue to make as good a showing as in the first four months of the year we can count ourselves fortunate. Much, of course, will depend on the trend of events in the United States—our main market—but we must keep in mind that conditions all around the world are in a state of flux. Underdeveloped countries, the economics of which depend largely on the sale of raw materials, are adversely affected by the decline in commodity prices. The economic situation in Europe is less favorable and the position in France is disturbing. Then, again, industrial materials are in over-supply because of slackening world demand and excess capacity in Canada and elsewhere.

On balance it would appear that we cannot look for an immediate and substantial upturn in world trade.

While on the subject of exports, perhaps I should say a word about imports. As you know, they have fallen sharply and this is largely a reflection of a slowdown in the importation of capital goods. As a result there has been a sharp drop in our balance of payments deficit.

The third expansionary force in the Canadian economy is capital investment. Here, also, there has been a reversal of the postwar trend. Capital investment this year is expected to total $8.5 billion as compared with $8.7 billion in 1957. The decline in business investment is greater than these figures indicate, being offset in part by higher housing, institutional, and government expenditures.

While total capital investment will be lower, the program may have as big an impact upon labor and production as did last year's. The reason for this is that housing and similar types of construction are more dependent on Canadian materials and require more on-site labor than the engineering type of project. Then, again, up to half of our machinery is imported.

The major decrease in the business sector is in the resource industries. This reflects a slowdown in world demand and the fact that in recent years they have built up more than ample capacity. The latter also applies to some of the manufacturing industries. The question mark as far as capital expenditures is concerned seems to be 1959. This year there was a carry-over of projects from 1957. If the uncertainty of outlook continues, business may cut capital spending further.

Still "Well Off"

You will gather from what I have said that in my opinion there are no expansionary influences sufficiently powerful to give the Canadian economy a forward thrust in 1958. At the same time I do not feel that there are grounds for lack of confidence. Despite the recession, we Canadians are well off. Some industries may be pinched somewhat but, as I pointed out earlier, total economic activity continues at a high level. About all that has happened so far is that we have stopped growing. While this is disturbing, one cannot say it was unexpected. Students of business have been worning us for years that we could not expect a continuous upward growth trend and 1954 have taught us that we must expect dull periods as well as bright ones. At the moment it looks as if over-all activity this year will not be far short of a record level. In these circumstances the gloom talk which you hear would seem to indicate a loss of perspective.

The timetable of any recovery from present levels remains a question mark. The economic indices do not point to a broad and consistent decline nor to a broadly based upturn. It is quite possible there may be some further slackening in business activity in Canada, particularly if industrial production in the U. S. continues to drop. Generally, however, I look for business activity to stay around the present level, especially as we are only beginning to feel the effects of increased government spending, and that this condition will prevail well into 1959. Predicting the timing and extent of any upturn is hazardous business. There are so many unknown factors. Some economists fell that resumption of a rate of growth equal to that of recent years is too much to expect, but then few, if any, of them expected the economic surge which followed the 1953-54 recession.

Recovery Depends on Exports

Perhaps a further comment would be in order on the question of the timetable of any recovery. The timing and extent of any upturn for the Canadian economy will depend to a very large extent on the trend of activity in the U. S. and more especially on favorable export prospects. Canada needs to take a good look at its international trading position. This, in my opinion, holds the key to resumption of economic growth. No significant upturn can be expected until the export outlook improves.

You will gather from what I have said that I feel the Canadian economy, after a period of hectic growth and intense activity, is going to have a chance to get its breath, or second wind. The slowdown is disappointing, but it also presents us with an opportunity. The challenge of the recession is to put our house in order, to consolidate our position and to build a solid base from which sound growth can again take place.

Recently a writer in a U. S. business publication suggested that the recession and inflation were running neck to neck. That, of course, is too strong a statement, but it is correct to say that the seeds of inflation are still present and what we do now may result in an inflationary trend in the future.

Inflationary forces have waned, but the fact that prices have continued to rise in the face of a drop in demand for goods and services indicates they are merely dormant—not dead. You may ask why we should worry about inflation at a time when the economy is in the doldrums. The answer is simple: it is easier to take corrective action before it starts than it is to try to stop it once it gets underway. Today we are suffering some of the consequences of the excesses of the inflationary boom through which we have just passed. If we are to minimize recessions and to prevent them from being repeated, and possibly developing into a more serious recession in the future, then we will have to make a greater effort than we have in the past to avoid policies which are inflationary in character.

Warns Against Unsound Measures

Merely because we are under pressure from a business decline is no reason why we should adopt unsound economic measures. An increase in government spending and a certain amount of deficit financing is probably unavoidable

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at a time when there is a large amount of unemployment, but let us recognize that they are inflationary in character and should be kept within reasonable bounds. Deficit financing on a large scale discourages saving and capital formation, and if carried too far could start the inflationary spiral once again.

Increased government spending raises the specter of higher taxes in the future, and taxation is already too high. The difficulty with a rise in government spending is that there seems to be no retreat from the new level which is established.

Everyone would like to pay less in taxes, and a broad tax cut would direct more money into the spending stream, but a substantial cut in taxation is not practical in light of the spending commitments of governments. In the circumstances, perhaps our efforts should be directed at reforming our tax structure to provide business with greater incentives to expand. I appreciate that tax relief for business only would not be politically popular and I am not suggesting a general tax cut for business, but rather tax devices which will encourage business expansion and create jobs.

About two weeks ago a report appeared in the press which indicated that the government has under consideration the question of special assistance to small business. In this connection the question of special loan facilities for small business was mentioned. But the need of small business for additional equity capital is greater than it is for loans. In fact, more loan funds would be available if small business had adequate equity capital and the greatest deterrent to the accumulation of sufficient capital by small business is the high level of income taxes. Six months ago I suggested that special consideration should be given to earnings retained in the business up to say $50,000, and I am convinced that such action would solve some of the problems of the small businessman.

Measures to Encourage Capital Investment

I mentioned earlier that capital spending for new plants, machinery, and equipment is of prime importance in the generation of over-all economic activity and that capital spending by business is declining. Is there positive action which can be taken to encourage new capital investment? I think there is.

Some years ago the government used the device of accelerated depreciation to encourage expansion of defense industries and the results were beneficial. Could we not use the same device now to encourage modernization of existing plants?

Despite the huge sums spent on new equipment, we still have many plants which are using obsolete equipment and this is reflected in our costs. By encouraging companies to modernize we can achieve two desirable objectives—a reduction in costs and an increase in capital spending.

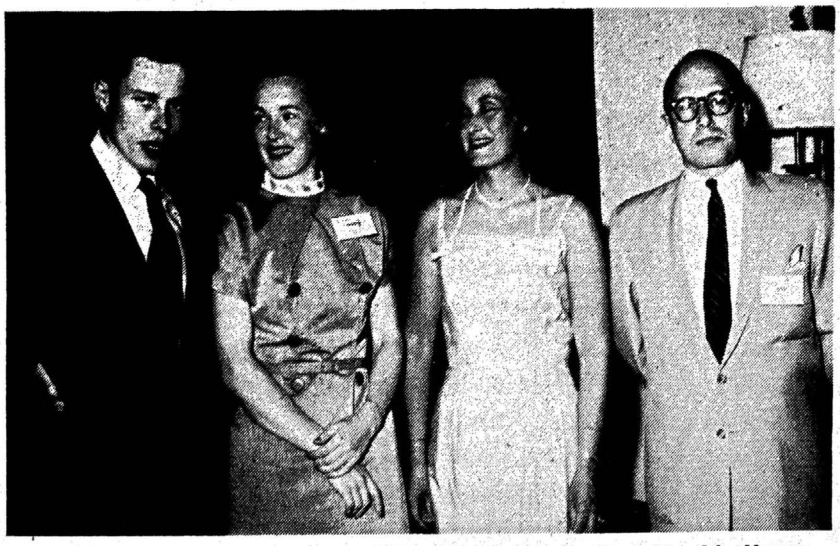
I am not suggesting a general liberalization of depreciation allowances, though there may be a case for this. Rather, I regard accelerated depreciation as an investment incentive, applicable to particular types of projects undertaken within a definite period of time. The accelerated rates would, of course, apply only to new installations. If a new machine had an estimated life of say 10 years, the owner might be given the option of depreciating it over a minimum of five years and a maximum of 10 years—whatever period within this range suited his purpose. But this is a matter of detail and today I am only concerned with the principle. There would, of course, be a temporary loss of revenue to the tax collector, but this is unimportant in relation to the objectives of cutting costs and encouraging capital spending.

Earlier, in discussing the outlook for the Canadian economy, I suggested that no significant upturn could be expected for the Canadian economy until there is a revival of an expanding market for our exports. This suggests that our export industries should intensify their sales efforts and that we should be seeking ways and means to assist our exporters to meet competition. Perhaps this would be an appropriate time for this country to improve facilities for medium-term financing of Canadian exports. Even in the most prosperous times certain industries have found themselves at a disadvantage compared to their foreign competitors. The prospect is that the near future will see increased competition in export markets, and the availability of credit on reasonable terms may become important in retaining present connections as well as fostering a further diversification of our exports. Certainly no credit-worthy customers ought to be turned aside when there is idle capacity in Canadian export industries. The Export-Import Bank of Washington is an example of how special export credit arrangements can benefit home industry. Similar credit facilities should be available to Canadian exporters. However, consideration should be given to devising ways and means of enabling existing credit organizations to do the job rather than establishing a new institution. In either case, government support will be required.

Costs and Prices Must Be Reduced

In conclusion, let me say a word about prices, costs, wages, and productivity. Despite a leveling off in over-all demand and a substantial falling off in some sectors, cost and price adjustments have the exception rather than the rule. Yet, a basic need is for lower costs with correspondingly lower prices which would induce consumers and business to expand their purchases.

Lower costs and prices would also improve our competitive position in export markets. However, one has to be practical and recognize that rigidity of wage rates makes a material reduction in costs difficult to achieve. But this does not mean we in business should sit back and do nothing about costs. I doubt if there is any organization where there is not some inefficiency and waste and it is our task to seek it out and eliminate it. Some of the price increases of the past year have resulted from wage increases not justified by a rise in productivity, and prices are bound to rise if wage increases exceed the improvement in output per man-hour. Management has a responsibility to resist wage demands not justifiable, and labor a responsibility to keep its demands in line with increases in productivity. In the current period we have some catching up to do in order to bring productivity in line with wages, but the result will be lower costs and a sounder economy. The cure is harder work by all of us. It is a task in which each and every one of us must participate. It is a much surer way of correcting the recession than waiting for the government to bail us out.



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Mr. & Mrs. David B. Weldon, *Midland Securities Corpn., Ltd.,* London, Ont.; Mr. & Mrs. Irving Glick, Philadelphia

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Canada's Monetary and Economic Status

sustained demand for materials and labor in Canada.

Sees Encouraging Signs

Another encouraging sign is the buoyant retail trade which has been on an upward trend since last fall. Still another is the index of industrial production which turned upward at the first of this year, reversing a trend that started in February, 1957. It could well be also that business inventories, which have been in a position of net reduction for some time, may be on the point of starting up again. If so, that could lead fairly quickly to a turnup in production, employment and income.

These hopeful signs—and they are no more than signs—are reassuring, but our economy is so sensitive to outside influences that we should be guarded in appraising the economic outlook without considering the world beyond our borders, particularly the United States. If I am correct in believing that American business conditions are showing some signs of improvement — not over the whole field of business but in some important lines — this could have a most helpful effect on the economy of this nation.

Turning to the monetary picture as I see it, let me remind you that credit restrictions were in force for a good part of 1957. The Bank of Canada turned to easier money policies in August and this became quite clear in September and October. Since then the money supply has been expanded and short-term interest rates have dropped considerably although long-term rates have remained fairly constant.

These monetary factors, however, have not resulted in increased bank loans. General loans in Canada of all charatered banks on May 7, 1958 totalled $4,383 million, $153 million less than the corresponding date in 1957. The reason is a general lack of demand for bank credit, arising from the economic factors I have been discussing, a sort of recession complex.

Deposits Up $707 Million

But, while loans have not been increasing, that is not true of deposits. The total Canadian deposits of all chartered banks on May 7, 1958 were $11,303 million, $707 million higher than the corresponding date a year ago. Personal savings deposits stood at $6,601 million, an increase of $423 million in the year.

One field of bank lending showed a substantial increase in 1957, mortgage lending under the National Housing Act. The total of these loans on the books of the banks on May 7, 1958, was $622 million, an increase of $115 million in the year. During the whole of 1957, the chartered banks approved loans amounted to $173,451 million for construction of 15,695 new dwelling units. They loaned an additional $30,600,000 for 29,998 home improvement projects under the National Housing Act. The chartered banks were the biggest institutional lenders under the act of 1957, both in number of loans approved and total amount.

The past year has seen growth in several directions within the banking system. The number of deposit accounts reached 11 million, an all-time high. The number of branches on March 31 was 4,556 in Canada and 149 in foreign countries, an increase of 102 in domestic branches in the year.

This physical growth of banking leads me to another subject I would like to discuss—automation in banking. It is reasonable to assume that a high degree of automation will be achieved within banking in the next few years and I would like to discuss it from the point of view of bank customers and bank employees.

Electronics Seen Answer

The present problem facing the chartered banks can be stated briefly. There has been a tremendous expansion in banking in recent years, a great increase in the number of customers who use banking facilities at an ever-increasing rate. Despite additions to bank staffs and the installation of many more mechanical aids, the banks are hard-pressed to maintain the high standards of service, the speed and the accuracy, that Canadians have come to expect of the banking system.

The answer would seem to lie in the field of electronics, where cheques can be sorted and ledgers posted by automatic machines many times faster than those manually operated and as nearly errorless as a machine can be.

In the past 10 years the number of branches of the chartered banks in Canada increased by 35.8%, from 3,355 to 4,556. During those same years, the number of deposit accounts increased by 46.6%, from 7.5 million to 11 million and the number of entries in all deposit accounts, debit as well as credit, practically doubled until they now exceed 700 million a year.

The use of the cheque has become so widespread that the banking system handles 2,500,000 every working day and, on the average, each is handled eight times before it is cleared to the bank where the drawer's account is maintained and is debited to it.

Same Personal Touch

In that same 10-year period, the chartered banks spent millions of dollars in extending the mechanization of their branches. They increased their staffs by 46%, from 41,971 to 61,350 and their total salary bill went up from $87.2 million to $188.3 million a year or 115.9%.

We, the chartered banks, are conscious of the fact that we must work with our customers in applying automation. We are sure they will cooperate with us because it is to our mutual advantage to keep Canadian banking ing standards at highest level of efficiency. One thing is certain: automation will not destroy the personal touch that has featured Canadian banking for so many years.

I would like to make it clear also that the introduction of automation in banking will not displace members of our staffs. On the contrary, it will present to both men and women greater opportunity to advance by releasing them from purely clerical work for more interesting, challenging and rewarding tasks. There always will be room in banking for brains, drive and initiative.

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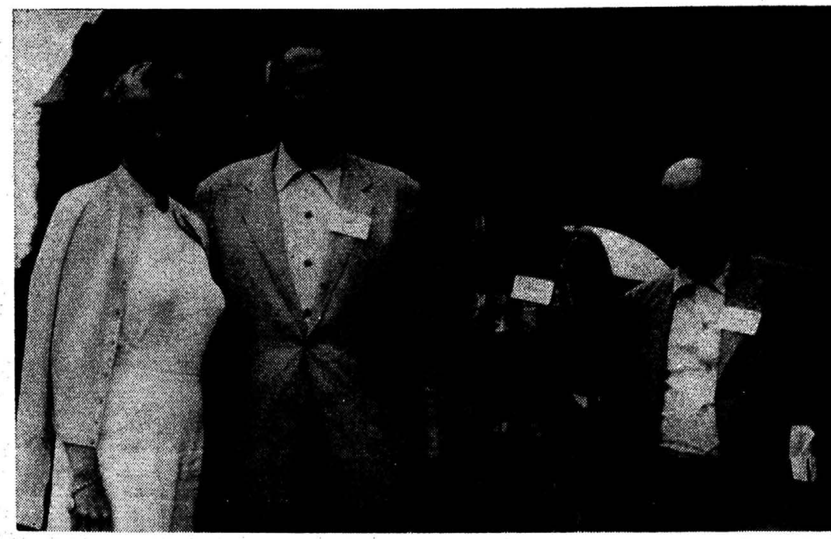

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A. E. Ames & Co. Limited
Winnipeg

ROULEAU, ROBERT
Savard & Hart Inc.
Montreal

ROY, ROBERT M.*
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Toronto

RUEL, PAUL E.
Grenier, Ruel & Co. Inc.
Quebec City

SAURIOL, G. M.*
J. R. Timmins & Co.
Montreal

SAVARD, J. E.*
Savard & Hart Inc.
Montreal

SCERBO, MISS CATHERINE
Court Reporter
Montreal

SCOTT, ERIC*
J. H. Crang & Co.
Toronto

SCOTT, W. J.*
Gairdner, Son & Co. Ltd.
Toronto

SCULLY, H. D.*
Nesbitt, Thomson & Co. Ltd.
Saint John

SHACKELL, FRANK
Wood, Gundy & Co. Ltd.
Quebec City

SHAW, H. V.*
Gairdner, Son & Co. Ltd.
Toronto

SPAFFORD, E.
Cornell, Macgillivray Limited
Halifax

STEWART, J. M.*
A. E. Ames & Co. Limited
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Montreal

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Fairclough Co. Limited
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STANBURY, NORMAN
Stanbury & Company Limited
Halifax

SMITH, DEVON
The Toronto Telegram
Toronto

TASCHEREAU, WING COM. G.
A.D.C. to The Lieutenant-Governor
Quebec City

TAYLOR, G. H.*
Wood, Gundy & Co., Inc.
New York

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Dominion Securities Corp. Ltd.
London

THOMPSON, F. W.*
Mills, Spence & Co. Limited
Toronto

THOMPSON, J. T.*
Molson Securities Limited
Montreal

THORBURN, W. H. A.*
Mills, Spence & Co. Limited
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TRIGGER, RAYMOND*
Investment Dealers' Digest
New York

TURNEY, A. H.*
Locke, Gray & Company
Calgary

VERMETTE, D. H.*
Savard & Hart Inc.
Montreal

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James Richardson & Sons
Montreal

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Nesbitt, Thomson & Co. Ltd.
Montreal

WADDS, R. W.*
McLeod, Young, Weir & Co. Ltd.
Toronto

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Confederation Life Association
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Midland Securities Corp. Ltd.
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Bill Marshall, *McLeod, Young, Weir & Company Limited*, Montreal; E. Spafford, *Cornell, MacGillivray Limited*, Halifax, N. S.; D. E. Boxer, *Burns Bros. & Denton, Ltd.*, Toronto; Peter L. Robinson, *Goodwin Harris & Company, Limited*, Toronto

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W. G. Pavey, *W. C. Pitfield & Company, Ltd.*, Montreal; Ed Finnigan, *Thomas B. Read Company, Ltd.*, Vancouver; Mr. & Mrs. F. C. Atkinson, *Nesbitt, Thomson and Company, Ltd.*, Toronto; Ted Pooler, *E. H. Pooler & Co., Ltd.*, Toronto

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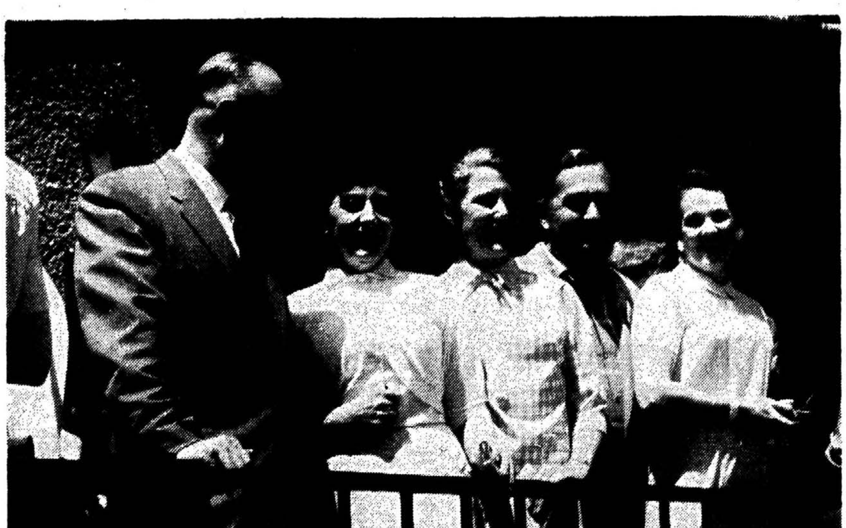

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