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Canadian Investment Outlook and Responsible Freedom

By E. H. ELY

President, The Investment Dealers’ Association of Canada and
Vice-President, Wood, Gundy & Company, Ltd., Toronto

Detecting possible relief coming up in the Canadian bond market, stemming from lessened pressures on government financing, Canadian investment dealers’ spokesmen anticipate more scope for provincial, municipal and corporate borrowers. Mr. Ely defends last July’s Conversion Loan program in pointing out advantages accruing to holders and to more difficult pressures that would have been present in managing the government’s debt financing. He decries government spending and praises, however, Finance Minister Fleming’s attempt to restore budgetary balance and to contain inflationary pressures. The dealer singles out need to restore confidence in money’s value; urges greater political-educational participation; and admonishes investment dealers to exercise “responsible freedom” so as to prevent government regulation of the investment process, and thus to assure Canada’s tremendous growth to come.

According to preliminary data released for the fiscal year ended March 31 last, both budgetary and non-budgetary deficits turned out to be slightly below the forecasts. Instead of the $1,400 million forecast they totalled about $1,263 million. These deficits were financed by an increase of $1,429 million in debt with $106 million added to the government’s cash balances.

During the past year, as President of the Investment Dealers’ Association, I have repeatedly advocated sound money, a closer balance between government income and outgo, with strictly containable expenditure, and tax receipts in line with social security payments. From numerous discussions with the Finance Department and the Bank of Canada, there is no doubt whatsoever that their thinking is along the same lines. Just to illustrate this point, let me give you two or three quotations.

Here is what the Minister of Finance said two months ago in presenting the Budget to the House of Commons: “I believe all honorable members recognize that we must look forward to a time when conditions of prosperity and employment will be such that we can also make proper provision for an orderly retirement of debt.”

Our aim is to maintain a sustainable rate of growth in terms of employment, development of resources and a sound dollar, so that Canadians everywhere may

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Forest Dynamics in Canada

By HAROLD S. FOLEY* 
Chairman of the Board, Powell River Company, Ltd.

Canada's present moderate overcapacity in forest products can disappear in two or three years. Yet, unless recommended changes are made, the conservatively predicted doubling of demand by 1980 requiring $3 to $4 billion investment may find the industry not taking advantage of this admittedly great potential. So says Mr. Foley in outlining the disquieting trends-including our special tax depletion allowance incentive—afflicting his industry. He indict's Canada for wasting its vast, unused, replaceable, forest resource; decries recent special tax levied on top of existing higher rate than that of other industries; and requests that extra burdens be removed, and incentives provided other Canadian natural resource industries and foreign competitors be similarly created so that without special treatment this industry can once again attain traditional market share.

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value of output. The industry uses one-fifth of all electric power generated and most of the paper and paper production in dollar terms is greater than that of the natural gas industry. It also uses more than twice that of the nation's metal mining industry. It has large ramifications in supporting secondary and service industries.

Over the years, the Canadian forest industry has seen many ups and downs, as is likely in an industry which depends so greatly on export. A measure of the industry's strength is the fact that over the past ten years or so, it has entered and remained in the rough and tumble markets of the world and shown, over-all, continued growth.

A surge of growth followed the war, particularly in pulp and paper, and especially in British Columbia, where we may be more venturesome, or foolhardy, depending on your point of view.

The Caadian forest industry retains great growth potential. The Canadian Forest and Paper Commission predicted that overall demand for our forest products would be 80% greater by 1980, and said that Canada's forest re¬sources are the greatest in the world and beyond the demand. In the light of past performance, population trends and the current economic climate, one has reason to expect that if this forecast were to prove correct, it would require an increase of at least 30% or three to four billions of dollars. The assembly of this forest and paper industry will provide a challenge. I would like to see this come to pass. Actually, I think the possibilities could be greater than indicated by the forecast in combination with what factors, however, fall short of these forecasts, we should look to our hands and take this growth for granted.

The dynamics of the industry have changed in recent years. Factors that have entered which are slowing the industry's growth po¬tential, relative to other areas. We must put our heads to the job Continued on page 10

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NASSAU, BAHAMAS
Landmarks of Tomorrow

By N. R. CRUMP

President, Canadian Pacific Railway Company, Montreal, Quebec

Concerned about Canada's domestic and international productive progress because of dangerous assumptions held and conscious, or not, views that cripple private enterprise, Mr. Crump asserts it is imperative that improved capacity to compete be made the foremost goal of business and national policy. He cites the Canadian Pacific Railway as an example of an enterprise subjected to outdated regulation and restrictive labor practices, though no longer a monopoly nor recipient of fair rate of return, and asks that the public utility "rate base—rate of return" principle be applied to rails. Convinced that free enterprise must do a better educational job, the industrialist suggests that an explanation of profit and loss system and exposure of erosion of the economy become everyone's job.

The result not of our strength but of other people's weaknesses and failures, such as the destruction and impoverishment brought about by World War II. This position of leadership was developed based on temporal factors which are rapidly vanishing. The industrial resurgence of Britain and Western Europe must be welcomed, for without it the free world could not have survived the Soviet threat.

Keeping Currency Sound

I pretend to no expert knowledge in matters of fiscal and monetary policy. I know how timely and how important is the warning voiced by Mr. Presi
dent of the Investment Dealers' Association of Canada, concerning the dangers of inflation. Certainly public policies aimed at maintaining a stable, reliable dollar, must be accorded high priority in our community's affairs.

Other industrial nations, notably West Germany and the United Kingdom, know and understand that inflation is an evil thing. They

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Canada's Postwar Economic Expansion

The Canadian economy has been growing very rapidly in the post-war period—in fact more rapidly than the U. S. economy, and by far the world's most economically advanced nation.

Population and Gross National Product. Between 1945 and 1959 our population increased from 13,078,000 to 15,739,000, a total of 20.4 per cent, or an annual average compound rate of 0.7 per cent. Our gross national product rose from $34.5 billion in 1945 to an estimated $34.5 billion in 1959 (an increase of 196 per cent in current dollar terms and 63 per cent in volume terms, or at an annual average compound rate of 7.9 per cent and 3.5 per cent, respectively.

Canada Expanding More Rapidly Than the U. S. Over the same period the U. S. economy also made great strides forward inched in annual average compound rate of increase in population of 1.7 per cent and in gross national product in volume terms of 2.1 per cent. You will notice that both rates of growth are quite a bit lower than the Canadian rates of growth. (Over the period 1945 to 1959 the U. S. population increased from 140 million to an estimated 177 million or by 23.8 per cent, with gross national product increasing from $348 billion to an estimated $648 billion or 88 per cent in value and 53 per cent in volume terms.

Record Capital Investment Program. Since the end of World War II Canada spent some $78 billion on capital investment of all types. In fact our country devoted a greater proportion of its national output to capital investment than any other industrialized nation in the world including the United States, the United Kingdom and the U.S.S.R.

Growing Foreign Investment. Over this period foreign investment has been of great importance in financing our economic development. Between 1946 and 1949 about 18 per cent of gross capital formation (in durable physical assets) was financed by foreign capital. Between 1950 and 1954 an estimated 25 per cent was financed from that source with this proportion rising to something like 35 per cent for the most recent period, 1955 to 1959.

‘“Most of our long-term foreign investment has arisen from about $7 billion at the end of 1945 to about $15 billion at the end of 1958, or by 196 per cent. Over this same period, the rise of long-term investment in Canada has increased from $3 billion to around $14 billion, a gain of 180 per cent, and the U. S. share of the total has grown from 70 to 76 per cent.”

Oppotunities for Americans to do well in Canada are said to have never looked better in view of Canada's world record high post W. W. II growth pace and optimistic projections concerning the future. To this, however, the Canadian government economist pointedly advises that growing concern over U. S. ownership stems not from any hostile feelings at American direct investments but from discriminatory practice: that denies equity ownership opportunity and managerial participation in U. S. controlled firms operating in Canada. Mr. Firestone also advises his targets to publish financial facts or face the possible consequences of a Canadian SEC act. Making effective use of U.S. official data to underscore principal Canadian grievance, Americans are shown to have supplied but 31 per cent of required funds and, yet, control 55 per cent of Canadian economy whereas Canadians have supplied 67 per cent of capital and others 2 per cent.

Retained Earnings and Canadian Borrowings by U. S. Subsidiaries. At first glance these figures suggest that Canada is relying rather heavily on the inflow of foreign capital for her economic development. In fact, however, a much larger proportion of our capital investment program was financed from Canadian sources than these figures indicate. The definition of "foreign" capital as used by the Dominion Bureau of Statistics includes the retained earnings of foreign controlled companies and their borrowings in Canada as well as the inflow of foreign capital from abroad.

“The importance of this point has been brought out by the results of recent survey conducted by the U. S. Department of Commerce which indicated that in 1957 only 31 per cent of the capital required by U. S. subsidiaries operating in Canada came from the U. S. with the remainder represented by retained profits earned in Canada and by investment funds obtained from Canadian institutions and individual investors. These figures illustrate the skill of American management in obtaining increasing control of Canadian resources and industries, while at the same time supplying only a small proportion of the capital required for the development of these enterprises.

U.S. Control of Canadian Industry. The U. S. has concentrated heavily in certain key industries and has been able to control of half or more of some of Canada's major industrial sectors, e. g., petroleum industry some 65 per cent, mining and smelting about 65 per cent, and total manufacturing industries over 50 per cent (approximate estimates as of the end of 1956).

Concern Over U. S. Investment and Policies

Public's Attitude. In the last five years Canadians have been taking stock trying to assess the benefits which their rapid economic expansion has brought to them and the prospects ahead for the next quarter century. The Canadian Government appointed a committee to study "Canada's Economic Prospects" which turned in a report in 1957 similar to the report of the S. P. Commission dealing with natural resources development on a wider range of subject matters. Among other things this Commission brought into focus what the rapid growth of Canada has meant for Canadians and the implication of expanding foreign investment in Canada's economic development. The Commission observed, and I quote: "some Canadians are worried about the lack of a large degree of economic decision-making being in the hands of non-residents or in the hands of Canadian companies controlled by non-residents. This concern has arisen because of the concentration of foreign ownership in certain industries, because of the fact that the bulk of it is centered in one country, the United States, and because most of it is in the form of equities which, in the ordinary course of events, are never likely to be repossessed."

"A situation does exist in some sectors of the economy wherein legitimate Canadian interests may be overlooked or disregarded. In the U. S. a large number of non-resident-owned foreign-controlled companies have a dominating influence over the larger companies which have a significance for the growth of the national economy, for even all cases be aware of the Canadian point of view."

"We believe Canadians should have more tangible assurance than they have that the people who are responsible for the management of such foreign-owned companies do, whenever reasonably possible, make decisions that total national interests of Canada; that such concerns in effect become more 'Canadian' in outlook."

Government's Attitude. In the summer of 1957 we had a change of government. Mr. St. Laurent said that time we believed Canadians should have more tangible assurance than they had that the people who are responsible for the management of such foreign-owned companies do, whenever reasonably possible, make decisions that total national interests of Canada; that such concerns in effect become more 'Canadian' in outlook.
What Canadian Banking Is Doing and Should Do

It is not my purpose to present a detailed review of economic factors or to attempt to foretell what the future holds for the Canadian economy. But it may be said that many indices clearly show that we are working our way out of the recession. The recovery is resting basically on continued strength in consumer demand and a revival of business inventory. Thus far, however, the recovery seems to be limited to domestic fields; it is not yet noticeable in the trend of our export trade. Balance of payment position continues to give cause for concern.

The past year and particularly the past six months have been a unusual period in banking. Since last October the Bank of Canada has held the money supply under tight restraint, it has been held as close to level as possible with, if any change, a slight drop. For months before the turn of the year, there was little demand for bank loans, although the banks were in excellent position to satisfy increased demands.

Banks Sell Bonds

Suddenly, about the turn of the year, the demand for bank loans started to increase and that trend has continued. Faced with a static money supply, the banks were forced to liquidate holdings of treasury bills and government bonds to put cash in a position to satisfy the demand for loans.

Obviously, this process of the banks liquidating bonds to obtain loanable funds cannot continue indefinitely. For one thing, the credit amount of government bonds is

*An address by Mr. Roberge before the Canadian Bankers Association, Montreal, Que., June 12, 1959.

the hands of the banks is not unlimited. There is a limit, too, beyond which prudent banking dictates no bank can go in the liquidation of its bond portfolio.

I made a reference to this general situation a month ago in a public statement when I said:

"Until such time as those responsible for national monetary policy decide, in the light of their appraisal of relevant circumstances, that some further increase in the money supply may be permitted, the banks have no alternative but to exercise the utmost care in the handling of their credit facilities, in order to avoid any significant further increase in the over-all total of bank loans."

That declaration still stands. The chartered banks are still exercising every care to see that total bank loans do not increase. That condition will continue and intensify as long as the money supply remains fixed and the demand for bank credit continues to grow.

Small Borrowers

I am sure I speak for all chartered banks when I say that every effort will be made to see that small borrowers, including the personal borrower, will receive fair treatment in this period of increased demand for bank credit against a static money supply.

Another feature of banking in the past few months has been that personal savings on deposit in the chartered banks crossed the $7.1 billion-mark for an all-time high. The volume of personal savings, again, since the turn of the year, increased in one of the most rapid rises in many years, an accumulation of stored-up purchasing power that is particularly significant when the economy shows every sign of a speed-up.

I have touched briefly on these major, and very dramatic, changes in the over-all banking picture in the last few months so that I may take more time in discussing the flexibility and growth of the banking system in recent years.

Tremendous Progress, Growth

I was appointed a member of The Canadian Bankers’ Association in August, 1950, and I intend to use that as a starting point to demonstrate the tremendous progress and growth that has marked the banking system of this country in the comparatively short time of nine years. There has been growth in the physical sense such as in the number of branches but, more important than that, the number of people who use banking services has also increased all expectations in that nine-year period until today it is a truism that practically everybody in Canada is a bank customer.

It has long been my belief that Canadians use banking services to a greater extent than any other people. It may not be possible to support that conviction with concrete evidence but what other banking system can boast there is a bank account for every adult in the nation? What other banking system can match the Canadian record of a bank branch for every 3,700 of the population?

During the last nine years the number of deposit accounts in the chartered banks increased from slightly more than $8 million to about 12 million and total Canadian dollar deposits increased from slightly more than $7 billion to more than $12 billion. Those figures not only show the vast number of Canadians who are bank customers, but graphically reflect, as well, their confidence in the stability and strength of the banking system. Incidentally, during the same nine-year period, the banks paid out more than $1 billion in interest to savings depositors.

There are other ways of demen¬

Aid to the Home Improvement Act

The number of cheques passing through the banking system has been increasing about 10% a year for some time and now has reached 2,500,000 each banking day.

Loans to Individuals

On a look at the number of individual lending accounts. It is not possible to give comparative figures but on Dec. 31, 1956 there were 1,531,000 loans on the books of the chartered banks apart from mortgage loans under the National Housing Act. Of these, 65% were personal loans to individuals for non-business purposes. If the number of loans to farmers is added to personal loans to individuals, it represents 3,104,118 out of 7,531,569 or 82%. This is clear evidence that the chartered banks do not overlook the individual in their lending policies and clear evidence that the small, personal borrower regards a bank as his number one source of financial assistance.

I referred previously to loans under the National Growth Act and I would like to give figures for this type of lending. Between March 1954, when the Act came into force and the end of 1956, the chartered banks had approved loans of $117 million, adding in the construction of 100,000 new homes throughout Canada. In addition, under the home improvement sections of the NHA, which became effective in February 1955, the chartered banks made $122,000 loans to a total of $127 million.

As the use and extent of bank loans.

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Managing a Canadian Subsidiary for a United States Parent

By C. A. Morrison*

Vice-President, Canadian General Electric Company, Ltd.

Tofonte, Canada

There is a sense of concern in Canada over the concentration of ownership of some of the country's more important industries in foreign countries—even though that country is friendly as well as a partner in military defense and in other international affairs. The problems that Canada sees are not insignificant in the imagination or evidences of an inferiority complex. Some of the problems are political, and they must be answered directly between Washington and Ottawa. The two-way visits of our heads of government, and other top-level legislative committees, signify the attention that is being given to these matters. The recent flurry of action of the U.S. concerning the Canadian oil situation is an example of the friendly relationships between the two countries. But there are other unresolved problems. If, for example, Canadian subsidiaries take steps to protect the economic position of Canada and such action conflicts with United States anti-trust laws, the Canadian companies may be under pressure to comply with United States laws, without regard to the legality of their action under Canadian law.

Favors Decentralization

*Other problems relate directly to the field of commercial relationships between the U.S. parent and the Canadian subsidiary. The fundamental answer to these problems lies in organizing the subsidiary so that it is managed and operated as a Canadian corporation and not as a "branch" or a "division" of the parent company. This may seem to you a subtle difference, but its impact on the Canadian public and in fact, on the long-term profitability of the subsidiary itself, can be over-estimated. This approach does not limit the technical know-how and management help that can be fed into the subsidiary from the parent. However, it does recognize that policy-making for the subsidiary must be predicated on the Canadian environment as distinct from the United States environment in which the parent operates.

Getting down to specifics, a U. S. subsidiary in Canada discusses problems arising from parent ownership of subsidiaries in Canada and prescribes "decentralization" except for those things where parental assistance may be beneficial. Thus, Mr. Morrison's candid answers to present troubles would not weaken the close ties between parent and subsidiary and yet they definitely favor management and operation as a Canadian corporation and not as a "branch" or a "division" of the parent company.

Yet, Would Not Weaken Ties

There is nothing in this philosophy of decentralization that would weaken the close ties that must exist between parent and subsidiary. However, these ties should be contractual in nature and recognized by both parties as such. The areas where parental assistance may be beneficial must be carefully considered and then documented so that the authority of the Canadian management is clearly understood. It is important, in formulating these relationships, that the autonomy and corporate integrity of the subsidiary be fully apparent. This preserves with additional significance to the parent when viewed through the eyes of the United States laws with respect to commercial relationships.

The foregoing may be clarified if some examples of such contractual relationships are stated. It is suggested that the following are typical subsidiary requirements which would be purchased from the parent:

1. The determination of goods and services to be manufactured or purchased for resale.
2. The prices at which all goods and services will be sold.
3. The sources of supply for all materials and components.
4. The scope of product design and manufacturing facilities and facilities.
5. The negotiation of labor union contracts.
6. The corporate participation in charitable, educational and other community endeavors.
7. The marketing of the subsidiary's products in all markets of the world.

We believe that Canada has a role to play in world affairs. We are a modern industrial nation and are recognized in the world as having no aggressive aspirations. For this reason our country is given considerable credence by the non-committed nations. We believe in democratic institutions and the free enterprise system. It is a system that, important that we should maintain our political independence and participate, on a partnership basis, in the general growth of the North American continent as a whole. Sound parent-subsidiary corporate relationships between our two countries can contribute greatly to the strength and well-being of this international partnership.

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Forest Dynamics in Canada

of setting counter forces in action if we are to maintain or increase the momentum of growth in the years ahead. I should again stress our dependence on export, because it is the all-important fact about our industry. We export more than 90% of our newsprint, more than 80% of our pulp, and more than half of our lumber. The foreign buyer is not interested in our costs or taxes or any of our domestic problems. He wants quality at the going price, or he will buy from some other country.

Disquieting Trends

There have been some disquieting trends in recent years that may not have been getting the attention they deserve. Since 1950 Canada's share of the world newsprint market has dropped from 55% to 48%. In the same period Canada's share of the U.S. market, which takes well over half the world's newsprint, has dropped from 80% to about 70%.

Between 1950 and 1959, Canada's newsprint capacity increased by 44%, but the remainder of the free world increased its capacity by 85%, or more than twice our rate.

Similarly for chemical pulp: Canada increased its production between 1950 and 1957 by 35% of the remainder of the free world by 57%.

Obviously the investment flow into pulp and paper since 1950 has been much more rapid in the remainder of the free world than it has in Canada. Production from new or expanded facilities in other countries is, in turn, eating into some of our best markets.

What are some of the dynamics at work behind these trends? Canada faces certain physical disadvantages such as terrain or geographical position in relation to market, which cannot be altered. Other forces, however, can be brought into play to offset them.

Freight is an important element in our industry and Canada is a long way from many major consuming markets. Investors look for plant sites and forests as close as possible to the point of consumption.

New technology has made it easier to achieve, for example, scientific advances which made possible the use of the very large southern United States pine forests for pulp and paper, or quite recent discoveries which made possible the pulping of temperate zone hardwoods, greatly increasing the raw material resources available, particularly in the United States.

Our wage costs in relation to productivity have been rising too fast compared to other parts of the world, including the United States.

Our capital costs are higher. For example, in British Columbia we estimate them to be 25% higher than in the Pacific Northwest States, a major cause being higher mortgage rates designed to protect domestic industry. (In passing I would like to say that the current sentiment toward higher mortgage rates in Canada worries us, because we inevitably find higher Canadian tariffs invite retaliation against our products by the nations affected.)

Incentives granted by other countries compared to Canada are important.

We are aware of the many incentives granted to the mineral and petroleum industries in Canada and in other countries. They are wise and effective policies which have brought and are bringing about the development of resources which otherwise would not have been developed, and which have contributed greatly to Canada's rapid growth.

The results of incentives granted to industry generally in the southern United States are well known. They were extended to an even greater degree to the pulp and paper companies. In addition, provision for special depletion allowances for timber owning companies in the United States makes investment there relatively attractive. Under these provisions some of British Columbia's competitors in the Pacific Northwest States, for example, Weyerhaeuser Timber Company, one of the largest in the world, last year had a net income tax rate of 37%, while Georgia Pacific, another large producer, had a net income tax rate of 31%.

United States and other countries thus parallel incentives granted to mines or petroleum with similar measures for forest industries. Canada, unfortunately, does not.

Canada has vast unused forests which could provide an annual sustained-yield harvest supporting at least double present production. This resource is now wasting. If it is in the national interest to encourage investment in minerals and petroleum, which are irreplaceable resources, is it not even more so to encourage, as has been done elsewhere, the development of the forest potential which is now wasting and which could be utilized without diminishing the forest resource.

In my view Canada has no alternative, unless we are content to continue to slip behind.

Certainly, in light of recent trends, the special tax imposed under the Federal-Provincial tax agreements in British Columbia and Ontario, two of the largest forest producers, is puzzling. The industry now pays the so-called logging tax which is, in fact, a special income tax on all wood proceedings. It makes the total income tax on our industry from 2% to 5% higher than on any other industry in Canada. It is difficult to understand the placing of special burdens on an industry which is so vital to national prosperity and so wholly dependent on meeting the world market.

I have sketched a few factors in this review of the dynamics of Canada's greatest industry. I hope I have not sounded gloomy, because there should be no cause for pessimism about the future of the Canadian forest industry. Exactly the opposite. The growth potential is tremendous. Canada has the know-how, the required wood, water and power. As I have stressed, however, the dynamics are changing and we must change with them, or see great opportunities escape us.

We have proved in the markets of the world over many years that we are a vigorous, competitive industry. Our know-how and plant efficiency are second to none. We do not need special treatment. We do think there is a strong case, in the national interest, for the elimination of the extra burdens on our industry and the creation of incentives similar to those provided for other natural resource industries in Canada and to the forest industry in competing countries. It would be an unhappy situation if our industry continued to be in the position of being handicapped with only 10 yards in a 100-yard race.

Investment decisions in our industry are made two or three years ahead of actual production and the present moderate over-capacity could well be used up within that period. In my view strong growth forces are again at work. The race to take advantage of new market potential will soon be resumed.

I hope I have said enough to enlist help in reaching solutions to these problems so that the important pulp and paper segment of the Canadian economy will move forward as it should.
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know, too, that excessive taxation is a grave deterrent to investment and to industrial growth. This knowledge is reflected in the public policies of both these countries. And both, it is worth noting, are experiencing unparalleled prosperity. There are indications, too, that France in future will avoid the inflationary treadmill and move closer to the tried and tested monetary and fiscal policies which make, for a sound currency and for real economic growth. We in Canada would do well to heed this determined drive toward sound money and to consider its implications in terms of trade and investment for our own country's future! No longer can we assume with complacency that the dollar is the only really sound and reliable currency in the world.

Finally, there is the assumption that the mixed economy, in which state enterprises and private enterprise function side by side, is not only a good thing in itself, but is also essential to Canada's growth and prosperity. This assumption is not without historical justification—at least so far as transportation is concerned. The important thing, however, is that the role of enterprise, whether it be private or state, should be essentially the same. In transportation, as in other industries, the guiding principle of management must be to produce necessary services at prices which consumers are able and willing to pay, and to do so at a cost consistent with reasonable reward to investors and employees alike.

Mixed Economy Threatens Private Sector

If public enterprise in Canada were subject to the same ground rules, including penalty for failure in meeting the test of the marketplace, there is competition with private enterprise would be possible without prejudice to the principles of the market mechanism. But if public enterprise has access to capital without regard to cost, then sound economic principles governing growth and progress are jeopardized and an added burden is imposed on the taxpayer. Under such circumstances, the tendency is for the publicly-owned sector of the economy to expand, while the privately-owned sector, under the duress of unfair and unequal competition for necessary capital, is placed in jeopardy.

I have ventured to examine the validity of these five commonplace assumptions because I believe that their existence tends to cloud our thinking and to cloak from our gaze the realities of the situation confronting Canada today and in the years immediately ahead. If we are to prosper as a nation, we must accept the fact that the international economy is likely to be less dependent on us in the future than in the past. We must accept the fact that leadership is not ours by right but must be earned. Above all, we must make the strengthening of our capacity to compete a central objective of national and business policy—an objective as important as the one to create a social order of increased free living and a more prosperous society. Both economic growth and full employment will depend on the success which we achieve in competing in the international economic arena.

The immediate task for all of us, as I see it, is to seek out and re-affirm those principles of economic conduct which offer the best assurance of success in maintaining dynamic growth under the conditions of intensive competition which confront us both at home and abroad. These principles, I suggest, may be found in the profit-and-loss system.

False Accusation

As practitioners of the free market, we need no conversion to the merits of private enterprise. It is, however, an undeniable fact that skilful and insidious campaigns are being conducted by powerful groups both in Canada and the United States to persuade us that private enterprise is unequal to the challenge of our times, and that other systems hold promise of greater and more rapid economic and social progress.

No economic system can function without discipline. In the market economy the discipline is vested in the millions of individual citizens who are consumers. Their decisions, freely made, determine how men, materials and money are allocated in the production of goods and services. Savings, under such a system, are voluntary and made, not at the whim of the State, but according to the investor's knowledge of consumer needs and his belief that money invested in meeting those needs will earn for him a reasonable reward.

Voluntary saving is not the only manner in which capital formation may take place. Forced savings through taxation can also result in capital formation. So, too, can forced savings through inflation, in which the State gains at the expense of private savings. Under these two latter systems, however, the discipline lies not in the free decisions of consumers and investors, but in the power of the State itself. Under such systems, freedom itself—political as well as economic—is compromised. Both enhance the power of the State to dominate and to regiment the lives of its citizens. Both infringe upon the rights of the consumer and the investor to make their own decisions in the light of supply and demand. Both bespeak the managed economy controlled by State planners.

Those who wear the badge of socialism attack private enterprise openly and are comparatively free in number. Far more dangerous to freedom are those who profess to abhor socialism but who advocate policies which, if pursued piecemeal, can bring about the destruction of the private enterprise system no less surely than those who unleashed the painting pictures of the supposed blessings of public ownership and nationalization of industry.

How to Stop Subtle Erosion

If this subtle erosion of the free economy is to be halted, then I suggest that all of us who believe in private enterprise must be ready at all times to do these things. We must proclaim on every possible occasion the accomplishments of private enterprise.
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prise in terms of the material progress and social well-being of the Canadian people. We must understand clearly how the private enterprise system works. And we must be ever vigilant to demolish the fallacies and half-truths uttered by those who seek, consciously or otherwise, to undermine and destroy faith in the private enterprise system.

Of these three tasks, the first is the easiest. Glance out of your office window, or drive around your city and in the surrounding country. Look at the office buildings, stores and factories, the mills, mines, oil and gas wells, the refineries, power plants, farms and ranches, the complex facilities of transportation and communication, ranging from the newspaper delivery boy on his bicycle to the great four-engine jet-prop aircraft soaring across the sky at more than 400 miles an hour. Watch the throngs of shoppers on the city streets, buying, using and enjoying an infinite variety of goods and services. Consider the high living standards which this maze of enterprise has made possible for ordinary people everywhere in Canada—living standards the like of which our grandfathers could not have imagined possible.

Do this, then ask yourselves this simple question: Whence came the capital capable of creating these industries and the wealth of goods and services which they produce? The answer, clearly, is that industry and agriculture and the output of goods and services which flow from them are the material fruits of people's savings—freely invested for the most part by the individual savers themselves or by their chosen representatives in the investment field—the investment houses, great and small, the insurance companies and the chartered banks, or by company directors who invest retained earnings on behalf of their shareholders.

Such are the tangible symbols of private enterprise. The wonder of it is that so many take these symbols for granted, never pondering their significance in terms of their contribution to economic and social progress, to security and to employment.

Public Services Depend on the Economy's Capacity

Someone may say at this point, "What about the schools, colleges and universities, the churches and hospitals, streets, roads and parks and many other services operated either by government or by private associations on a non-profit basis. Have not these also contributed to our standard of living and to our social and economic well-being?"

They most assuredly have. The point to remember, however, is that the extent to which these important services are available to us is directly dependent upon the productive capacity of the economy as a whole. To illustrate my point, the little rural red one-room school with its outdoor plumbing and pot-bellied wood-burning stove gave way to the modern centrally-heated consolidated town school only as the farm, free of show and sprawl, prospered under mechanization, better transport and improved farming methods.

To describe how the private enterprise system works is a more formidable assignment. Much of the literature on the subject is unintelligible. Most economists, like other specialists, have a jargon of their own which may be necessary in communicating to themselves fine points of economic theory, but which is obscure to those in search of homely economic truths. The best and surest way to understand how the market economy works, I suggest, is to grasp the fundamental yet simple principles of the profit-and-loss system. Risk and the prospect of return on capital are the yardsticks by which an investment is evaluated. The desire for profit and the fear of loss is the regulator which governs the distribution and application of capital in a free economy. The greater the risk, the greater the compensating prospect of profit must be to attract capital.

Many people are under the illusion that the profit-and-loss system works only in favor of investment dealers and large corporations. Nothing could be farther from the truth. In fact, most of us would find our jobs considerably easier if we did not have the discipline under the disciplined enterprise system to sell the goods and to sell them to their customers. In the one case of cooperation, in the other case of competition, this discipline is twofold. It is imposed on the one side by the consumer and on the other by the investor. On the one hand, management's prospects of their profit are wholly dependent upon the ability to win consumer patronage. On the other hand, willingness of the investor to make capital available to management is wholly dependent upon the prospects of a reasonable return on investment.

The chain of command in the profit-and-loss system is from the consumer through the producer to the investor. It's the consumer who provides the inducement for the saver to invest. By the exercise of his numerous choices in the marketplace the consumer determines what returns or rewards each investment merits. The investor, always seeking the highest rewards, aided by the experienced counsel of the investment dealer, directs more capital toward the production of those goods and services which hold the most promise of consumer preference, and less capital toward industries producing goods and services which find less consumer favor. Thus supply and demand are harmonized in the free market economy through the discipline imposed on the producer by the profit-and-loss regulator.

What I have said about the investor in relation to the market applies also to the worker. Wages and salaries of those employed in business enterprise—including industrial workers, specialists and professional management—are wholly dependent upon consumer patronage. Here again, as in the case of capital, workers are free, under the disciplines of the enterprise system, to sell their services where and for the wages which are offered. Here again, the allocation of labor and its reward is ultimately determined by the consumer. The ensuing nobility of the labor force, the worker's assurance that the most efficient use will be made of the country's human as well as material resources.

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parrot the fallacies and half-truths which threaten to undermine faith in economic freedom. I have already referred to the threat to our national well-being that lies in inflation. Inflation, as I have said, can destroy our ability to remain competitive and undermine our prosperity by denying us access to world markets for our exports. And by weakening confidence in money as a measure and store of value, inflation can undermine private incentives to save, thus leading to the further extension of state control over investment. Inflation, too, is an open invitation to control by the state over both wages and prices. As such it is not only a robber of the poor, but a destroyer of freedom, both economic and political. We must, therefore, be ever vigilant to give the lie to those who say that “a little inflation is a good thing.”

Flexibility is an essential element in our system. Artificial rigidities clog the gears of self-regulation and bar the way to well-balanced economic growth. Practices which deny the right to work, or the right to sell one’s services, practices which impose unreasonable limitations upon the amount of work a man may do in one day, practices which require men to be employed where there is no useful work for them to do, or which prevent new machines and new methods from being used most efficiently—policies which deny the owners of capital the freedom to earn a fair return on investment—these all impair the effective working of the free economy. If we want our high wage rates to remain a source of productivity—indeed, if we want to maintain them—we must challenge these restrictive practices as attacks on the welfare of the country.

At this point it is fitting to say a word about social legislation. I am not advocating “laissez-faire” in the social sense. We have unemployment insurance, old age pensions, workman’s compensation and the like to cushion the hardships of misfortune, to tide people over periods of adjustment and to put a floor under the living standards of everyone. I submit that, provided social legislation is based on sound economic principles, its benefits can be had without impairing the essential mechanism of the free economy. Indeed, social legislation has removed the only valid criticism of the free enterprise system—namely the exposure of individuals to the insecurity of the market economy. Now, that we have provided for social security, it behooves us to let the market economy operate to its maximum efficiency because in the final analysis, the amount of benefit payments that can be sustained under social legislation is dependent upon the health and vigor of the economy as a whole.

Railroads No Longer Monopolise
May I now say something of what Canadian Pacific has been and is doing to give effect in the realm of transportation to these principles of economic freedom upon which, I suggest, our very prosperity and progress as a nation depends.

Transportation today, as you are aware, is highly competitive. No longer can it be said that the railways enjoy a virtual monopoly of overland transportation and communication. Instead, the country is served not only by railways but by a network of highways, pipelines, airlines and improved inland waterways, and in the communication field not only by telegraphs but by telephone, radio and television networks.

Canadian Pacific, in public hearings before the Board of Transport Commissioners and elsewhere, has sought and won some recognition of the fact that

Continued on page 16

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competition in transportation calls for relaxation of those aspects of rail regulation which were appropriate half a century ago but which are wholly inappropriate to today's competitive transportation scene. Such recognition is found in the approach by government and parliament of the railways' efforts to meet competition through agreed charges. It is found, too, in the recognition given, in conciliation and arbitration proceedings in labor cases, of such anachronisms in the freight rate structure as are found in the statutory rates on grain and grain products. Here we have 19th-century prices trying to live with 20th-century costs, resulting in distortions in the freight rate structure which work to the detrimen of shippers, consumers and railway owners alike. A fair solution to the problem of statutory work rules is an imperative if the Canadian people are to reap the full potential benefits of rail transportation.

Representatives of investors will be particularly interested in efforts we have made to gain adoption of the "rate-base—rate of return" principle in determining the permissible level of railway earnings. This principle is almost universally accepted by regulatory tribunals in fixing the level of public utility earnings, in recognition of the fact that in order to attract capital into an industry, the investors must be given an opportunity to earn a fair return on investment—at the same time protecting consumers against undue high charges owing to the absence of competition.

In the post-war period, the rate of return on net investment in Canadian Pacific railway property has ranged from 3% to 3.5% which is far below what is normally regarded as a fair return on a public utility—even one enjoying a virtual monopoly. When it is considered that the Canadian Pacific, and indeed the railways as a whole enjoy no such monopoly, but on the contrary are subjected, increasingly to the rigors of competition, the case for a licensing permit a reasonable rate of return to ensure all the stronger.

In recent years, we have repeatedly urged upon the Board of Transport Commissioners that although the Board has never substituted the "rate-base—rate of return" principle for the so-called "requirements formula" it did in 1904 establish the fair investment of Canadian Pacific in rail property and stated that it felt this could be used as a test of the proper level of earning power. Thus far, however, it has not increased the permissive earning power by reference to such a test.

Among the railways of this continent, Canadian Pacific has taken the lead in seeking the removal of residual labor restrictions which hamper progress and deprive the investor and the public alike of the advantages and economies made possible by technological progress. In 1888, following a prolonged labor dispute in which thorough investigation of the matter by a Federal Conciliation Board and a Royal Commission and two strikes, won the right to operate freight and passenger services without a fireman. Both the Conciliation Board and the Keellock Royal Commission found that there was no useful work for firemen on such locomotives to perform.

I mention these matters because they reflect that Canadian Pacific efforts to secure recognition of the fact that rail transport, under today's highly competitive conditions, should be governed to a greater extent by market forces and to a lesser extent by outdated regulation and restrictive labor practices which hamper technological progress in transportation.

Canadian Pacific, too, has been alert to every opportunity to improve the operational efficiency of its rail enterprise. Diesel power, representing an investment in the end of 1958 of nearly $200 million, is now performing over 30% of railway services, at savings totaling some $49 million per annum. We have been making steady progress, too, in cutting down unprofitable passenger train services, with a reduction in 1950 of 17% in passenger movements and the substitution of many runs of more economical rail diesel cars for conventional locomotive-hauled trains. As a transportation enterprise in the broadest sense, Canadian Pacific has moved quickly, too, in the development of piggyback services and in expanding its highway freight services. Common carrier piggyback is now available on 6,000 miles of our railway serving 21 cities. Highway operations owned and controlled by Canadian Pacific now extend from coast to coast, offering the possibilities of savings and improved service to shippers. New methods of handling intermodal operations have already resulted in more expeditious movement of freight cars, better service and higher utilization of equipment and staff.

Nor have we overlooked the economies and improved efficiency that are possible from modern methods of organization and administration. An example of our efforts in this area is a recent decision to eliminate the eight districts through which the railway is now administered and to add one additional regional headquarters, making four in all, from which the divisional organizations of the entire system will be directly administered.

The recording, transmission and processing of vast masses of data required in the operation and control of a railway system is being streamlined by integrated data processing using modern electronic and communication equipment.

Many other examples of progress could be cited. Let me mention only one. Because Canadian Pacific is a transportation enterprise in the broadest sense, we have in the last few months pioneered in the introduction of competition in domestic civil aviation. For the present, Canadian Pacific Air Lines is restricted to the operation of only one flight daily each way between Montreal, Toronto, Winnipeg and Vancouver. But we believe that private enterprise should be given an opportunity to compete on even terms with government enterprise and that the whole economic discipline should apply to our civil aviation as well as in land transport.

I list these examples of progress only to illustrate the spur to efficiency and prudence which is ever present when management is answerable to private owners of capital. Over the past 10 years, Canadian Pacific has financed out of its own resources or on its own credit, and at no cost to the taxpayers of Canada, a program of improvements to its rail enterprise alone costing in excess of $780 million. Over the next 10 years, confident that we will
overcome the regulatory and other problems which face us, Canadian Pacific is planning to invest about $800 million more on replacements and improvements of rail properties. We believe that these very substantial transportation resources should be given a fair chance to earn their own way by producing a reasonable return on investment.

It is well occasionally to take our bearings by reviewing these principles in relation to the course we are pursuing. The voice of free enterprise needs to be heard or its message will be lost.

I do not question the sincerity of those who hold opposing views. What I do question, however, is their claim to hold a monopoly of social conscience. The truth is that when we speak of the vital role of private enterprise we act in defense of a basic social interest. For we know that private enterprise is essential to the maintenance of a free society. This being so, we may reject without the slightest qualm the sneers of those who say that private enterprise is moved solely by a concern for profits. If safety and freedom from risk were the purpose of private enterprise, then businessmen should welcome stagnation. Instead, the practitioners of the free market shudder at stagnation and set their sights upon change and progress.

Let us, then, remember that the defense of private enterprise is in all truth a duty of good citizenship. For unless we stand ready to defend the free economy—the efficient economy—and all it stands for, both by word and deed, the steady drift towards stagnation will undermine belief in the very principles of economic conduct upon which our prosperity and our social welfare depend.

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Continued from page 7

**Canadian Banking—What It's Doing And Should Do**

Services have grown in the past nine years, so have the physical proportions of banking. The number of branches has gone up from 3,650 to more than 4,700. To keep pace with the big increase in bank customers and their accelerated use of banking services, the chartered banks increased their staffs from 44,411 in 1950 to 62,409 at the end of 1958.

**Capital Funds Increased**

Another development that has featured the last nine years in the banking industry has been the sharp increase in the capital funds of the chartered banks, most of it since 1954. By a combination of setting aside profits and the sale of additional bank shares, practically $300 million has been added to the paid-up capital and reserve funds of the banks.

This has given the banks additional capital funds to cope with the expanded volume of business, to finance growth and such developments as the big increase in bank branches. And in the process, Canadian ownership of the chartered banks has been increased, both relatively and absolutely.

The number of shareholders of the banks has increased from 61,600 in 1950 to 88,496 at the end of 1958. In 1959, Canadians represented 76.62% of all bank shareholders, owning 72.34% of all shares. In 1958, Canadians represented 70.92% of all bank shareholders, owning 72.71%. I merely add that few major industries in this country can match this record of Canadian ownership.

In all this startling growth and development one factor has remained the same: the personalized service that Canadians have come to expect of the banking system. That has been maintained and strengthened as millions of Canadians can attest. It is the determined policy of all banks and bankers to keep it as our greatest tradition.
Canada's Growth Prospects and Role of U. S. A.'s Investment

The Prime Minister and several members of his Cabinet have been emphasizing that quality or necessary for American corporations to review the policies they were pursuing with respect to their Canadian-based subsidiaries.

Our Prime Minister put the Canadian position in these terms:

"Canadians ask that American companies investing in Canada should not regard Canada as an extension of the American market; that they should be incorporated as Canadian companies making available equity stock to Canadians. That there is cause for questioning seems clear when I tell you that it is estimated that of American-controlled firms operating in Canada not more than one in four offer stock to Canadians."

"There would be no potential harm in external ownership as long as companies engaged in these industries are developed in Canada's interests, and their policies take account in their direction of the interests of Canadians."1

"On another occasion the Minister of Finance had this to say: "It is with regret that I say to you that the policies followed by some American investors in Canada have given rise to strong feelings of irritation. Many, perhaps even most American corporations which have invested in Canada have made a genuine and successful effort to be Canadian and to act in that spirit, but there are many others which through either thoughtlessness or for other reasons, and in some cases perhaps as a result of deliberate policy, have created Canadian resentment. I refer in particular to the policy of some very large United States corporations of establishing subsidiaries in Canada and denying to Canadians any opportunity whatever of participating in the ownership stock in such companies, especially when they are engaged in a large scale in the development of Canadian resources. We have sought by the creation of tax inducements to such corporations to admit investment by Canadians in the stocks of these Canadian corporations."

More recently my own Minister, the Minister of Trade and Commerce, dealt with the concern being expressed in the United States about what some people have described as "growing nationalism" or "anti-American feelings." Mr. Churchill summed up the Canadian Government position in these words:

"There is no real alarm or fear in Canada. There is no real anti-Americanism. Government policy is not opposed to foreign capital investment.

"We know perfectly well that we have very valuable natural resources, that we need funds to develop what we have not sufficient capital of our own. You must remember that you have your investment in Canada. We know that your capital investment is playing a major part in Canada's development. The present government is intensely interested in Canadian development. Development of our resources and expansion of our trade are, of course, our objectives. So allay your fears, bring in your capital, we will help you use it wisely. Your future prosperity is closely linked with ours."2

Then the Minister of Trade and Commerce proceeded to offer American parent companies eight specific points which they may wish to consider in formulating operating policies for their subsidiaries in Canada ranging all the way from increased Canadian participation to greater autonomy given to local management. These statements reflect the growing concern of the Canadian public about the role and the manner in which foreign controlled companies, including U. S. corporations, operate in Canada. In keeping with the emphasis on private enterprise in Canada, the Federal Government is hoping that the advice it has been offering to private industry will be heeded by the companies concerned. The Government is, however, giving some thought to what further inducement it could offer to encourage growing Canadian participation in our national development, particularly in the resources field. One such example is a recent statement by the Minister of Northern Affairs and National Resources when he indicated that in granting leases for oil and natural gas exploration on Crown-owned properties, the Government may take into account "the financial responsibility and financial structure of the bidding companies and take into account the extent to which Canadian capital will have an opportunity of participating." Another example is the provision in the Bill to establish a National Energy Board, presently before the House of Commons, giving the Board authority to "take into account . . . the extent to which Canadians will have an opportunity of participating in the financing, engineering and construction of the line," before granting a certificate to construct an oil or gas pipeline or an international power line.

Why Canadians Insist Increasingly on Greater Financial Participation. The concern of the

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2 Great Issues in the Anglo-Canadian-American Community, address to the Canadian-American Club of Victoria, B. C., Jan. 15, 1957, by His Excellency, the Honourable John G. Diefenbaker, Dartmouth College, New Hampshire, Sept. 1, 1957, p. 4.

3 Address by the Hon. Donald M. Fleming, Minister of Finance of Canada, to the Canadian Society of New York, Nov. 7, 1957, pp. 9 and 10.
Canadian public is largely with the heavy direct investment which has given U.S. investors increasing control of Canadian resources and industry. Canadians do not appear to have any objection in principle to direct investment. What they are more concerned about is that they are not given adequate opportunities of participating in this direct investment in many instances. A number of American concerns operating in Canada have pursued and continue to pursue enlightened policies. Others have followed policies to which Canadians have taken increasing objections. Some firms which do not allow Canadian financial participation in their Canadian subsidiaries say that when they established their operations, Canadians were not prepared to share in the risks involved. This might have been true at one time. But the Canada of today is a much wealthier country with a good deal more capital and enterprise available. In fact, what amazes many Canadians is that with a comparatively small initial capital, U.S. corporations have commenced operations in most of the basic industries in Canada. They keep 100% control of that company and then borrow in Canada as well as in the United States debt for their operations.

How Canadian Savings, Resources and Markets Help U.S. Subsidiaries to Grow. Let me illustrate my point by quoting a few more figures from the survey conducted by the U.S. Department of Commerce to which I referred earlier. About 65% of our mining and smelting industry is controlled by U.S. interests. Now in 1957 only 27% of the all capital required by this industry came from the U.S., and 1% from other countries, so that 97% came from Canadian sources, either from retained earnings or from borrowings in Canada.

In manufacturing some 50% of our industries are controlled by U.S. interests but only 37% of 1957 capital requirements were U.S. financed with the remainder coming from Canadian sources. Between 80 and 85% of our petroleum industry is U.S. controlled but U.S. capital supplied only 40% of the capital requirements of our industry in 1957, with 50% coming from Canadian and 0% from other sources.

What these figures suggest is that a comparatively small amount of capital will suffice to establish control of an enterprise in its early stage. Then through good management, the retaining of earnings, and borrowing, the enterprise is expanded. Canadians contribute to the expansion of the enterprise first by buying its products, thus making the accumulation of large profits possible, or in the case of resource industries by making these resources available for development. Secondly, by lending, they assist in the expansion of these enterprises without in many instances being able to participate in an equal partnership.

The Royal Commission on Canada's Economic Prospects also gave us estimates of our country's gross national product in 1959. They put it at $77 and $74 billion with a mean of $74 billion in terms of 1958 dollars (converted from the 1955 dollars used by the Commission). This compares with the 1958 gross national product estimated at $34.5 billion.

Reasons for Optimism. The preparation of economic projections is a hazardous business to say the least. But whatever source we turn to we find great optimism about Canada's future economic expansion.

The reasons for this optimism are fairly obvious. Canada is at a different stage of development than the United States. We still have many natural resources to develop. We have a northern frontier to push back. Huge sources of energy are waiting to be tapped. Rapid population growth is providing us with an expanding domestic market. More and more opportunities for secondary industries are opening up. For these and many other reasons we can

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Continued from page 19

Canada's Growth Prospects and Role of U. S. A.'s Investment

expect not only a rapidly growing economy but also one that will be more diversified and will provide ample opportunities for Canadians and others participating in our development to do well.

Future Role of U. S. Investment

Large Amounts of Capital Required for Sound Investment. The rapid expansion which we foresee for Canada for the remainder of the century will require large amounts of capital. We expect that Canadian savings will supply the bulk of this capital and that our country will continue to welcome foreign capital to participate in our development.

U. S. Will Remain Major Foreign Investor in Canada. The United States will remain the major source of foreign capital in Canada not only for reasons of geography but also because of the enterprise, vision and self-interest of U. S. business.

The opportunities for American investors to do well in Canada have never looked better. But these investors would do well in framing their investment policies over the long term, to take account of the new spirit that prevails in Canada. There is no anti-foreign or anti-American feeling in Canada of any significance. Canadians are just as determined as ever to share to a greater extent in their own economic development.

Increasing Participation and Public Reporting. If American investment is to continue to thrive in Canada it will mean, if you want to be practical, the encouragement of greater Canadian financial and managerial participation in U. S. subsidiaries operating in Canada.

Public demand is also likely to grow for foreign firms operating in Canada, particularly public-owned companies, to report about the success of their operations in Canada. American corporations are accustomed to report fully about their operations in the U. S. under SEC regulations. We do not have SEC regulations in Canada. Hence, legally many companies are not obligated to report but this does not alter public sentiment which favors the publication of such information. Therefore, unless there is increased voluntary reporting, public demand may lead to the introduction of regulations similar to those in force in the United States. Most Canadians are true free enterprise and like to avoid government regulations as much as possible. But unless American firms follow enlightened policies when operating in Canada, they will by their short-sighted behavior strengthen the hands of those who ask for increased government regulations for foreign enterprises.

While in Canada, Operate as a Canadian Firm. To put it in a nutshell—what Canadians expect is that Americans, when they operate in Canada, behave like Canadians do and accept the responsibilities as well as enjoy the benefits of doing business in an expanding economy. Canadians do not expect American firms to do any more than they would do at home. They would like to see those companies be as good Canadians in their operations in Canada as they are Americans in the conduct of their business at home.

Now, you may ask why should American firms make what some of you may consider concessions. After all it is your money that you are investing. And since you are putting up the capital it is up to you to decide how you manage your affairs and how you get the best returns. Now, all this is perfectly true. But the thing to remember is that Americans are not just doing Canadians a favor by investing in Canada. They are doing it for good business reasons, because it is profitable, and for many other sound commercial reasons. To mention just one of these: the United States is becoming increasingly short of natural resources. By developing these resources in Canada our American friends are obtaining a dependable long-term source of supply which will keep their economy going for decades, if not centuries, to come.

What Canadians are after is not just good neighborliness, as important as happy relations between the two countries are. What Canadians wish is to see the pursuit of sensible policies by American parent companies which will benefit Canada as well as the U. S. business community participating in our economic development. Is this too much to ask for a country which offers the largest and most profitable opportunities for foreign investment in the world?

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Continued from page 3

Canadian Investment Outlook And Responsible Freedom

find full expression for their enterprise, industry and aspirations as free men and women.”

Favors Finance Minister Fleming

Irrespective of partisan politics, I think everyone recognizes that our Minister of Finance, Donald Fleming, has made a good beginning in tackling the complex financial problems of this nation. If Canada is to be strong financially, Mr. Fleming must bring our Federal income and outgo into balance and rigidly control inflationary pressures to re-establish confidence in our currency.

Let me also quote from the Annual Report of the Governor of the Bank of Canada, James Coyne:

“I believe that monetary policy must strengthen and reaffirm its determination to remain true to the basic principles of sound money.”

Now what is in prospect for the current fiscal year March 31, 1959-60? We have a Budget that at least promises changes in the right direction.

First of all, the overall government deficit has been narrowed down from last year by some $400 million, with net borrowing requirements estimated at around $850 million, less, of course, the recent $150 million CNR issue and the increased offering of Bills. Of this amount $385 million is estimated for the budgetary deficit, $42 million for the deficit in the Old Age Security Fund and about $400 million to cover net requirements for non-budgetary purposes, notably housing loans, Canadian National Railway and St. Lawrence Seaway.

In forecasting government revenues the Minister assumed a Gross National Product for 1959 of about $435 billion or 7% above the 1958 level. Moreover, it was assumed that this increase would be in “real” terms, not inflated dollars. Should the pace of economic recovery generate a still larger Gross National Product, the budgetary deficit could turn out to be much lower than the $393 million forecast and net borrowing requirements well below the $850 million, less, of course, the CNRs and Bills.

Sees Reduced Bond Market Pressures

It, therefore, seems wise for us to anticipate new money requirements for the balance of the current fiscal year of $700 million, less the step-up in the present Treasury Bill lenders. With a successful Canada Savings campaign this Fall, the bond market would need to absorb less than one-half the new borrowing absorbed in the past fiscal year. As I inferred before, if economic improvement exceeds budget expectations the bond market would be relieved even more. Because of the Conversion Loan, refunding requirements (excluding Treasury Bills) are, of course, much lighter than those carried out last year. In any event, pressure of Federal financing on the bond market should be considerably reduced and thereby afford more scope for provincial, municipal and corporate borrowers.

While governments and municipalities, of course, are affected by various kinds let’s not forget the importance of corporate financing. After all, corporations play the key role in producing goods to jobs and producing services; corporate activity and production is the source of government tax revenues. So it is absolutely necessary to ensure an adequate supply of capital for corporate purposes.

Paying for Social Benefits

Insofar as government spending is concerned, we should naturally like to see reductions wherever possible. For example, some of us may question why, in an expanding economy, the government puts $3 billion into the Old Age Security Fund on a self-sustaining basis. To my mind, this is the only proper way to handle universal benefits of this kind. Aside altogether from the soundness of the principle, the increased levy on personal incomes at all levels should make citizens realize that some of their income is being taxed to be provided only if we are prepared to pay sufficient taxes from our own pockets.

One of the most gratifying tax changes announced in the budget should place the Old Age Security Fund on a self-sustaining basis. To my mind, this is the only proper way to handle universal benefits of this kind. Aside altogether from the soundness of the principle, the increased levy on personal incomes at all levels should make citizens realize that some of their income is being taxed to be provided only if we are prepared to pay sufficient taxes from our own pockets.

I sometimes wonder if we realize just how far this country has gone in social and welfare planning since the end of the War. In the past fiscal year Federal schemes of unemployment insurance, Old Age Insurance and family allowance payments exceeded $1.5 billion. This year Federal and provincial hospital plans will claim further large disbursements from the public purse.

Let us not fool ourselves about social security benefits. Desirable as they may be, we all know that they tend to be tied up with political promises to attract votes, the familiar “pie in the sky” technique.

Once established they become permanent built-in features of the government spending pattern, no matter what political party is in power. The cost of these benefits could readily become a vicious spiral expanding with each new round of election promises. Aside from the staggering financial burden, growing “cradle to the grave” protection would surely weaken the self-reliant, independent and hard-working characteristics of the Canadian people.

Political-Educational Participation

In dealing with social security and mounting government expenditure, we have an educational job to do. The plain fact is that Canada’s credit status can be maintained in only one way—by rigidly controlling government expenditures, thereby curbing the inflationary potential implied in bank borrowing. In other words, deficit financing must be stopped, and even if the value of money is to be restored.

The Investment Dealers’ Association’s Member firms have combined staffs of around 6,800 in offices stretching from the Atlantic to the Pacific. Each one can, if it so chooses, talk to the Member of Parliament in our own riding.—let him have our views in the clearest, strongest terms. We can ask our wives and our friends to do the same, in turn can urge their friends to do likewise. In our business, many of us also have opportunities to bring the pertinent facts to the attention of the public through our clients, clubs and business connections. Through your efforts and mine, the impact of our educational job can build up and grow to the point where it will exert persuasive power on government thinking.

On first thought, matters of this kind may seem far removed from underwriting and distributing securities; but on second thought, are they not at the core of the economic system underlying the very existence of our business, and, even more important, our whole way of life.

Growing Big Government

The I.D.A. should be seriously concerned over the growing role of government in our society. We must be on guard against any tendency towards bureaucratic control of our industry in the capital markets—such as setting up new issue committees to decide how and where domestic capital should be channelled. The British people, after long experience with its Capital Issues Committee, suspended virtually all control over domestic borrowing in February of this year. At this time the renowned publication the “Economic Survey” was released to the public:

“So after two decades the heavy hand of Capital Issues Committee is lifted from the British economy. There is every cause for rejoicing. The country was too bureaucratic, too haphazard, and therefore inefficient.”

In this connection, let me just quote a sentence from the latest Bank of Canada report:

“In future periods of inflationary pressure it may be that financial markets will operate more effectively, or to the extent that..."
market decisions are regarded as unacceptable governments may play a more active role in influencing the allocation of credit and resources.

You will agree that measures in this direction would impose on our industry a form of regulation that would be unthinkable for a peacetime economy. They would not only sap the vitality of our industry but would greatly retard economic development in this country.

Would government dictate, by its very nature, not lean towards accommodating Federal and other governmental requirements first, and thus leave the all-important private area in a secondary and uncertain position? Such a situation would be absurd, since private investment is the main motivating force in the country’s whole capital formation process. Over the past decade, for instance, private investment has accounted for more than 70% of Canada’s total new capital spending.

Assuring Canada’s Growth

The future should hold tremendous opportunity and responsibility for our industry. Despite Canada’s high standard of living, ours is an under-developed country insofar as natural resources are concerned; in many areas we have scarcely scratched the surface of our productive potential. Vast savings must be mobilized for the sound development of these resources, not to mention the huge social capital requirements for our growing population.

The banks, trust and insurance companies have an extremely important role to play in our financial life. But it is the investment dealers who are primarily responsible for raising long-term capital for our country’s development. We are the only people with the necessary experience, facilities and knowledge to underwrite and distribute suitable securities effectively. Surely we are the group who should take the lead in assisting and advising the government on any matter that affects the capital market; the T.D.A.’s submission to the government on the Borden Report is a case in point.

We live in a rapidly changing world, where “reasonable freedom,” the basic fibre of our society, is threatened by ideologies of one kind or another. In adapting our industry to changing conditions we must demonstrate leadership of high quality, judgment based on sound information and clear thinking, and ethics that command public respect.

It is my conviction that our industry is eminently well qualified to make its own decisions and to take responsibility for the decisions we make. That is what I mean by “reasonable freedom.” Individually and collectively, let us firmly resolve to protect “reasonable freedom”—the inherent strength of our industry’s past achievements, present stature, and future development.

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