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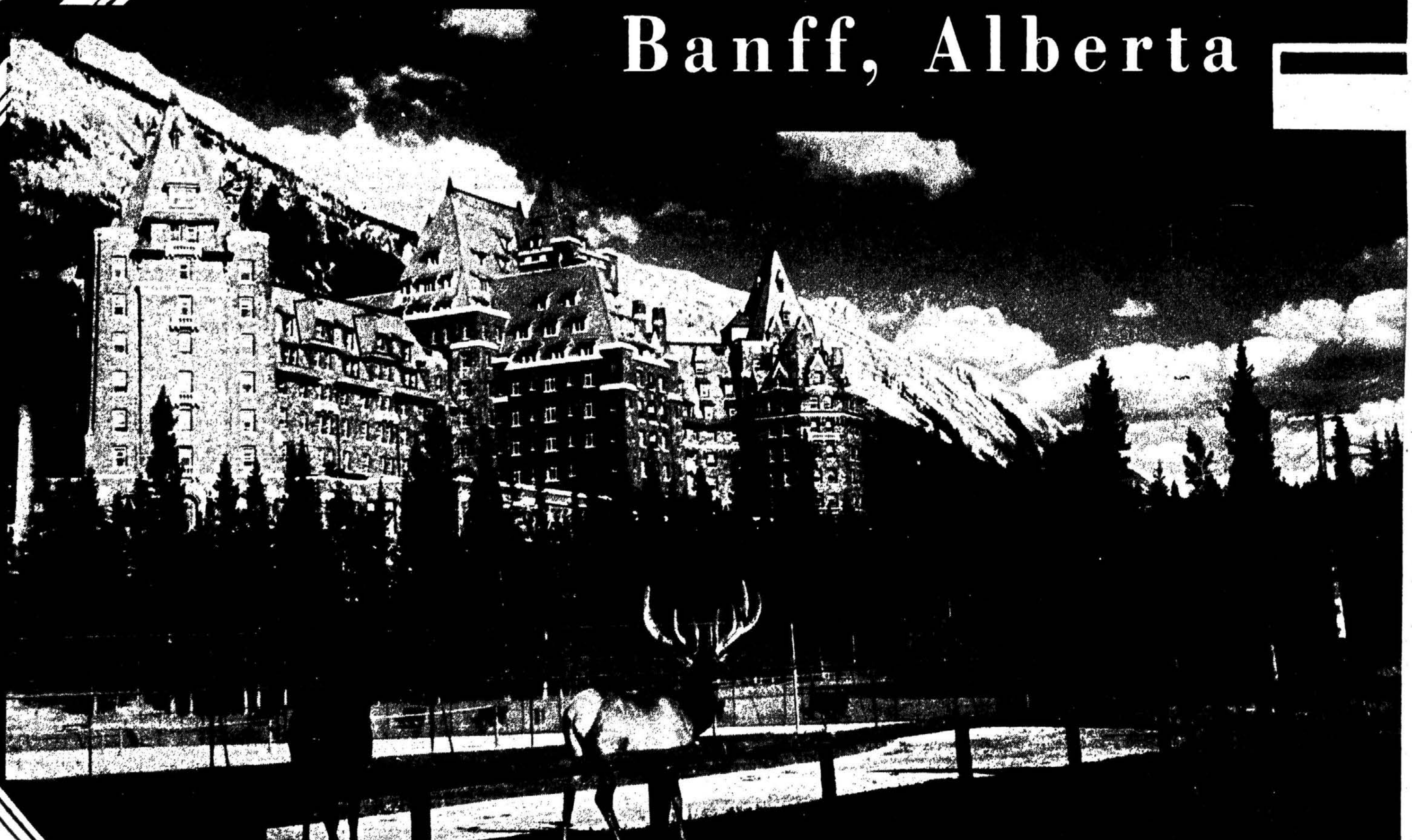

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Investment Dealers' Association of Canada

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' spokesman anticipates 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.

Edward H. Ely

A year ago, we had experienced active and broad new issue markets for several months, long-term governments were relatively stable and short-terms had strengthened. But a few days before the last annual meeting of the Investment Dealers' Association of Canada, the Federal budget was brought down with its ominous foreboding of large-scale deficit financing and prospective new money borrowing around $1,400 million. In addition, refunding issues approximated $2 billion for the fiscal year and remaining Victory Bonds in the next few years would total $5½ billion.

Briefly, in June, 1958, our bond market faced the weight of huge deficit financing, heavy refunding of short-term debt and uncertainty over monetary policy amid growing fears of inflation in an economy emerging from a mild recession. Similar conditions in the United States also influenced our markets.

It would be a waste of time, I think, to indulge in a detailed review of the bond market over the past 12 months. But I would like to mention the Canada Conversion Loan launched in mid-July, by far the largest debt financing in our history. Aside from paving the way for greater flexibility in short-term financing, the Loan was designed to assist the government in devising an orderly program of debt management. Members of Investment Dealers' Association made an outstanding contribution to the success of this Loan.

Defends Conversion

I'm sure a lot of people are unhappy because their Conversion bonds are quoted in the low 90s. But let's not put the cart before the horse. This Loan enabled them to exchange their 3% coupon bonds for 4¼ or 4½% and a contract to pay 100%' par value when the bonds mature. Actually, under any managed currency system there are bound to be times when aggressive cheap or dear money policies create periods of rising or falling bond prices—but these gyrations in no way undermine the fundamental value of the security contract. If the Conversion Loan had not lifted the heavy burden of Victory Bonds over-hanging the market, we would have found it much more difficult to carry out the financing that was necessary last year.

As you know, the Conversion Loan attracted widespread interest and favorable reaction in many circles outside Canada. For example, the monthly letter of a leading United States bank commented as follows:

"The Canadian plan accomplishes at one fell swoop what Secretary of the Treasury, Robert B. Anderson, has been attempting to work out slowly over an extended period of time. This sort of step is one we should be considering."

Attacks Government Spending

Perhaps I could summarize the general picture over the past 12 months by saying that confidence in government bonds has continuously deteriorated — the direct result of the government's spending policy and its inflationary implications. In other words, the supply of savings for government and other fixed income borrowers tended to contract, while investors shifted their savings into the stock market, hoping to counteract further erosion in their capital. The whole capital market seems distorted and out of balance when there is such a wide spread between interest on gilt edge bonds and return on "blue chip" stocks. Does it make sense for governments to be paying 5¼% to borrow money when many corporate equities yield only 2½%?

According to perliminary 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 $166 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 contained 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 when 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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*An address by Mr. Ely before the 43rd Annual Meeting of the Investment Dealers' Association of Canada, Banff, Alberta, June 9, 1959.

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—affecting his industry. He indicts 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.

H. S. Foley

In financial parlance one speaks of "floating" a loan. I have often wondered how the word "float" became connected with financial transactions, since it actually means to be borne or carried along by a liquid. After participating in this meeting for a couple of days, however, the connection has become clearer.

I note certain similarities between your business and ours. We are allowed by the government to make money out of wood. You have it even better. You are allowed to make money out of money—other people's money. Observing the air of affluent well-being amongst your members I have about decided to give up the wood business and apply for membership in your Association.

I have noted that in the T. V. westerns there seems to be a lot of shooting. It often revolves around the bankers and dealers in faro games. If my memory is correct, the bankers did a bit of shooting at you dealers back about 1934 and forced you, at pistol point, with a small assist from the government, to change your Association name.

I don't know whether I understood my friend Ned Ely's remarks correctly, but I think I heard him say something about holding money on deposit and paying interest. I wondered if this meant you fellows are drawing your six-guns again.

Let me hasten to say that my disrespectful remarks about investment dealers are only inspired by envy. There is no field of business that offers the same variety or breadth of experience, or brings with it greater insight into basic principles or soundness of judgment. It must be a source of excitement and satisfaction to be so directly connected with the mechanism of growth and development in a rapidly expanding country like Canada.

It has been said that the measure of capital wisely applied is the measure of progress. Canada's progress, the envy of the world, is testimony to the outstanding job done by investment dealers.

They are responsible for assembling the capital which is — the powerhouse of prosperity — the energizer for transforming dreams and plans into reality—the wherewithal for building and improving industries, roads, schools and so on. It often strikes me as one of the great anomalies of our time that so few people understand the fundamental principles of our economic system. This reflects, I am convinced, an important weakness in our educational system.

Certainly because of lack of knowledge or understanding, we often, through the action of public opinion on government, or rank and file opinion on unions, fall into, or are forced into practices which are contrary to good sense and so often against the real interests of those whom they are supposed to benefit.

Investment dealers do a great service to the nation through their educational program and efforts to widen share ownership amongst the general population.

The title of this paper is "Forest Dyanmics." The word "dynamics" is used in the sense of forces which produce motion. Forces, of course, can cause motion forward or backward, or, depending on the balance of those forces, create a static condition.

In a fast-moving world, reappraisal of the forces at work in business must be continuous. It seems human nature, however, that when the economy is booming there is less analytical thinking about either past or future. A period of moderate set-back, such as we have been through, acts as a healthy spur to critical analysis. In our forest industry it was overdue.

Canada's forest industry was built initially on lumber. As time passed pulp and paper became increasingly important and are today, by a wide margin, predominant in the national forest economy, although still taking second place to lumber in British Columbia. With every year that passes, wood will continue to become more a source of fibre and chemicals rather than boards.

You know that one of every 12 Canadians in our goods producing industries is concerned with forestry or forest products. The value of forest products currently approximates $2,300,000,000 annually. About one-third of Canada's total export earnings come from the sale of forest products. Of all manufacturing industries, pulp and paper alone stands first in employment, in wages paid, in new investment, in net value of output. The industry uses one-fifth of all electric power generated in Canada and pulp and paper production in dollar terms is greater than that of the nation's wheat crop and more than twice that of all the nation's metal mines. As a primary 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 with no support or protection of any kind, it has entered and remained in the rough and tumble markets of the world and shown, over-all, continuous 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 Gordon Commission predicted that overall demand for our forest products would double by 1980, and said that Canada's forest resources are adequate to supply the demand. In the light of past performance, population trends and increasing literacy, this forecast does not seem unreasonable.

It might be of interest to know that if this forecast were to prove correct, it would require an investment of three to four billions of dollars. The assembly of this huge amount of capital should provide a challenge. I would like to see this come to pass. Actually, I think the possibilities could be greater than indicated by the Gordon Commission. We will, however, fall short of these forecasts if we merely sit on our hands and take this growth for granted.

The dynamics of the industry have changed in recent years. Forces have arisen which are slowing the industry's growth potential, relative to other areas. We must put our hands to the job

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*An address by Mr. Foley before the 43rd annual meeting of the Investment Dealers' Association of Canada, Banff, Alberta, June 9, 1959.

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.

N. R. Crump

Voluntary saving and freedom of choice in the making of investments are the cornerstones of Canada's enterprise economy. Because Canadians today find themselves in the midst of striking and important changes in their economic environment and because in times it is important to grasp clearly the basic principles upon which progress itself depends, I invite consideration of two matters which seem destined to affect profoundly our country's future. One of these is the need for a careful reappraisal of certain assumptions which many of us have come to accept as landmarks of Canada's economic life. The other matter which I have in mind is the enduring need for a clearer understanding of the enterprise economy itself.

Lists Dangerous Assumptions Held

Public and business policies today often reflect some basic assumptions concerning Canada's position in the world economy. With some over-simplification, these assumptions may be summarized as follows:

First, there is the assumption that the world economy needs us more than we need it.

Second, there is the assumption that we in North America enjoy unchallenged superiority over the rest of the free world in industrial efficiency and in technological and managerial knowledge.

Third, there is the assumption that the United States will never pursue trade policies harmful to the growth of Canada's resource industries.

Fourth, there is the assumption that we are the repository of ultimate wisdom in the realm of fiscal and monetary policy.

And, finally, there is the assumption that the mixed economy, in which state enterprise and private enterprise function side by side, is not only a good thing in itself but is also essential to national growth and prosperity.

These assumptions are widely considered — by many businessmen, labor leaders and parliamentarians—to be self-evident truths. I believe, however, that not only is it dangerous for us to take them for granted, but also that to do so reflects an attitude of complacency wholly at variance with the economic realities of our time. These assumptions are, at best, half-truths.

Who Needs Whom?

Consider, for a moment, the assumption that the world economy needs us more than we need it. Such an assumption undoubtedly had considerable validity in the immediate postwar years. The economy of most of Western Europe lay devastated and the United Kingdom itself had an old-fashioned industrial plant worn to the breaking point by the strains of war.

Today, however, the expanding and efficient industrial complex of the United Kingdom and Western Europe has made world trade more intensely competitive than at any time in Canada's history. No longer can it be taken for granted that demand stemming from the era of postwar austerity in those countries will continue to provide a dynamic stimulus to Canadian trade. Instead, we must acknowledge that the fact that the United Kingdom and the countries of Western Europe are today the most vigorous competitors for world markets.

Another factor, the full impact of which cannot as yet be fully assessed, but which calls into question the validity of the assumption that the rest of the world needs us more than we need it, is the European Common Market. In time, perhaps, the economic expansion forecast for Western Europe as a result of the Common Market may stimulate demand for the products of Canada's great resource industries. It will only do so, however, provided wages and other production costs in Canada are such that the products of those industries remain competitive. The more immediate effect of the Common Market is likely to be more intensive competition from abroad both for markets and for investment capital.

What about the assumption that we in North America enjoy unchallenged superiority over the rest of the free world in industrial efficiency and in technological and managerial knowledge? How much validity attaches to this assumption today?

The industrial and economic leadership of North America, it should be remembered, is primarily the result not of our strength but of other people's weaknesses and misfortunes, such as the destruction and impoverishment brought about by World War II. This position of leadership has been based on temporary 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. Yet this resurgence constitutes a dramatic challenge to our industrial efficiency. Other people than ourselves have brains and talent in achieving progress through the efficient use of men, machines, methods, material and money.

U. S. A.'s Trade Uncertainties

Nor can we any longer assume, as it was fashionable to do in the years immediately following World War II, that the United States, being deficient in raw materials, woud never pursue policies harmful to Canada's resource industries. We have already seen how import quotas imposed by Washington can adversely affect Canada's production of lead and zinc. We have seen, too, the threat to the growth of Canada's petroleum industry, now temporarily removed, which was posed by Washington's system of oil import quotas. And on the agricultural front, our capacity to export farm commodities is jeopardized not only by farm protectionism abroad, but also by the farm surplus disposal policies of the United States. So long as U. S. wheat is sold against frozen "soft currencies" or bartered away in Canada's traditional export markets, prosperity based on trade can no longer be taken for granted.

The time may come when Washington will see fit to abandon such economic follies. Until it does, however, the realities of the situation would suggest that we can no longer safely assume that Congress will give priority to the importance of Canada's economic well-being over short-sighted and, I hope, short-term trade policies based chiefly on considerations of political expediency.

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. Ely, President 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 country's affairs.

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

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*An address by Mr. Crump before the 43rd annual meeting of the Investment Dealers' Association of Canada, Banff, Alberta, June 10, 1959.

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

By O. J. FIRESTONE*

Economic Adviser, Department of Trade and Commerce, Ontario, Canada

Opportunities for Americans to do well in Canada are said to never have 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.A. official data to underscore principal Canadian grievance, Americans are shown to have supplied but 31% of required funds and, yet, control 55% of Canadian economy whereas Canadians have supplied 67% of capital and others 2%.

Canada's Postwar Economic Expansion

The Canadian economy has been growing very rapidly in the postwar period—in fact more rapidly than the U. S. economy, the world's most economically advanced nation.

Population and Gross National Product. Between 1945 and 1959 our population increased from 12 million to 17½ million (a total of 45% or at an annual average compound rate of 2.7 per cent). Our gross national product rose from $11.8 billion in 1945 to an estimated $34.5 billion in 1959 (an increase of 192% in current dollar terms and 63% in volume terms, or at an annual average compound rate of 7.9% and 3.5%, respectively).

Dr. O. J. Firestone

Canada Expanding More Rapidly Than the U. S. Over the same period the U. S. economy also made great strides forward including an annual average compound rate of increase in population of 1.7% and in gross national product in volume terms of 2.1%. 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 26.5%, with gross national product increasing from about $214 billion to an estimated $468 billion or 119% in value and 33% 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 taken on increasing importance in financing our economic development. Between 1946 and 1949 about 19% of gross capital formation (in durable physical assets) was financed by foreign capital. Between 1950 and 1954 an estimated 25% was financed from that source with this proportion rising to something like 35% for the most recent period, 1955 to 1959.

Total long-term foreign investment has risen from about $7 billion at the end of 1945 to about $18½ billion at the end of 1958, or by 160%. Over this same period, U. S. long-term investment in Canada has increased from $5 billion to around $14 billion, a gain of 180%, and the U. S. share of the total has grown from 70 to 76%.

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 result of a recent survey conducted by the U. S. Department of Commerce which indicated that in 1957 only 31% 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.[1] 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 obtain control of half or more of some of Canada's major industrial sectors, e. g., petroleum industry some 85%, mining and smelting about 65%, and total manufacturing industries over 50% (approximate estimates as of the end of 1958).

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 Royal Commission on "Canada's Economic Prospects" which turned in a report in 1957 similar to the report of the U. S. Paley Commission dealing with natural resources but covering an even 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:

"Many Canadians are worried about such 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 most 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 repatriated."

"A situation does exist in some sectors of the economy where legitimate Canadian interests may be over-looked or disregarded. The non-resident owners of the larger companies which have a dominating influence may not in all cases be aware of the Canadian point of view."

"We believe Canadians should have more tangible assurance than they now have that the people who are responsible for the management of such foreign-owned concerns will, whenever reasonably possible, make decisions that are in the best interests of Canada; that such concerns in effect become more 'Canadian' in outlook."[2]

Government's Attitude. In the summer of 1957 we had a change of government. Since that time

*An address by Mr. Firestone before the 43rd Annual Meeting, National Industrial Conference Board, New York City.

1 *Survey of Current Business*, U. S. Department of Commerce, Washington, January 1959, p. 23.

2 *Royal Commission on Canada's Economic Prospects*, Final Report, Ottawa, November 1957, pp. 389, 392 and 393.

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What Canadian Banking Is Doing and Should Do

By ULRIC ROBERGE*

President of the Canadian Bankers' Association

and

General Manager, Banque Canadienne Nationale

Banks have no alternative but to keep a tight rein on bank loans, so long as money supply is kept in check and demand for bank loans continues to grow, is Mr. Roberge's advice to his colleagues. Stepping down after two years as President of Canadian banking group, Mr. Roberge briefly depicts the major and dramatic changes in the past few months, and banking's flexible and tremendously progressive growth since 1950. He expresses particular pleasure at the gains in Canadian shareholding-representation and in the virtually unmatched record of Canadian ownership of its industry.

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 domistic fields; it is not yet noticeable in the trend of our export trade. Balance of payment position continues to give cause for concern.

Ulric Roberge

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 themselves in a cash 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 amount of government bonds in 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 increased beyond 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 strength and stability 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 demonstrating the growth of banking services in Canada in the past nine years. 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

Or look at the number of individual lending accounts. It is not possible to give comparative figures but on Dec. 31, 1958 there were 1,531,569 loans on the books of the chartered banks apart from mortgage loans under the National Housing Act. Of these, 66% 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 1,304,118 out of 1,531,569 or 80%. 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 Housing 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 1958, the chartered banks had approved loans of $1,117 million, aiding in the construction of 109,000 new homes throughout Canada. In addition, under the home improvement sections of the NHA, which became effective in February 1955, the chartered banks made 122,300 loans to a total of $127 million.

As the use and extent of bank-

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

Managing a Canadian Subsidiary for a United States Parent

By C. A. MORRISON*
Vice-President, Canadian General Electric Company, Ltd.
Toronto, Canada

Getting down to specifics, head of 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 troubling problems 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.

There is a sense of concern in Canada over the concentration of ownership of some of the country's more important industries in a foreign country—even though that country is friendly as well as a partner in military defense and in other international affairs.

C. A. Morrison

The problems that Canada sees are not figments of the imagination or evidences of an inferiority complex. Some of the problems are political, and 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 timely 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 law, 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, cannot be over-emphasized. 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.

It has been suggested that a fundamental move in overcoming these matters would be for the parent to sell from 20 to 25% of the subsidiary stock to Canadians. While this would permit Canadian investor-partnership in the ownership of the business, and would have favorable public reception, it does not get to the heart of the problem. The problem arises from the management philosophy of the parent with respect to the operation of its subsidiary. The control, whether it be 80% or 100%, has no bearing, in itself, on this management philosophy of the parent.

The solution is found only in the whole-hearted acceptance of the philosophy of decentralization. This involves clear-cut delegation of full management responsibilities to the subsidiary officers with appropriate authorities and clearly defined accountabilities—all related to the general management of a business as differentiated from the management of a domestic branch.

Yet, Would Not Weaken Ties

There is nothing in this philosophy of decentralization that weakens 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 precaution may assume 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) Consultant and advisor services on matters concerning advanced methods and technology on all operating functions.

(2) Basic "know-how" and patent rights.

(3) The supply of goods and services necessary to complement the manufacturing and marketing operations of the subsidiary.

It is essential that the Canadian subsidiary of a United States parent should operate in complete harmony with the social, economic and political aspirations of Canadians. Any deviation from this path will surely restrict the long-term profitability and growth of the subsidiary. A board of directors with strong outside Canadian representation may prove extremely helpful to the subsidiary management in meeting this need.

Board of Directors

The board of directors, including a number of independent representatives, should be chosen so as to constitute a highly qualified body to give advice and guidance to those charged with the operation of the business. The board should then delegate to the President and Chief Executive Officer the responsibility and authority for the general management of the company including, but not necessarily limited to, such broad matters as—

(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 methods 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 counsel is given considerable credence by the non-committed nations. We believe in democratic institutions and the free enterprise system. It is therefore, 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.

*An address by Mr. Morrison before the 2nd annual economic conference, National Industrial Conference Board, New York City.

Mr. & Mrs. Norman Alexander, *James Richardson & Sons,* Winnipeg; Mrs. E. H. Ely, Toronto; N. R. Crump, president, *The Canadian Pacific Railway,* Montreal; E. H. Ely, *Wood, Gundy & Co., Ltd.,* Toronto; (n. b.—The background of mountains is not a picture; this is a scene through the window of Banff Springs Hotel from the main lounge)

Norman Alexander, *James Richardson & Sons,* Winnipeg; H. S. Foley, *Powell River Company, Ltd.,* Vancouver; Wilfred Borrie, *Pemberton Securities, Ltd.,* Vancouver; E. H. Ely, *Wood, Gundy & Co., Ltd.,* Toronto; Harry Gassard, *Investment Dealers' Association of Canada,* Toronto

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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 95%; or more than twice our rate.

Similarly for chemical pulp: Canada increased its production between 1950 and 1957 by 35%, 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 this 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 tariffs designed to protect domestic industry. (In passing I would like to say that the current sentiment toward higher tariffs 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 desirable 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 processing. It makes the total income tax on our industry from 2½ 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 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 overcapacity 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 abroad for 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 enterprise 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 privately or publicly-owned, 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, then 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 goal of economic expansion and growth and more important than full employment. Indeed, both economic growth and full employment will depend on the success which we achieve in competing in the international economy.

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. Those 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 skillful 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. Money is invested 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 savings are 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 few 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 unabashed paint glowing 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 three things. We must proclaim on every possible occasion the accomplishments of private enter-

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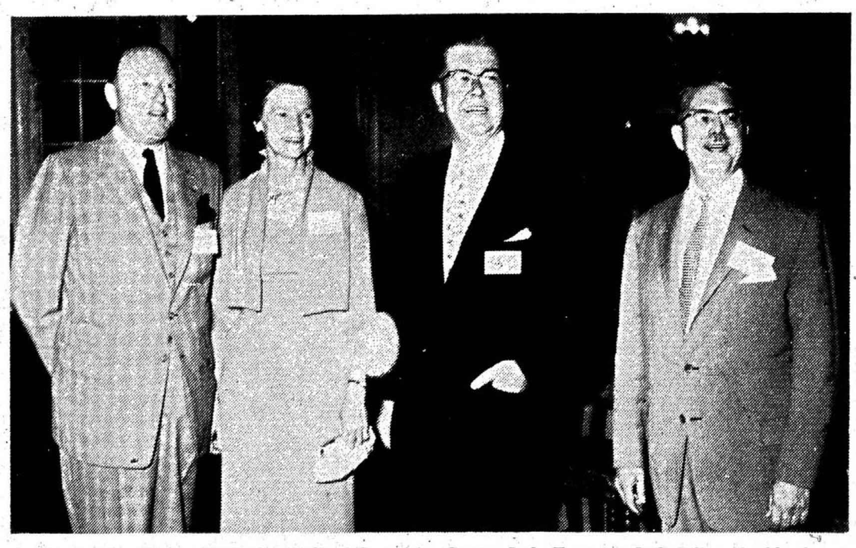
Mr. & Mrs. Allan Duncan, *Annett & Company, Ltd.*, Toronto; Mr. & Mrs. Jack Pequegnat, *Cochran, Murray & Co., Ltd.*, Toronto



Mr. & Mrs. Mickey McBride, *Midland Securities Corpn. Ltd.*, Toronto; Jack Dillon, *Carlile & McCarthy, Ltd.*, Calgary; Bellman Mason, *Anderson & Co., Ltd.*, Toronto

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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 outpouring 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 Country'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 enterprise economy 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 to work under the discipline of the profit-and-loss regulator. In the case of corporate management, 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 showing a 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 private enterprise system, to sell their services where the highest rewards are offered. Here again, the allocation of labor and its reward is ultimately determined by the consumer. The ensuing mobility of the labor force is the best assurance that the most efficient use will be made of the country's human as well as material resources.

Attacks Inflation and Restrictions

Now just a word about those who, consciously or otherwise,

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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 incentive 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 all 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 fre economy. Indeed, social legislation has removed the only vaild 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 Monopolize

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

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Mr. & Mrs. Douglas Deans, *Bankers Bond Corporation Limited*, Toronto; Mr. & Mrs. William Moore, *Eastern Securities Company, Ltd.*, Halifax

Mr. & Mrs. G. S. Swindell, *Wood, Gundy & Co., Ltd.*, Winnipeg; Mr. & Mrs. Roy Beale, *Wood, Gundy & Co., Ltd.*, Vancouver

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Landmarks of Tomorrow

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 approval 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, to 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 detriment of shippers, consumers and railway owners alike. A fair solution to the problem of statutory grain rates 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 permissive 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 unduly high charges owing to the absence of competition.

In the postwar period, the rate of return on net investment in Canadian Pacific railway property has ranged from 2% 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 hunting license permitting a reasonable rate of return becomes all the stronger.

In recent years, we have repeatedly urged this upon the Board of Transport Commissioners. Although the Board has never substituted the "rate-base—rate of return" principle for the so-called "requirements formula" it did in 1954 establish the net 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 restrictive labor practices which hamper progress and deprive the investor and the public alike of the advantages and economies made possible by technological progress. Canadian Pacific, in 1958, following a prolonged labor dispute involving thorough investigation of the matter by a Federal Conciliation Board and a Royal Commission, and two strikes, won the right to operate freight and yard diesel locomotives without a fireman. Both the Conciliation Board and the Kellock Royal Commission found that there was no useful work for firemen on such locomotives to perform.

I mention these matters because they highlight Canadian Pacific's 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 to the end of 1958 of nearly $200 million, is now performing over 90% 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 since 1950 of 17% in passenger train miles and the substitution of many runs of more economic 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 great possibilities of savings and improved service to shippers. New methods of handling terminal 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 same economic discipline should apply to both, in civil aviation as well as in land transport.

I cite 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

Mr. & Mrs. E. W. Pyatt, *Wood, Gundy & Co., Ltd.*, Toronto; Mr. & Mrs. P. J. Chadsey, *Wood, Gundy & Company Ltd.*, Toronto

Mr. & Mrs. Hugh Cayley, *Wills, Bickle & Company Ltd.*, Toronto; Mr. & Mrs. J. G. Weir, *Wood, Gundy & Co., Ltd.*, Toronto

overcome the regulatory and other problems which face us, Canadian Pacific is planning to invest about $900 million more on replacements and improvement 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 abhor 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 statism will undermine belief in the very principles of economic conduct upon which our prosperity and our social welfare depend.

Continued from page 7

Canadian Banking—What It's Doing And Should Do

ing 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 44,161 in 1950 to 62,409 at the end of 1958.

Capital Funds Increased

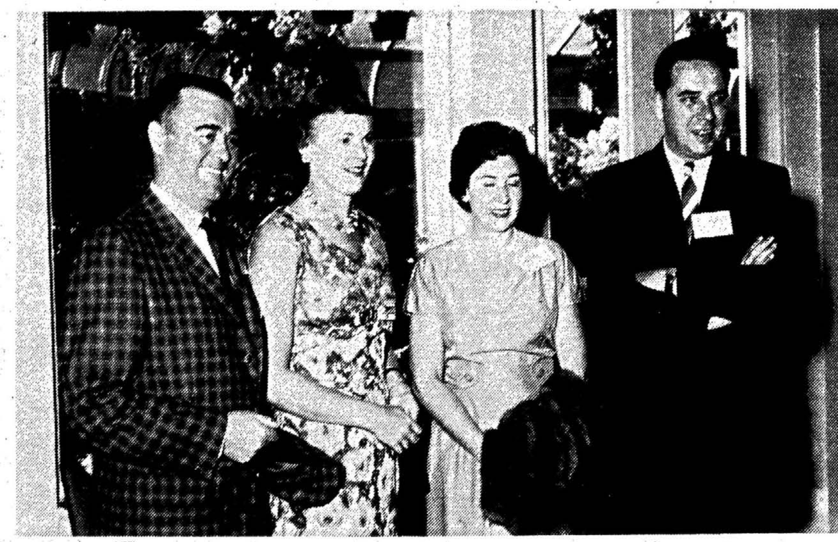
Another development that has featured the last nine years in the banking industry has been the sharp increase in the capital funds of the chartered banks, most of it since 1954. By a combination of setting aside profits and the sale of additional bank shares, practically $500 million has been added to 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 61,800 in 1950 to 88,496 at the end of 1958. In 1950, Canadians represented 76.62% of all bank shareholders, owning 72.34% of all shares. In 1958, Canadians represented 79.02% 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.

Mr. & Mrs. Charles Robinson, *C. S. Robinson Investments Ltd.*, Calgary; Mr. & Mrs. Lloyd Knowler, *Osler, Hammond & Nanton*, Edmonton



Mr. & Mrs. Roy Meredith, *Ringland, Meredith & Co.*, Lethbridge; Mr. & Mrs. Ted MacDonald, *Pemberton Securities Limited*, Vancouver

Continued from page 6

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

the Prime Minister and several members of his Cabinet have been emphasizing continuously the necessity 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 offers 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."[3]

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 of stock in such companies, especially when they are engaged on a large scale in the development of Canadian resources. We have sought by the creation of tax inducements to encourage such corporations to admit investment by Canadians in the stock of these Canadian corporations."[4]

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 you need them, that we have not sufficient capital of our own to develop them. 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 our main objectives. So allay your fears, bring in your capital, we will help you use it wisely. Your future prosperity is closely linked with ours."[5]

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."[6] 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,"[7] before granting a certificate to construct an oil or gas pipe line or an international power line.

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

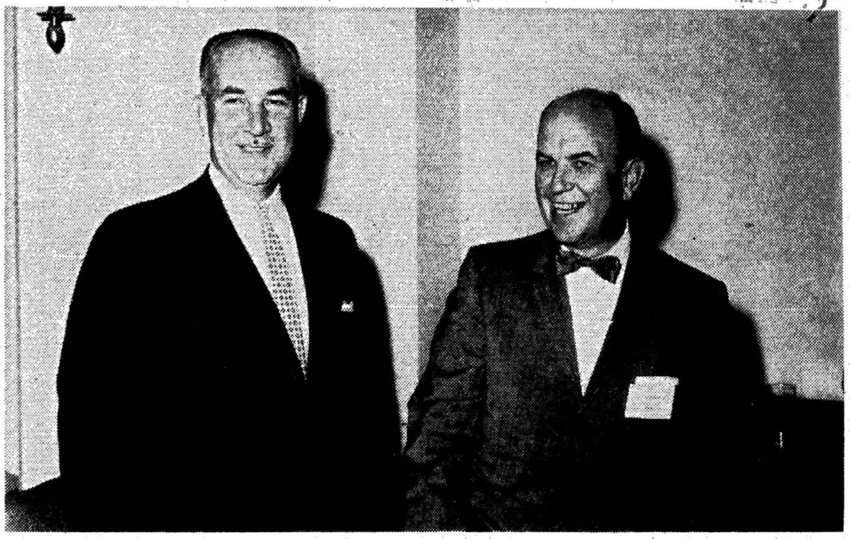
3 *Great Issues in the Anglo-Canadian-American Community*, address by the Prime Minister of Canada, the Right Honourable John G. Diefenbaker, Dartmouth College, New Hampshire, Sept. 7, 1957, p. 4.

4 Address by the Hon. Donald M. Fleming, Minister of Finance of Canada, to the Canadian Society of New York, Nov. 1, 1957, pp. 9 and 10.

5 *Trade and Industrial Development—Our Common Interests*, address by the Hon. Gordon Churchill, Minister of Trade and Commerce, to the Canadian-American Trade and Industry Conference, Chicago, Illinois, Nov. 12, 1958, p. 6.

6 *House of Commons, Standing Committee on Mines, Forests and Waters*, Minutes of Proceedings and Evidence, April 30, 1959, p. 350.

7 *Bill C-49*, An Act to provide for the establishment of a National Energy Board, 2nd Session, 24th Parliament, 7-8 Elizabeth II, 1959, The House of Commons of Canada, page 14, Section 44, clause (d).



Hal Murphy, *Commercial & Financial Chronicle*, New York; F. W. Robson, *McLeod, Young, Weir, Inc.*, New York

Mrs. & Mrs. F. W. Robson, *McLeod, Young, Weir, Inc.*, New York; Mrs. J. F. Plewman, Toronto; Mr. & Mrs. C. N. Mawer, *McLeod, Young, Weir & Co., Ltd.*, Calgary

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 derect 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 annoys 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 capital to expand their operations.

How Canadian Savings, Resources and Markets Help U. S. Subsidiaries to Grow. Let me illustrate this 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 2% of all the 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 33% 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 57% coming from Canadian and 3% from other sources.

How It Is Done

For Canadian industry as a whole (i.e. resources and manufacturing industries and utilities) about 55% is controlled by U. S. interests but only 31% of the capital funds required came from the U. S. with 67% coming from Canadian sources and 2% 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 equity position.

Advantages to U. S. Corporations from Increasing Canadian Participation. Canadians appear to feel increasingly that if their capital and natural resources are good enough to help in the expansion of U. S. controlled enterprises they should be given an opportunity to participate equity-wise, if possible in their initial phase but in any event at a later stage when expansion of the enterprises requires additional financing. And to those who doubt the ability and willingness of Canadians to participate increasingly in the financing of foreign controlled subsidiaries, the answer is: Try us—and see for yourselves.

What Canadians are asking for is not to take over control of U. S. subsidiaries but for an opportunity to participate in these companies operating in their country. We believe that it is in the enlightened self-interest of American firms to meet Canadians part way. It will make for better business, happier public relations and provide greater incentives for local management and employees. The end result—a profitable business developing in an economic climate in which private enterprise is encouraged and foreign capital is welcomed.

Growth Prospects of the Canadian Economy

The Outlook for Remainder of the Century. Now, how about the future? We know the general direction we are going. And that is ahead. We also know that Canada was fortunate enough to have had a more rapid rate of expansion in the last 15 years or so than the United States and we expect this trend to continue.

The Royal Commission on Canada's Economic Prospects to which I referred earlier expects Canada's population to reach 24 million by 1975, 75% above the level of 1950. Gross national product might rise to $53 billion (in 1949 prices) or over 200% above the 1950 level of $17½ billion. This compares with U. S. projections of increases in population of between 36 and 51% and of a gross national product of 122% above the 1950 level.[8]

The Right Honourable John G. Diefenbaker stated earlier this month that Canada's population may reach 30 million from the present 17½ million in another 20 years and 50 million or more by the end of the century.[9]

The Royal Commission on Canada's Economic Prospects also gave us estimates of our country's gross national product in 1980. They put it at between $75 and $94 billion with a mean of $84 billion in terms of 1958 dollars (converted from the 1955 dollars used by the Commission). This compares with the 1959 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

Continued on page 20

8 The U. S. projections are taken from the Paley Report adjusted for upward revision in population estimates. Both the Canadian and U. S. estimates are from the report of the *Royal Commission on Canada's Economic Prospects*, Special Study, "Canada—United States Economic Relations", Ottawa, July 1957, p. 237.

9 Address by the Right Honourable John G. Diefenbaker, Prime Minister of Canada, Testimonial Dinner, Montreal, May 8, 1959, p. 17.

Mr. & Mrs. Bruce C. Samis, *Samis & Co., Ltd.*, Vancouver; Mr. & Mrs. Norman Alexander, *James Richardson & Sons*, Winnipeg

Mr. & Mrs. Tony Osburn, *Pemberton Securities, Ltd.*, Vancouver; D. R. C. Harvey, *Daly, Harvey & Cooper*, Toronto

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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 In Canada

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 more determined than 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 publicly 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 enterprisers 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 to see is 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?

Don McDermid, *McDermid, Miller & McDermid, Ltd.*, Vancouver; Mrs. Helen Moorhouse, Toronto; Leonard E. Barlow, *McLeod, Young, Weir & Co., Ltd.*, Toronto; John C. Moorhouse, *Deacon Findley Coyne, Ltd.*, Toronto

Doug Rodomar, *Calvin Bullock, Ltd.*, Montreal; Alan Chippindale, *Calvin Bullock, Ltd.*, Montreal; Mr. & Mrs. Grahame Johnson, *Credit Interprovincial Ltee*, Montreal; R. D. Steers, *R. D. Steers & Co., Ltd.*, Ottawa

Mr. & Mrs. Clark Kinnear, *W. C. Pitfield & Co., Ltd.*, Montreal; Mickey McBride, *Midland Securites Corpn. Ltd.*, Toronto

Mr. & Mrs. Peter W. Bell, *W. C. Pitfield & Co., Ltd.*, Victoria; Mr. & Mrs. Allan M. Rutherford, *W. C. Pitfield & Co., Ltd.*, Calgary

Mr. & Mrs. Frank Lace, *Matthew & Company, Ltd.*, Toronto; R. W. E. Dilworth, *Clarkson, Gordon & Co.*, Toronto; Mr. & Mrs. D. R. C. Harvey, *Daly, Harvey & Cooper*, Toronto

Mr. & Mrs. T. E. Pilkington, *James Richardson & Sons*, Vancouver; Dick Broad, *The Western City Company, Ltd.*, Vancouver; Mr. & Mrs. Geoffrey Wootten, *Western City Company*, Vancouver

Continued from page 3

Canadian Investment Outlook And Responsible Freedom

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

Praises 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 contain 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 incorporates 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 $393 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 $34½ 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 CNR's 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 tenders. 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 our bond market should be considerably reduced and thereby afford more scope for provincial, municipal and corporate borrowers.

While governments and municipalities provide essential services of various kinds let's not forget the terrific importance of corporate financing. After all, corporations play the key role in providing jobs to produce goods and services; corporate activity and profits account for the giant share of government tax revenues. So it is absolutely necessary to ensure an adequate supply of capital for corporate purposes.

Insofar as public borrowing is concerned, holdings of government bonds outside the banking system have steadily increased from a low point of slightly under $8 billion last September to $9½ billion at the time of the budget. A sizable part of this increase represents larger holdings of corporations in short-term issues held for the most part as temporary liquid reserves pending active use of the funds for business expansion. In today's much brighter economic picture we could reasonably expect to see some decline in these holdings as the money is put to work in plant, equipment and inventory. Moreover, individuals are not likely to increase their holdings until their confidence in sound money has been firmly re-established.

Paying for Social Benefits

Insofar as government spending is concerned, we would naturally like to see reductions wherever possible. For example, some of us may question why, in an expanding economy, the government puts $300 million in housing loans.

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 social security benefits can be provided only if we are prepared to pay sufficient taxes from our own pockets.

Sometimes I 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 pensions and family allowance payments exceeded $1½ billion. This year Federal-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 containing government expenditures, thereby curbing the inflationary potential implied in bank borrowing. In other words, deficit financing must be stopped if public confidence in the value of money is to be restored.

The Investment Dealers' Association's Member firms have combined staffs of around 8,600 in offices stretching from the Atlantic to the Pacific. Each one can 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; they 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 multiply 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 "Economist" commented:

"So after two decades the heavy hand of Capital Issues Committee is lifted from the British economy. There is every cause for rejoicing. The control was irksome, 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

Mr. & Mrs. John Samis, *Samis & Co., Ltd.*, Vancouver; Mr. & Mrs. J. F. Plewman, *Gairdner, Son & Co.*, Toronto

Mr. & Mrs. Douglas Armour, *Brawley, Cathers & Co.*, Toronto; Mr. & Mrs. B. C. Scott, *Dominion Securities Corpn. Ltd.*, Toronto

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 dictation, 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 I. D. A.'s submission to the government on the Borden Report is a case in point.

We live in a rapidly changing world, where "responsible 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 "responsible freedom."

Individually and collectively, let us firmly resolve to protect "responsible freedom"—the inherent strength of our industry's past achievements, present stature, and future development.

Continued from page 9

In Attendance at the Convention

BURNS, B. G.
Nesbitt, Thomson & Co. Limited
Vancouver

BROAD, R. J.
Western City Company Limited
Vancouver

CALDER, N. R.*
Nesbitt, Thomson and Co. Limited
Calgary

CARYER, A. BRUCE
G. E. Leslie & Co.
Montreal

CASGRAIN, R. B.*
Casgrain & Company Limited
Montreal

CASSELS, DAVID K.
Cochran, Murray & Co. Limited
Toronto

CAYLEY, HUGH*
Wills, Bickle & Company, Limited
Toronto

CHADSEY, P. J.*
Wood, Gundy & Company Limited
Toronto

CHESNEY, C. M.*
James Richardson & Sons
Regina

CHIPPINDALE, ALAN
Calvin Bullock Ltd.
Montreal

CLARKE, D.*
Fry & Company Limited
Toronto

CLARKE, WARRING*
McDermid, Miller & McDermid Ltd.
Vancouver

COLVEY, D.*
Canadian Dow Jones Ltd.
Montreal

CORNELL, F. M.*
Cornell, Macgillivray Limited
Halifax

CRUMP, N. R.
Canadian Pacific Railway Company
Montreal

DALY, R. A., JR.*
R. A. Daly & Company Limited
Toronto

DANIELS, R. A.*
Walwyn, Stodgell & Co. Limited
Windsor

DAVIDSON, MISS JESSIE
Financial Counsel
Toronto

DEACON, DONALD M.*
Deacon Findley Coyne Limited
Toronto

DEANS, D. T.*
Bankers Bond Corporation Limited
Toronto

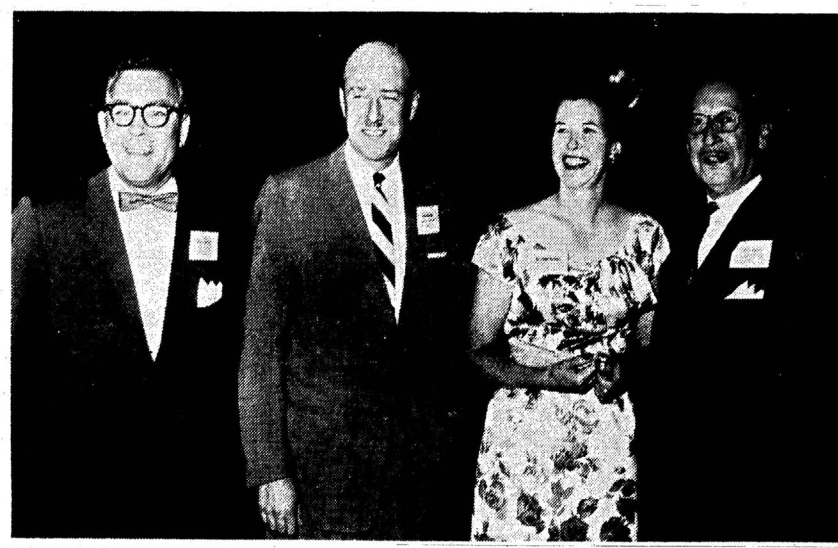
* Denotes Mr. and Mrs.

Continued on page 24

Mr. & Mrs. Thomas E. Rogers, *R. A. Daly & Co., Ltd.*, Toronto; Mr. & Mrs. Herbert Woolrich, *H. J. Bird & Company, Ltd.*, Vancouver

Alex McBain, *Dominion Securities Corpn. Ltd.*, Victoria; Mr. & Mrs. Thomas Staples, *Ross, Knowles & Co.*, Brantford; Mr. & Mrs. James D. Munro, *Yorkshire Securities, Ltd.*, Victoria

Mr. & Mrs. Ernie Drake, *C. M. Oliver & Co., Ltd.*, Vancouver; Mr. & Mrs. Dick Malkin, *Gairdner, Son & Co., Ltd.* Vancouver



George Murdoch, *Belanger, Inc.*, Montreal; Mr. & Mrs. Frank McDonald, *Gairdner, Son & Co., Ltd.*, Toronto; Jules P. Dubuc, *Belanger, Inc.*, Montreal

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In Attendance at Convention

DIETRICH, W. M.*
Nesbitt, Thomson and Co. Limited
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DILWORTH, R. W. E.
Clarkson, Gordon & Co.
Toronto

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La Maison Bienvenu Limitee
Montreal

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C. M. Oliver & Company Limited
Vancouver

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Belanger Inc.
Montreal

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McDermid, Miller & McDermid Ltd.
Vancouver

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Annett & Company Limited
Toronto

DUNLOP, W. S.*
Oldfield, Kirby & Gardner Limited
Winnipeg

EDWARDS, J. C.*
Matthews & Company Limited
Toronto

ELLWOOD, W. J. H.*
Burns Bros. & Denton Limited
Montreal

ELY, E. H.*
Wood, Gundy & Company Limited
Toronto

ERTL, E. C.*
The Financial Times
Montreal

FARNSWORTH, HERBERT*
Royal Securities Corporation Ltd.
Calgary

FERGUSSON, NEIL C.
G. Tower Fergusson & Co.
Toronto

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Bankers Bond Corporation Limited
Kitchener

FOLEY, H. S.
Powell River Company Limited
Vancouver

FULTON, MRS. W.
Osler, Hammond & Nanton Limited
Calgary

GASSARD, H. L.
Investment Dealers' Association
Toronto

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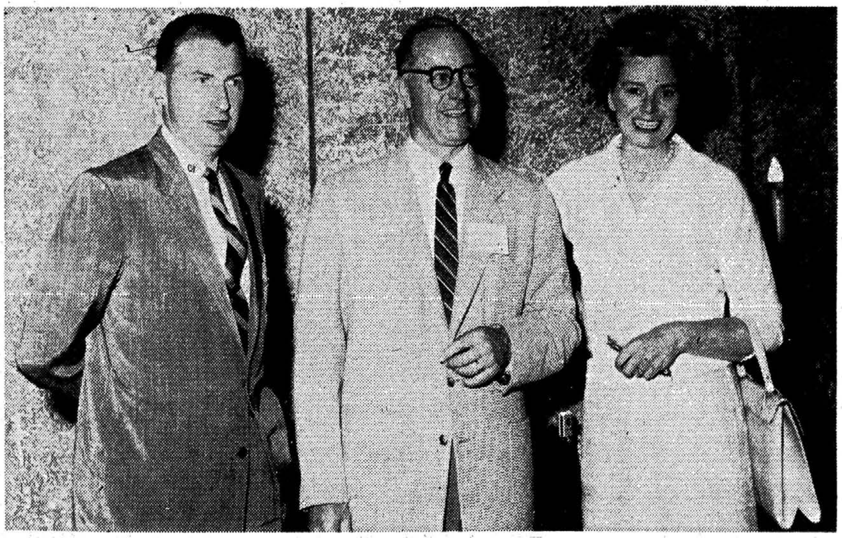
J. T. Gendron Inc.
Quebec City

GOSNEY, B. S.*
Western City Company Limited
Vancouver

* Denotes Mr. and Mrs.

Mr. & Mrs. W. M. Tafts, *Dawson Hannaford Ltd.*, Toronto; Mr. & Mrs. R. L. Sinclair, *Gairdner, Son & Co., Ltd.*, Winnipeg



Jim MacKnight, *James Richardson & Sons*, Winnipeg; Mr. & Mrs. W. J. Piper, *A. E. Ames & Co.*, Montreal

In Attendance at Convention

GOUINLOCK, R. W., JR.*
Bell, Gouinlock & Company, Ltd.
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Greenshields & Co Inc
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Hagar Investments Ltd.
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Vancouver

HALL, JOHN
Hall Securities Limited
Vancouver

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Dawson, Hannaford Limited
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McLeod, Young, Weir & Company Ltd.
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Financial Counsel
Toronto

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Daly, Harvey & Cooper
Toronto

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Pemberton Securities Limited
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HEAVER, W. E.
Nesbitt, Thomson and Co. Limited
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Dominion Securities Corpn. Ltd.
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HERMAN, H. G.*
A. E. Ames & Co. Limited
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Equitable Securities Canada Ltd.
Toronto

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Brink, Hudson & Lefever Ltd.
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Bache & Co.
Toronto

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Wood, Gundy & Company Limited
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JOLICOEUR, PAUL
Canadian Pacific Railway Company
Montreal

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Pemberton Securities Limited
Vancouver

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Kippen & Company Inc.
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Osler, Hammond & Nanton Limited
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Investment Dealers' Association
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Toronto

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Charles H. Burgess & Company
Toronto

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Vancouver

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W. C. Pitfield & Company, Limited
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W. C. Pitfield & Company, Limited
Winnipeg

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Locke, Gray & Company
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Toronto

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Fry & Company Limited
Toronto

MARCUSSON, P. A.
Investment Dealers' Digest
New York

MASON, B. H.
Anderson & Company Limited
Toronto

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McLeod, Young, Weir & Company Ltd.
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W. C. Pitfield & Company, Limited
Vancouver

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Midland Securities Corpn. Limited
Toronto

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Dominion Securities Corpn. Ltd.
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McDERMID, DON*
McDermid, Miller & McDermid Ltd.
Vancouver

Continued on page 26

Mr. & Mrs. J. Edgar Hill, *Royal Securities Corporation*, Montreal; Mr. & Mrs. W. S. MacKenzie, *Nesbitt, Thomson and Company, Ltd.*, Hamilton; A. Bruce Caryer, *G. E. Leslie & Co.*, Montreal

Mr. & Mrs. Gordon Watt, *Gairdner, Son & Co., Ltd.*, Toronto; Mr. & Mrs. Robert Sinclair, *Gairdner, Son & Co., Ltd.*, Winnipeg

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McDONALD, DONALD J.*
Osler, Hammond & Nanton Limited
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McDONALD, F. J.*
Gairdner, Son & Company Limited
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McKAY, RAYMOND W.*
Read Bros. & Co. Limited
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McKINNON, J. C.*
Mills, Spence & Co. Limited

McNEIL, FRED
Powell River Company Limited
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Ringland, Meredith & Company Ltd.
Lethbridge

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Mills, Spence & Co. Limited
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Halifax

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Toronto

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MURPHY, HAL
Commercial & Financial Chronicle
New York

MURRAY, J. R.*
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Calvin Bullock Ltd.
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Dow, Jones & Co. Inc.
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Samis & Company Ltd.
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Samis & Company Ltd.
Vancouver

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Dominion Securities Corpn. Ltd.
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A.D.C. to the Lieutenant Governor
Edmonton

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Ross, Knowles & Co. Ltd.
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James Richardson & Sons
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Toronto

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Ross, Knowles & Co. Ltd.
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R. D. Steers and Company Ltd.
Ottawa

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H. B. Housser & Co.
Toronto

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Royal Securities Corporation Ltd.
Toronto

SURGEY, J. D. L.*
Barclay & Crawford
Toronto

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Mr. & Mrs. K. E. Plumpton, *Nesbitt, Thomson and Company, Ltd.*, Montreal; Mr. & Mrs. D. B. Armstrong, *Nesbitt, Thomson and Company, Ltd.*, London, Ont.

Mr. & Mrs. George Stewart, *Royal Securities Corporation*, Toronto; Mr. & Mrs. Don Webb, *Merrill Lynch, Pierce, Fenner & Smith, Incorporated*, Toronto

Mr. & Mrs. Douglas Annett, *Annett & Co., Ltd.*, Toronto; Mr. & Mrs. Jean Gendron, *J. T. Gendron, Inc.*, Quebec

Mr. & Mrs. F. E. Griffin, *Greenshields & Co, Inc*, Montreal

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Sydie, Sutherland Ltd.
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Dawson, Hannaford Limited
Toronto

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Carlile & McCarthy Ltd.
Calgary

TAYLOR, W. R.*
James Richardson & Sons
Calgary

THOMPSON, DICK
Burns Bros. & Denton Limited
Winnipeg

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Wood, Gundy & Company Limited
Edmonton

TINGLEY, H. W.*
Wood, Gundy & Company Limited
Montreal

TREBELL, F. D.*
Greenshields & Co Inc
Toronto

TOUCHE, RODNEY
Financial Post
Toronto

TURNEY, A. H.*
Locke, Gray & Co. Limited
Calgary

WALKER, R. H.
C. S. Robinson Investments Ltd.
Calgary

WALKER, W. S.
Investment Dealers' Association
Toronto

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James Richardson & Sons
Saskatoon

WATT, G. C.*
Gairdner, Son & Company Limited
Toronto

WEBB, D. I.*
Merrill Lynch, Pierce, Fenner & Smith, Incorporated
Toronto

WEIR, J. G.*
Wood, Gundy & Company Limited
Toronto

WELCH, A. G.*
Wood, Gundy & Company Limited
Toronto

WEST, J. J.*
Wood, Gundy & Company Limited
Vancouver

WHITE, LESLIE E.*
Osler, Hammond & Nanton Limited
Winnipeg

WHITE, ROBERT
Bongard & Company
Toronto

WILLIAMS, LOUIS B.*
Hagar Investments Ltd.
Victoria

WILLIAMS, V. B.*
C. M. Oliver & Company Limited
Vancouver

WILLIAMSON, A. H.*
Wood, Gundy & Company Limited
Vancouver

WILSON, J.*
A. E. Ames & Co. Limited
Toronto

WILSON, ROGER*
Goodwin Harris & Company Limited
Toronto

WOOD, J. D.*
A. E. Ames & Co. Limited
Toronto

WOOLRICH, HERBERT*
H. J. Bird & Company Ltd.
Vancouver

WOOTTEN, G. E.*
The Western City Company Limited
Vancouver

WRIGHT, J. R.*
Carlisle & McCarthy Ltd.
Calgary

WRIGHT, R. K.*
Mills, Spence & Co. Limited
Toronto

WYMAN, ALBERT*
Hall Securities Limited
Vancouver

* Denotes Mr. and Mrs.