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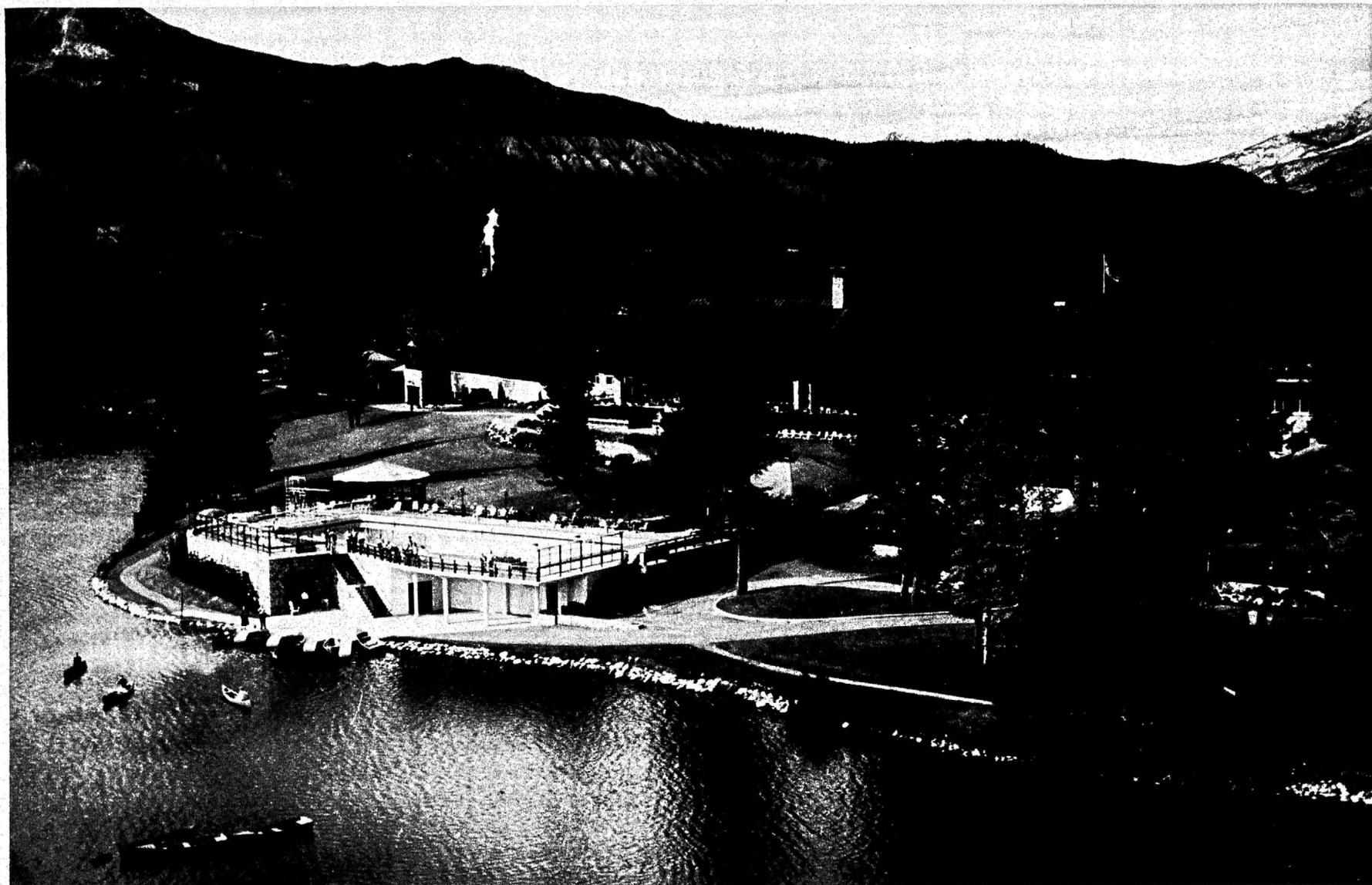
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JASPER PARK, ALTA.
JUNE 20 - 23, 1963



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Canada: Securities Industry And the Economy

By D. S. Beatty,* Retiring President of Investment Dealers' Association of Canada and President of Burns Bros. and Denton Limited, Toronto

Annual report to Canadian investment industry's members by retiring head notes Association's burden of work continues to increase; announces searching study to determine whether objectives and organizational form should be expanded; and reviews progress ranging from qualifying salesmen and improving members' standards to instituting industry-wide pension plan. Turning to the whole economy, Mr. Beatty is encouraged by the rise in production and exports, and decries increasing governmental intervention in private business and the onerous tax level.

As I look back on my year of office, I am impressed with the amount of time that was contributed by the National Executive Committee, assisted by the District Business Conduct Committees, Audit Committees and District Executive Committees to enforcement of the Association Bylaws relating to character of business and financial standards. Our business enjoys a very considerable degree of freedom from direct government intervention and I think it axiomatic that we will retain this freedom only so long as we deserve it—hence the time spent on these matters by your committees.



David S. Beatty

Practically my first act on taking office was to recommend to the National Executive Committee that an every-Member check be made as of June 30, 1962 to ensure that no Member had been weakened below our minimum requirements by the drastic fall in security prices. This check, in fact, did reveal that five Members had fallen below our minimum capital

requirements. Appropriate and vigorous action, including strong reprimands and fines, were imposed and the deficiencies were promptly corrected.

Last autumn Bylaw 8J was enacted requiring that all salesmen employed by Member firms be registered either with the Association or with one of the three recognized stock exchanges. The registration was carried out in cooperation with the Montreal, Canadian, Toronto and Vancouver Stock Exchanges. Bylaw 8J provides that every applicant for a sales position will be scrutinized by an appropriate District Committee and that the salesman either pass Course I or sit a special examination. To date 1,650 salesmen have registered with the Association, of which number only seven requested the special examination and all seven passed.

At this Annual Meeting we will be asked to approve nine amendments to our Bylaws and Regulations. In addition to Bylaw 8J just mentioned, there are three other amendments designed to provide greater safeguards to the public and other dealers in matters concerning our Members.

Each autumn the National Executive Committee selects by lot approximately 20 Members to report on the character of their business. The 1961 draw showed one

Member below our standard, but this situation was corrected within the time set by the National Executive Committee. In the 1962 draw satisfactory reports were received from all Members with the exception of one United States-based firm who was unable to report due to lack of adequate records of Canadian business. The necessary records are now being installed and the report will be made to the Association in July.

I regret to report the bankruptcy of a Member in the Alberta District. Since this case is in the courts, I cannot comment on it. However, I can say that we are reviewing our audit system wherein the Member's Auditor chosen from an approved panel reports to one of the six District Auditors. It is our goal to prevent the recurrence of such a case if humanly possible.

During my term of office, one Member resigned because the firm was going out of business, one Member resigned at the request of the District Business Conduct Committee and one Member was expelled for breach of our financial Bylaw 8A.

There were a number of mergers and take-overs and seven houses were admitted to Membership. Pope & Company, Toronto, Florida, Matteau Inc., Montreal, Macrae & Co., Toronto, Savard & Hart Inc., Montreal, and just recently the application of Dreman & Co., Winnipeg, Bulman Evans & Co., Montreal and Francis I. du Pont Inc., Montreal, were approved. We welcome these houses to Membership and extend our good wishes for their future success.

National Executive Committees in recent years have been conscious of the importance of our fidelity insurance requirements. A special committee, under the Chairmanship of Mr. W. F. Hill, Annett & Company Limited, Toronto, is now preparing a report on what changes should be effected to better safeguard the public and our Members from acts of dishonesty, theft, mysterious

disappearance and other risks affecting our business.

Some of our Members operate under a handicap, as compared with stock exchange members, in the matter of guaranteeing signatures on securities put in for transfer. When the Incoming National Executive Committee receives the report of the special committee on fidelity insurance, it will then be in a better position to appraise what the Association can do to remove this disadvantage.

The margin requirements specified in the Regulations pursuant to Bylaw No. 8 were reviewed and certain changes made. Margin requirements determine, to a large extent, the amount of capital a Member requires and they are always under review (for instance the National Executive Committee on June 20 discussed at length what the margin requirement should be on NHA Guaranteed Mortgages carried in inventory). As suggestions for improvement are received from our committees and our Members, the National Executive Committee will give them careful consideration.

The work of the various provincial Securities Commissions and the legislation under which they operate are most important to our industry. In the course of my travels, I called upon the Commissions in all provinces except

P.E.I. and Newfoundland and was well received by the Commissioners. I am pleased to recognize the presence at this meeting of Mr. Harry Rose, Chairman of the Alberta Securities Commission.

During the year our Committees presented certain suggestions to the securities commissions concerning adequate disclosure in connection with short-term promissory notes offered for sale to the public and the sale of additional securities to existing investors in a company.

Gratifying progress is being made in the matter of achieving uniform provincial securities legislation and I feel that we are also making progress within the Association in the uniform enforcement of our Bylaws and Regulations.

We were very pleased to note the recent appointment of Mr. John R. Kimber, Q.C., as Chairman of the Ontario Securities Commission. Previously acting Chairman of the Commission, Mr. Kimber, has had a distinguished career in the legal profession and is also Master of the Supreme Court of Ontario. We are gratified that such an able man has accepted, what is to us, such an important appointment.

While the bulk of the work on

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Managing the Investing Firm Profitably Today

By Wilbur M. Sachtjen,* Associate, McKinsey & Company, Inc.,
Management Consultants, New York City

Investment and brokerage firms finding it hard to maintain their earnings position and to cope with increasing competition are advised on what they should be doing to overcome their untenable situation. An expert on these matters, Mr. Sachtjen explains what has been causing the investment industry's profit-squeeze, and provides succinct advisory guidelines applicable to smaller firms as well as larger ones. Stress is placed on making internal management, from the partners on down, efficient; on uncovering profitable opportunities and dropping non-profitable ones; and on how to cultivate the will to do a better job once equipped to do it.

There seems to be rather general agreement that the historical development of the investment banking business in Canada can be traced to a handful of firms who pioneered, at the turn of the century, in originating Canadian underwritings. Around these firms — or, more correctly, out of them — a network of satellite firms sprang up. These firms were dependent to a large degree on participating in the "new issue" selling groups of the larger houses. In time, certain of the newer firms were also included in the underwriting groups.

The investment business slowed down, of course, during World War II, but the postwar period saw tremendous volume growth in Canada, as in the United States. This period has been characterized in the United States as the "soft decade", and my studies lead me to believe that much the same



Wilbur M. Sachtjen

applies to Canada. The business rolled in on a tidal wave of industrial and social expansion. Securing additional volume was easy. Under these conditions of automatic growth, the industry was almost too busy—and probably too profitable—just taking care of the business at hand to worry about "managing." Many firms expanded rapidly, with little or no conscious planning—and unfortunately, with little or no real opportunity to study the cost or profitability of individual moves.

During this period, the expansion of many firms had no particular focus; in my research interviews I was told repeatedly that "we just moved into whatever came along." As a result, in many quarters little attention was paid to good methods, to control of overhead and other costs, and to employee selection. Despite this "automatic" growth—this built-in increase — profitability not only failed to rise accordingly, but, in many instances, began to fall. Now as everyone readily agrees—and, as many even then foresaw—the old automatic growth is gone, and in its place have come tremendous increases in competitive pressures. What happened to the good, soft days?

The Consequences of Financing Changes

In my interviews, I encountered some understandable differences of opinion as to the underlying causes of this changed business environment. There was, however, general agreement on certain key points. Let me discuss a few of these.

First, there has been a definite reduction in the total dollar volume of corporate financing in Canada. The volume of corporate new issues peaked in 1956-57, and has been at significantly lower levels since that time, both bonds and stocks. This is not too surprising, since the industrial expansion during the early and mid-fifties was of such magnitude that it literally telescoped industrial development in Canada. Although the total volume of provincial and municipal financing continues heavy, the dip in corporate financing is of extreme significance since many firms derived the most important part of their earnings from this source. In fact, a recent article in *The Wall Street Journal* even pointed out that—in the United States, at least—the *internal* generation of funds by corporations had reached a level that greatly reduced their dependence on the capital markets for financing expansion projects.

Second, there have been unmistakable pressures by borrowers to reduce the costs of financing. Spreads have narrowed for corporate issues, and there has been a continued interest in the private placement of securities. In the provincial and municipal field, much of the business provides little more than a selling commission, and many municipalities borrow from provincial credit corporations rather than do public financing themselves. These factors have put tremendous pressure on existing selling groups: first, by cutting overall margins; second, by reducing the supply of securities available to smaller firms. In

addition to these pressures, there are indications that the proportion of securities sold at public bidding may increase in the years ahead.

Third, the investment business in Canada has become increasingly "professional" as individual investment funds have shifted into institutional hands (banks, life and other insurance companies, investment counselors, mutual funds and the like). In fact, these newer customers have become preeminent. To do business with institutional professionals—both in Canada and abroad—Canadian firms have had to acquire the skills and investment sophistication expected in those circles. And, though essential, it has been expensive to upgrade selling skills for these contacts, and to train and maintain a high caliber research effort.

A fourth condition which has undoubtedly made it more difficult for many firms to maintain their earnings position is an increase in overhead costs. With new offices come higher rents and clerical salaries; with the demand for better research and analysis which was just described come higher expenditures for such services; and with expansion come expensive private wire systems. Unfortunately, the bulk of these costs tend to be relatively fixed in a going concern. Consequently, margins can be badly squeezed in periods of declining volume unless there is tight, and knowing, control over expenses.

Fifth, there are evidences that old historical underwriting ties are no longer sacred, and that there is a much more competitive attitude today in the financial arena than in years past. There has already been considerable alteration in the historical groups for provincial and municipal issues, and intense rivalry exists among investment firms for improved participation in the underwriting groups for corporate financing.

A Look at What "Top" Firms Are Doing

Unquestionably, Canadian investment firms today must live much more by their management skills than five years ago, when the total volume of available business was sufficient to mask a multitude of managerial weaknesses. Needless to say, I bring no panacea for all these ills; nor is my purpose to predict the future competitive environment in the investment industry. But I would like to focus on the kinds of realistic, specific things that can be done to cope with problems like these now and in the future. One good way to approach the subject is to examine what a few Canadian firms have been doing to combat the changes discussed above.

Let me review an analysis of what I find that some investment firms have been doing about it. These firms and individuals seem to be getting "on top" of the situation, and to have pretty clear ideas of where they are going and why. And what they have been doing about it are the things that *any* firm in this business can do, regardless of size.

It seems to me that there are five practical things these firms have done:

(1) They have studied what's going on in the industry, particularly activities they are engaged in.

(2) They have examined their own strengths and limitations.

(3) They have thought through what it takes to achieve their goals—and have taken steps to get what's required.

(4) They have been alert to opportunities for profit improvement.

(5) Most of all, they have developed something we have identified as the will to manage,¹ and they have gone to work to build this will throughout their organizations.

From our interviews, we determined that a number of firms in the industry have achieved, or are attempting to achieve, progress in one or more of these areas. I would like to go into each characteristic in terms of what firms in the industry have actually been doing about them.

Knowing What's Going on in the Industry

First, really knowing what's going on in the industry. Earlier, we looked briefly at the nature of the industry and at some of the major trends which have shaped its present competitive climate. But the firms that are really on top of the situation have gone much further than that. Such firms not only know what has been happening in their industry—and why—but go on to develop a portrait of what the industry will be like some years hence. It is not enough, obviously, to plan only for today's opportunities and problems; one must also make assumptions about what the future holds.

Now, I am sure that the representatives of the smaller firms believe that this is probably a good thing for the larger firms, but completely inappropriate for the small firm with its limited manpower and resources. But in a sense the smaller firm has no choice. Lacking the manpower—and, generally, the resources—of larger firms, it can't participate as broadly in the many activities open to firms in your industry. To survive and prosper, it must be constantly alert not only to "new deals" and short-run business opportunities, but to those external trends that threaten the niche it has selected—and must recognize the need to select a new niche, if that proves necessary.

Every firm really has to make a determination of the time and money it can divert from "running the store" to planning for what lies ahead. Our experience shows that most firms err on the side of doing too little, not too much. And the real danger for the smaller firm is not that it will *overplan*, but that it just won't do any planning at all.

Knowing Your Own Strengths And Limitations

Second, knowing individual strengths and limitations, and deciding where to go—and what kind of a firm to be—requires more than an awareness of the external environment. An investment firm must look pretty searchingly at its *own* operations, too.

First of all, it is all-important to have the *facts* on how and where you are making your money. To know how much each activity is really contributing—not just to firm revenue, but to firm profits—and what the trend of that contribution has been. To really know which activities—and which offices—are only marginal from an earnings standpoint, or are definitely *unprofitable*. And

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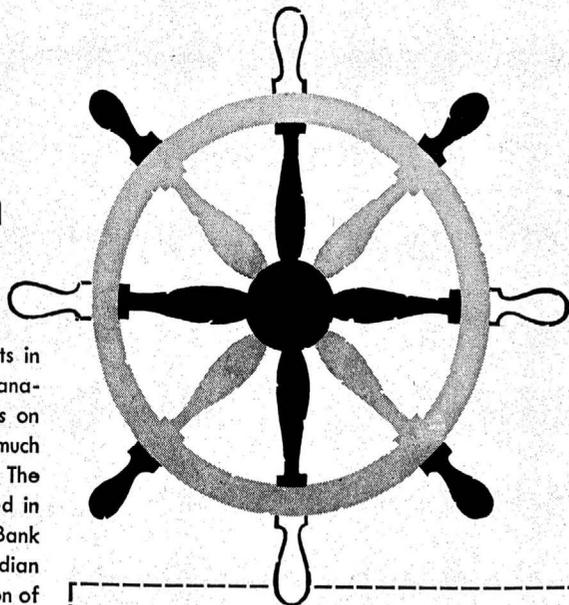
¹ "The Will to Manage in the Investment Banking Field," by Marvin Bower.

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Federal-Provincial Fiscal Relations Need Updating

By Duff Roblin,* Premier Province of Manitoba

The way to promote Canada's economic growth and national unity is to alter the Federal-province fiscal arrangement permitting more provincial fiscal elbow room, to coordinate Federal plans for development with provincial plans and, in turn, to bring about public and private partnership to fill the gaps said to be left unbridled by the natural play of economic forces. In advancing this argument, Mr. Roblin warns that Canada's independent economic existence is at stake and he urges an early convening of a federal-provincial fiscal conference. The Premier reviews the techniques employed by his Province to further growth, and makes clear that the economic planning he proposes is not a planned economy and that the partnership idea is not new to Canada's history.

The meeting of a national Canadian body like the Investment Dealers Association is an event of more than ordinary importance for Canada in 1963. It is of course true that this Association represents a vital force in the economic structure of the Canadian nation. Here are men and women skilled and effective in the mobilization and supply of one of the classic factors of production — the capital resources of the nation.



Hon. Duff Roblin

As a Provincial Treasurer I have much reason to appreciate the skills that are represented in such a group. In Manitoba, in recent years, as much as 30% of the capital investment put in place has been on the direct initiative of the government of the province. We have the responsibility for two Crown corporations which are giant users of capital in supplying our people with electricity and with telephone service; I might as well say that they provide these services at rates which are among the lowest, if not the lowest on continent. Perhaps that is only to be expected since they are relieved of corporation income tax. In addition, we make provision for two credit organizations which supply long term funds (not otherwise available from regular credit sources) to farmers and to small business in Manitoba and I add that these organizations operate successfully on orthodox business principles.

Praises Investment Industry's and Its Assist to Growth

For all these purposes, and others, the investment industry is employed to find the capital we must have to invest in these essential lines of growth and development, and I appreciate in this direct sense not only the indispensable nature of investment dealer and banker activities, but the relation between the supply of capital and aspects of national growth.

The word "growth" is one of the magic words of our time. The phrase "problems of growth" epitomizes perhaps in three words what is today the basic domestic concern of our public and our private affairs. Some people speak of growth in the physical sense of economic expansion and development. Others think of growth in metaphysical terms—in terms of the development of our national personality and our national individuality. Though

these two concepts of growth are clearly not the two sides of the one coin, economic growth and the idea of the Canadian nation have acted and interacted upon each other throughout our history.

It is only to state the obvious, I think, to assert further that not since 1867 have these two aspects of our national life affected one another more closely than they do today. Economics unite with the feelings of men in a joint demand for effective answers to both sorts of these problems of growth so that our nation may be able to enter the second century of its existence confidently and constructively. It is my hope here to reflect on the nature of that challenge to a province like the Province of Manitoba.

The first essential of course is to develop a proper perspective of one's place in the scheme of things. Perhaps it would be appropriate for me to recite what has been called the politician's prayer given to me by a friend when I first entered public life, and it goes like this:

"O merciful God, grant that I may in some small degree be worthy of the high esteem in which I hold myself." This sardonic reminder is good for politicians when they attempt to pontificate on problems of state.

Independent Economic System Is at Stake

It is true, however, that the Canadian constitution entrusts to the governments of the provinces grave and weighty responsibilities. Some are exclusive of the provinces themselves. Others are shared with the national government. All of them are vital to growth and happiness. Canada is in fact facing today economic and political tests similar to those we solved in 1867. We ask ourselves once again, Can this nation exist and prosper as a separate entity in the circumstances in the trading world of the second half of the 20th century? We are overshadowed perhaps by unwitting American economic imperialism that with the best of goodwill and good intentions jostles with a European Common Market that excludes many of Canada's interests and Canada's friends. While the economic future of the western world is being thus reorganized we hope and work for a fuller recognition of our place in the scheme of things but clearly we have no right to any optimistic assumptions.

Add to this the current separatist sentiment within our country and it is not too much to say that our independent economic existence is at stake. Upon that existence our political and national life will certainly depend. I for one have no doubt about the answer.

Our nation was founded almost 100 years ago in response to a similar economic and political challenge. We succeeded then and we shall succeed now. But the specific solutions of 1867 have long since answered their purpose. We must be ready and willing today to deal with present problems as we find them. We can accept the human and spiritual values of our Confederation as a basic premise, but we must acknowledge that their expression in policy and planning in 1963 must meet the needs of the evolving and developing situation.

Though there is no slogan to be found or great formula to be discovered to provide an automatic solution, we can approach our problems and hence their answers if we are willing to accept the realities of the existing economic world and compete on its terms both at home and abroad.

Economic Essentials

In Manitoba we do not underestimate the vital importance of

our primary export industries, like wheat, for example. After all, Manitoba No. 1 Northern is the world standard of quality for wheat. However, our province has successfully made the change from a single crop economy to a broadly diversified primary and secondary industry. Manufacturing now occupies the centre of our stage with its gross product double that of the farm. It is now clear that secondary industry and service industry are the keys to jobs in Canada and to employment at home. They are essential to economic independence in the world today. Under conditions of fair competition with a minimum of special favors, our enterprisers, our workers and our government must accelerate their efforts to supply the needs of Canada themselves and to find a larger place in the export markets of the world. This way lies not only employment and jobs but also the answer to the balance of our international trading accounts and

to economic and financial self-reliance.

Role for Economic Planning

I must frankly say that I do not believe we may comfortably expect the natural play of economic forces alone to accomplish these goals without an effort on our part. In today's complex world, positive action by people and government must be mobilized. I do not ask—I do not suggest—that we should espouse the planned economy, but I do maintain that we must embrace economic planning. And this is no mere play on words. After all, economic planning, which is nothing more or less than a thoughtful concern for the future, is the lifeblood of every successful enterprise in the nation today and illumines the success story of every effective individual enterpriser as well.

Free enterprise is perfectly compatible with the voluntary coordination and cooperation of the

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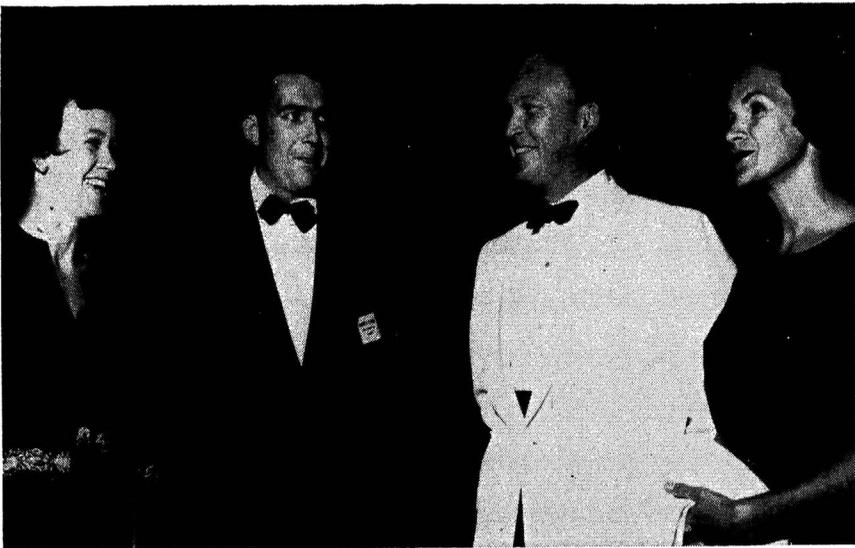
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to know not only the reasons for good or bad results—but who is responsible for them as well. Being without this kind of information is like driving a car down unmarked roads. You are in motion, to be sure, but you have little or no idea where you have been or where you should be going.

Another essential requirement in analyzing one's own situation is an inventory of the firm's capabilities and limitations. To develop such an inventory, one must critically evaluate key personnel and each activity engaged in to determine: (1) the things in which you excel as a firm, and those areas where effort is truly weak; (2) the degree to which the firm

is using its available pool of manpower to full effectiveness in present activities, and not just settling for "passable" performance; and (3) the unused reservoir of experience and skills, in both "existing" and "new" areas, which might enable the firm to expand its present operations. Obviously, a critical question here is the degree to which the firm is dependent on the skills and contacts of only one or two men.

Determining What It Takes to Achieve Goals

A number of firms in the investment industry seem to have done the two jobs just described. They have studied the competitive environment carefully and have made assumptions on what

the future would bring. They have also taken a searching look at their own position today, and the kind of position they would like to have in the future. This, alone, has been an agonizing process for these firms, though they feel it has been worth the considerable effort involved.

But another task remains before a firm will really be on top of the situation. The task is thinking through what it will take in manpower, time, and facilities to get where that firm wants to be. This process is also hard work, and it can involve a good deal of team effort before a reasonable plan of action emerges. Whether the goal is to build a superior research and analytical staff, to move into some new investment activity, or to identify and eliminate unprofitable activities, the "thought" process is the same. And the ultimate success in achieving the goal will be heavily influenced by the caliber of the thinking at this stage.

Being Alert to Opportunities For Profit Improvement

The firms that have been alert to profit opportunities—and that have capitalized on them—have been able to offset somewhat the impact of the unfavorable trends in other areas. There are several ways in which this has been done:

(1) *By moving into a new (often specialized) activity.* For example, some firms saw an opportunity in the budding money market and went after it. Others have established a position for themselves in the distribution of federally insured mortgages to institutions. In recent years, several firms have recognized that there is a good deal of interest abroad in Canadian investments, and they want to make sure they participate fully in such business, both "new issue" and "secondary" activity.

(2) *By carrying out an existing activity more aggressively and capably than your competition.* Some firms realized that the tremendous expansion in corporate underwriting could not last forever, and they took steps to develop other areas of their business than "new" issues. Recognizing the increasing emphasis on institutional business, both inside Canada and abroad, they set out to forge the tools for a more continuing relationship in that quarter: sound research support and a sales force capable of handling "professional" contacts. Others have worked hard to develop different areas—"retail" brokerage, stock trading activities, and mutual fund sales.

(3) *By imaginative expense management:* Unfortunately, the only program some firms have for expense control is a periodic attack on the number of clerks in the back office. On the other hand, certain firms have carefully studied their spending patterns and have rigorously pruned unprofitable services, excessive sales coverage, and inefficient operations. Still others are scrutinizing electronic data processing to determine whether their individual applications promise real, achievable benefits in terms of cost savings, greater record accuracy, or speed of processing data. And some firms have determined—in advance—manpower requirements for specific back-office activities under varying volume levels.

Essentially, this kind of alertness is a management attitude. Some firms are so preoccupied

with what they are now doing that they seem unable to turn their efforts to something new. Others always seem able to find new ways to do things profitably.

Building the Will to Manage

Within the firms that seem to be getting on top of their problems, there is an obvious desire of key partners to do a better job of "managing". And where there is this will to manage, there is also concern about the need to build other managers within the organization.

Of course, inherent in this philosophy of building new managers is the desire of the present controlling partners to have their firms continue after them. Without such a desire, there is little incentive to create the sort of firm "climate" that will attract talented younger men and ensure that management continuity. Without such a desire, there is much more inclination to simply drift along in a direction that represents nothing more than an amalgam of the personal interests of the controlling partners.

In my interviews, it was emphasized repeatedly that Canadian firms in the past did a poor job of developing new managers. I was told that in most firms control has been in relatively few hands, and that there has been an inherent reluctance to delegate responsibility and authority to others. This situation has obvious drawbacks in providing for succession, particularly in the smaller firms. I was not surprised, therefore, to learn that succession poses a serious problem for a great many Canadian firms; and that replacements for a relatively large number of key partners will be needed within the next five years or so. And this problem is not made any simpler by what I understand is a fairly general disinclination to bring outsiders into your firms.

The firms in your industry that have set out to develop new managers have recognized that younger men of this caliber will expect to be rewarded on the basis of their accomplishments, not on rank and seniority alone. There also appears to be an increasing, and very healthy, tendency in Canada to distribute ownership more broadly among all the men who are really contributing to the firm's success. As such a younger man, I am acutely aware of the stimulus to individ-

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ual effort that this kind of management attitude will provide.

Where Do We Go From Here

Let's look for a moment at what we have been talking about from a somewhat different point of view. Almost two years ago, the Managing Director of our Firm addressed a management course of the U. S. Investment Bankers Association on a similar topic. In beginning his talk, he said he felt sure that if all the investment banking and brokerage firms in the United States were to ballot on the popular song that best reflected their real attitudes towards managing their firms, it would be a close choice between "Drifting and Dreaming" and "Don't Fence Me In". He then went on to say that this observation was based on evidence of an extremely limited "will to manage" within the investment business in the United States. Without that will, he said, the study of management techniques is largely academic; with it, such knowledge is relatively easy to acquire. The key to better management in this field is the will to manage.

Although these statements were made to a U. S. audience, I believe they are pertinent to our discussion today, because we are also talking about the will of Canadian investment firms to try and do a better job of managing their businesses. As we have seen, some have begun the task and are continuing to make significant progress. And it seems to me that the mounting competitive and cost pressures within your industry are awakening a need to do a better managing job in many other companies. For those who develop the will, but are unsure of the specific steps to take, he outlined the basic elements of an effective management program for an investment firm. Let's comment briefly about each one:

(1) *Planned objectives*: The objectives of a personal service business are the types of service that it offers customers—i.e., the kind of business it should conduct. The partners as a group—or sometimes, in the larger firms, through a managing or executive committee—should decide collectively on what services shall be offered, and on what type of firm they want to be. You are not all the same kinds of firms; probably no two firms are exactly alike. But

the first thing that has to be done is to decide on the kind of business you want to do.

No personal service firm can offer services effectively without partners who are personally interested in those services. But the firm—as a firm—should decide that partners who are interested shall devote their efforts to particular services, whether they be institutional selling, the money market, provincial and municipal securities, corporate underwriting and private placements, research, or "retail" brokerage. And if none of the present partners is interested in a type of business that the firm decides is desirable, then others can be brought in from the outside to handle it.

(2) *Defined responsibilities and authorities*: To be effective, any management program for a personal service firm must define who does what, and what authority each partner and executive shall have. This kind of definition is especially important in a personal service firm. Otherwise, partners—particularly those with the largest percentage interests—can wreak havoc by indiscriminately poking around in a lot of different activities.

On the other hand, any such definition of authority in your type of firm must not be so restrictive as to cause a loss of the interest and enthusiasm on which effective individual effort depends. Partners will be partners—and they should have a proprietary interest in everything; but the definition of responsibility and authority cannot be so loose as to permit wasteful duplication, confusion, and conflict.

Some firms have even attained such size and complexity that there is need for full-time administrators—i.e., individuals whose sole function is administration and who are not involved in production. Most of the large firms have full-time administrators for clerical and back-office activities, but few have recognized the merit of using full-time administrators for other activities. With a sizable network of individual offices, however, the problems in effectively administering various activities, firm-wide, are many and time-consuming. And there are often particular advantages to be derived from better administration of the sales effort. Frequently outstanding producers have responsibility for selecting and

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training other salesmen—although they may be poor administrators themselves. But the skills needed to produce and the skills needed to manage other producers are not necessarily found in the same individual.

(3) *Clear policies and procedures:* Policy and procedure clarification and definition is one of the obvious steps in an effective management program. Most firms can profit from deciding on the policies and basic procedures for guiding all major activities, and then reducing them to writing.

In many firms there will probably be resistance to carrying this process very far; but every firm has probably taken some steps in this direction. The intent is obviously not to hamper and slow down the effective operation of any activity; on the contrary, the purpose is to clarify, for all concerned, how the firm wants specific types of business handled.

If current procedures do not provide the means for determining the profitability of various types of business—or of various

offices—this, too, should certainly be explored.

(4) *Effective leadership:* When objectives have been developed—and responsibilities, authorities, policies, and procedures have been defined—there must be machinery for seeing that the program is enforced. This is where the program begins to cut—and here is where resistance usually starts. But the success of the entire program rests on the skill with which it is enforced. In a personal service firm, the essential ingredient for successful enforcement is "leadership," not "direction." But unless that leadership requires a reasonable adherence to the program, your management processes will end up being rather ineffectual.

In most investment firms of any size, the top policy-making and governing body will probably be a managing committee. This committee would elect all firm executives; establish major policies; review office and individual performance; fix the percentages assigned to partners; and act on all major (but not minor) matters.

There should also be a head of the firm who serves as the chief executive partner. This is a man who should command the respect of his partners, and be a broad-gauged person with vision, understanding, and tolerance. He should also be decisive, tough-minded, and demanding. Above all, he should be able to bring people together to work as a team.

The important ingredient, of course, is the leadership and administration that is essential to an organized approach to managing the firm. And, in the final analysis, no leadership will truly succeed in this task unless it has the support of the other partners.

A program of this general type can be successfully adapted to managing any investment firm, provided the controlling partners really have the will to make it succeed. Without that will, it will be futile for the partners to concern themselves with management techniques. With it, and with proper leadership, resulting improvements in effectiveness—and in firm morale—should produce greater profits and increase the likelihood of a continuing place "on top" for you.

*An address by Mr. Sachtjen to 47th Annual Meeting of the Investment Dealers' Association of Canada, Jasper, Alberta, Canada, June 22, 1963.

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Canada: Securities Industry And the Economy

Continued from page 3

our Brief to the Royal Commission on Banking and Finance came to an end last summer, there was some supplementary work to be accomplished and additional statistics were filed with the Commission only a few weeks ago. It is interesting to note that the Association, as such, has expended nearly \$30,000 on this project with some bills still to be paid. Of course, the total contribution of Member firms in time and expense would be many times that figure. We are looking forward with interest to the report of the Commission and we anticipate this should be available by the end of the year.

In collaboration with the Toronto, Montreal/Canadian and Vancouver Stock Exchanges, and the Trust Companies Association, the Association developed a booklet: *Code of Procedure on "Take-Over" Bids*. From the comments which have reached me, this will prove to be one of the more constructive achievements of the Association this past year.

The Insurance Committee, under the Chairmanship of Mr. J. T. Skelly, Midland Securities Corpn.

Toronto, has been investigating the feasibility of a Group Pension Plan for partners, directors and employees of Member firms and corporations. Some 60 Members indicated interest in participating in such a plan and last February the National Executive authorized retaining Osler, Hammon & Nanton Limited, Employee Benefits Branch, as consultants. On recommendation of the consultants, the Committee selected the Standard Life Insurance Co., Montreal, as prospective underwriters of the insured portion of the plan and the National Trust Co., Toronto, for the trustee portion of the plan. The Standard Life and the National Trust Co. are now preparing the necessary insurance policy and trust agreements and Osler, Hammon & Nanton's field staff will soon be calling on interested Members to discuss the adaptation of the plan to each Member's particular requirements. Since the status of the proposed national compulsory contributory pension plan is unclear at this time, the decision was taken to press ahead with setting up our own plan which might free our Members from becoming involved

in any compulsory schemes which may be enacted by the provinces.

This winter and spring there has been confusion over trading in the rights of Shawinigan Industries Limited. This activity seems to have been based on newspaper reports of what was going to happen. Some of our Members have become involved in substantial losses in this connection and I hope that in future such trading will be approached with extreme caution until a legal document, such as a prospectus, is available.

It is evident from my remarks that the burden of work which the Association is being called upon to assume, especially in the area of self-regulation, continues to increase. Murray Cox, Anderson & Co., Chairman of the Ontario District Executive Committee told me recently that he has attended 93 meetings and had been out of town on 14 days on Association business during his term of office. The work of the President is becoming so heavy that arrangements should be made to lighten his work load. With such consideration in mind, the National Executive Committee has approved the appointment of a very special committee—may I call it a Commission—to study and report on two basic matters: first, the objectives of the Association and second, its form of organization. The study of objectives would embrace such matters as the regulation and self-discipline of Members, the maintenance of high standards of financial responsibility, policy regarding contacts with governments concerning legislation and taxation and other activities such as education, research and public relations. Under "form of organization," the Commission would study such questions as: has the time arrived for a full-time President or should we continue with our appointed President and strengthen the permanent staff? Other matters in this area are the allocation of costs among Members, the constitution of National and District Executive Committees, and whether further decentralization of control of the Association is desirable.

It has been an active year for our education and public relations committees. Last November the Association produced at a cost of \$3,700 a short film in both English and French which, to date, has been shown on 24 television stations across the country. Extra prints have been purchased and added to the Association's film library. In addition, another pro-

gram on investing was arranged and broadcast over the French-language network of the C.B.C.

Engagements handled by our speakers' panel committee were down from the previous year. However, our evening lecture programs in some 25 centers drew a total enrollment of close to 2,000, an increase of over 200.

Last fall the Association's head office took over from the universities the task of distributing the English-language edition of our Home Study Course "How to Invest Your Money in Bonds and Stocks." Sales to the investing public of some 1,700 copies compares favorably with distribution in recent years.

The French-language edition of this course continues to be distributed by our fields at Laval University. The French text is currently being revised and is expected to be available by the fall. A new French-English investment glossary is also being prepared.

Demand for all the Association's publications continues strong. The booklet "Investment Terms and Definitions" has recently undergone extensive revision and will soon be made available to Members. A revision of "How to Read Financial Statements" is also pending.

Late last month the Association in cooperation with the Toronto Stock Exchange played host to nine professors from economics and commerce departments of three Western and six Ontario universities. From the comments we received from our guests during this week-long study program, it is clear that this is one of the most effective parts of our external education program. It is hoped that a similar type of visit for Quebec and Eastern universities may be held in Montreal next year.

This past year saw a new record set in Course I enrollment with 522 students registered. The highest previous enrollment was in 1957 with 495 students. Through drop-outs and terminations, 350 students were eligible to write the Course I final examination last month. Course II enrollment was slightly below the level of recent years. Of 169 who enrolled, 137 wrote the Course II examinations. Final results in both courses are being sent out this week.

Over the year several changes were made in the administration, marking and final examinations of the two courses. It is hoped that these changes have helped make the courses of greater value to all students.

During the years some course material has become dated. New source material, particularly from our submission to the Royal Commission on Banking and Finance, has become available. In addition, Toronto and Montreal education committees have been active in gathering a large amount of new material on the operations of our leading stock exchanges; accounting, cage and delivery procedures; regulatory aspects of investment business, and so on. The point has been reached where the major task of revision, editing and consolidating all this material must now be undertaken. It is a job which goes far beyond the immediate capacity of our permanent staff or of our education committees. During the coming months many Members will be asked to devote extra time and effort to course revision. Because of the continuing need to replenish the ranks of our industry with trained and competent personnel, I hope that Members will give all possible help to this work on our courses.

At this point I would like to pay tribute to the fine work of the I. D. A. permanent staff, and I would like to record my appreciation of the high standards maintained by Harry Gassard, and to the wonderful way Eric Harvie has fitted into the team and willingly gone far beyond what might normally be expected of him in his job.

Most of us are busy with our day-to-day activities seeking a livelihood, and confined to a narrow idea which tends to limit the range of our thinking. I think it is good for us occasionally, to lift up our heads and look at the larger horizons and think about Canada.

On the bright side, we have just completed a year with a record rate of growth in our Gross National Product—accompanied by strenuous and successful efforts to penetrate world markets on an impressive scale. These successes range from hydro electric projects in Brazil, through transformers in the West Indies, sulphur to Australia, as well as other chemical and allied products throughout Commonwealth markets, to white goods and prefabricated houses in Germany. Perhaps the most successful penetration of foreign markets has been accomplished by our magnificent steel industry, our banks and life insurance companies and our liquor and brewing industries.

Unfortunately, this growth in



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our production and in our exports has not been accompanied by the growth that one would expect in the Government's revenue from corporate income tax and personal income tax. Both these figures for the 1962-63 year were lower than the 1961-62 year. Indeed, the Government's revenue from corporation tax has not shown any growth since 1950, indicating to my mind that the rate of corporation tax is higher than the traffic will bear. There was a similar development in Ontario when the Province progressively increased its percentage of the pari-mutuel take at the races until it reached a level of 19% at which point revenues from this source sharply declined. When the rate was dropped to 15%, revenues immediately recovered and have been climbing ever since. I don't think wagering dropped during the declining period and ensued, but I believe that it was carried on outside of the

pari-mutual system. Similarly, I think that the corporation tax rate, and possibly the individual income tax rate, have reached a point where avoidance of tax liabilities has become of equal importance to Canadian businessmen as conducting their business efficiently and profitably.

Another dark cloud on the horizon is the increasing Government intervention in areas normally served by private businesses. The most rapid rate of increase is at the municipal level, but the three levels of Government in 1961 had direct expenditure amounting to 32.3% of the Gross National Product as compared to 22.8% in 1951. If this rate of increase should carry forward in a normal geometric progression, our children will finish up in a society where the Government dictates the disposal and distribution of the entire production of the country.

Having recently visited an Iron Curtain country where this is in effect, I am alarmed by this trend. Every phase of life is so closely supervised that it is little better than living in a prison.

In his inaugural address Amyas Ames (Senior Partner, Kidder, Peabody & Co., New York City), the President of the I.B.A., pointed out that when the pilgrims arrived in America, they were attracted by the communist ideal as it is presently expressed. They had an agreement signed by the Pilgrim Fathers on July 1, 1620 which specified that "each person was to be a joint partner in the common venture for seven years." During those seven years, "all profits and benefits which they got by trade, teaching, working and fishing, or any other means of any person or persons, were to remain still in the common stock and all such persons as were of the colony were to have their meat, drink, apparel and all provisions out of the common stock and goods of the said colony." It did not work for the pilgrims any better than it works now. Three years later in 1623 the Governor felt compelled to end it and he said "so they began to think how they might raise as much corn as they could and obtain a better crop than they had done—that they might not still thus languish in misery." Similar words are being heard today coming even from Mr. Khrushchev. At length, after much debate, the pilgrims decided "to set corn every man for his own particular and in that regard trust to themselves," and so each family was "assigned a parcel of land which had very good success for it made all hands very industrious, so as much more corn was planted than otherwise would have been by any means the Governor, or any other, could use and saved him a great deal of trouble—and gave for better content."

There is one further quotation which incidentally was brought forward—"the women now went willingly into the fields which before would allege weakness and inability; whom to have compelled would have been thought great tyranny and oppression." In my opinion, we are drifting towards a similar concept to that with which the Pilgrim Fathers started, and it is not going to work any better than theirs did. There is no substitute for the profit incentive for men of energy, ingenuity and adventurous spirit to provide

full employment and increasing prosperity for our country.

For many months of the year we have, in Canada, quite a severe climate when you compare it with certain other countries. We are subject to periods of bitter cold and periods of intense heat. We do, however have certain advantages in our climate—such as our beautiful changing of seasons and our rapid growing season during the summer months, which to me are adequate compensation for its severities.

Our natural resources are enormous—and they have barely been tapped. Our production of agricultural products, forest products, minerals and sources of energy far exceed the demand for Canadian consumption and, indeed, the prospective demand which can be anticipated for many years ahead.

We enjoy in this country a very high standard of living—statistically, I believe, that it is exceeded only by that enjoyed by the United States and Sweden and we enjoy a vast area of habitable country in relation to our relatively small population. These magnificent assets, and advantages, of course, carry with them an equally impressive array of responsibilities and problems. It is very easy for us to let these problems loom so large, and these responsibilities weigh on us too heavily, that we forget that it would be impossible to enjoy one without being prepared to deal with the other.

Canadians long ago decided that they wished to be more than just hewers of wood and drawers of water—that they wished to create a nation disregarding the difficulties.

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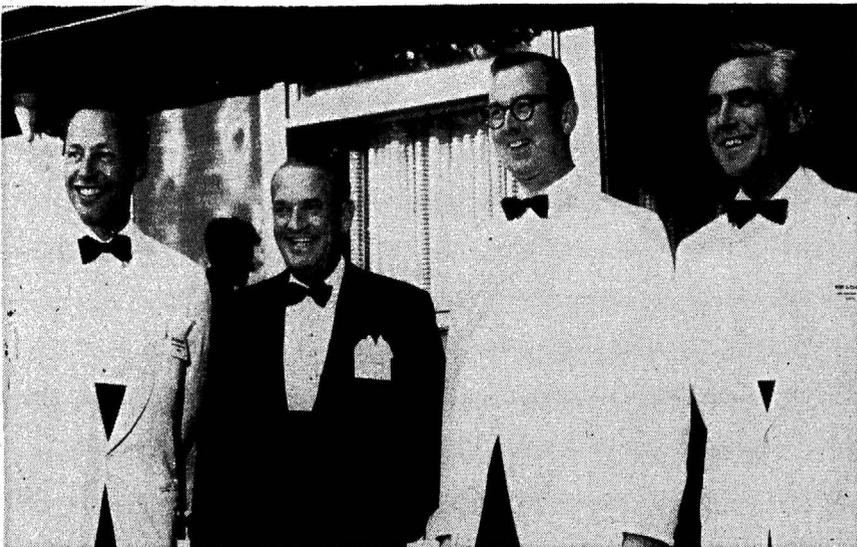
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Canada: Securities Industry And the Economy

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ties imposed by geographic considerations and religion, race or language, based on a clean new concept, largely political in its origin. Compared to the difficulties which were overcome by the Fathers of Confederation and their immediate successors in financing

and establishing our basic transportation system, political system and starting our manufacturing industries, the problems which face us today somehow don't seem to loom quite so large.

In my own case, I know, I got so immersed in the details of the matters which demand attention

and solution—principally the increasing government invasion of the private sector of the economy and the onerous level of taxation—that a number of us seriously discussed whether more useful and satisfying careers could be built in other countries. I did quite a lot of searching for a place which would offer better conditions under which to build a career and I found, as I am sure anyone who examines the situation objectively and carefully will find, that there is no country in the world that offers more opportunity for people with the willingness to work, a spirit of adventure and a desire for fair play than this Canada of ours. Having reached this conclusion, I then realized that if there were certain aspects of life in Canada which I considered adverse to me, and particularly for my children, to live under, then it was high time I set out to do something about it.

Universal franchise, on which our political system is based, has all sorts of drawbacks and inequities. Indeed, it is basically unfair that anyone attaining the age of 21, outside of a jail or a mental institution, has a vote of equal value regardless of his contribution, or lack of contribution, to the building of his country. Nevertheless, this system works better than any other and it is under it that those countries which enjoy it have managed to build for themselves wonderfully high standards of living. If this system has worked better than any other in recorded

history, then perhaps we should accept its shortcomings and exert ourselves to making it work better and improving on it rather than sitting back to criticize and complain. We should encourage our bright young people with qualities of leadership to participate actively in politics and eagerly and willingly assist their political endeavors.

In closing, I would like to state that I have complete confidence in the competence, ingenuity and en-

ergy of Canadian businessmen, and in those new citizens, now business leaders, whom our favorable conditions have attracted, and feel that if we are able to preserve for them the freedom to carry on their operations gainfully, that they will lead us on to higher and higher standards of living—and still greater opportunities for our children in the future.

*An address by Mr. Beatty at the 47th Annual Convention of the Investment Dealers' Association of Canada, Jasper, Alberta, June 21, 1963.



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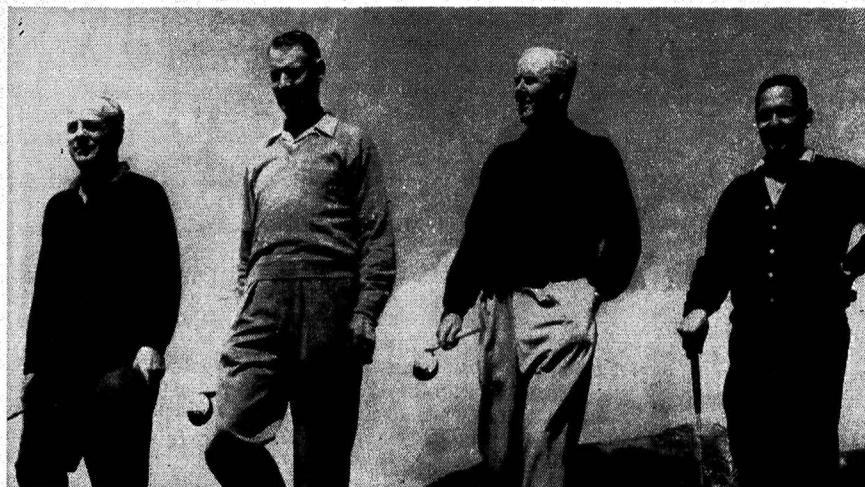
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Federal-Provincial Fiscal Relations Need Updating

Continued from page 5

Manitoba in 1962, nevertheless our various sectors of our economy. We seek harmoniously to make the most of the resources of materiel and of humanity with which the nation is endowed. In 1963 it is not sufficient for government just to hold the ring. Government must also undertake an active role to develop public and private enterprise in partnership. And after all this idea is no new thing in Canada where the very existence of a trans-continental nation was created in defiance of the ordinary laws of economics, where the nation depended and depends on the development of that concept of public and private partnership. It is an essential part of Canadian tradition and Canadian history that government and enterprise long ago learned to live and to labor together in this country.

Manitoba's Success in Bridging Enterprise and Government

Let me tell you something of how the Province of Manitoba is attempting to employ this technique of government and enterprise working together and learning how to help themselves. Unemployment was the catalytic agent. Though we are proud to tell of the highest employment and the lowest unemployment of any province in the nation for

Manitoba in 1962, nevertheless our people for some time have been concerned about the slow rate of our economic growth and fearful of the lack of opportunity for fulfillment for the younger generations coming forward. We looked around and saw a province endowed with only average natural resources when compared with some others, but sheltering an energetic people only one or two generations removed from the pioneers of the plains. Yet there was great uncertainty whether economic growth would be fast enough to meet the demands for the employment of our people in the years immediately ahead.

It was then that the idea of COMEF — C. O. M. E. F. standing for Committee on Manitoba's Economic Future, was born. Why not mobilize, we said, the genius of the free enterprise system. Why not harness the know-how, the ideas and ability of the whole economic community — business, labor, farmers, professionals and government. These people could take a long hard look at Manitoba's economic future and tell our people what can be discerned about the shape of things to come.

This approach to the question of economic planning has one tremendous advantage. Not only does it include the free and voluntary

cooperation of the very people who might be expected to carry out the plan for the future, but it gives them their full say in what this plan is to be.

COMEF Report

Those of you who have seen the COMEF Report which was presented in March this year will know the hopeful and challenging possibilities outlined for the future. It was particularly gratifying to me that in that assessment of the future there was a clear definition of the responsibilities of the government sector and the private sector. The private sector was to become even more enterprising and self-reliant, while the job of government was "to create a favorable climate for such private action. The government must act as a catalyst by instituting those measures and programs which will encourage the private sector of the economy to help themselves." The Committee consisted of some 200 people from all the economic areas I have mentioned. First they sought to define the problems of growth in Manitoba. Second they sought expert help to devise the best answers. Third they filtered these results through the consensus of the Committee to establish the practical nature of the recommendations. And finally they presented their views to the government and to the people. The most important conclusion, in my opinion, was the conviction established that there was need for new cooperative informed activity based on new understanding and new willingness to work together on the part of all factors of the economy. This way was the way of hope. No one, I trust, will be so naive as to think that the special and legitimate interests of management and labor, for example, can or should be abolished, but the clear need was shown for better and more effective machinery to get more out of society by mobilizing our real potential for growth.

Making the Plan Work

But to make a report is one thing—to make it work is another. The government of Manitoba is now engaged in designing—indeed in inventing—and putting together the machinery needed to give life to the findings and hopes and possibilities of the COMEF Report in a manner acceptable for our own economic circumstances and traditions.

The first task is to give permanent form to the COMEF idea it-

self. It is a tremendous task of continuing the process of self-evaluation and of preserving the self-starting processes and of refining the techniques and methods by which the COMEF system builds up community cooperation and coordination. We hope to do this through an economic committee of Cabinet called the Manitoba Development Authority which will work with the new Manitoba Economic Consultative Board. The new board will continue the COMEF techniques of operating through industry working parties. It will be responsible for devising plans for the future and for enlisting the aid and support of all the economic interests concerned. It will report not only to the government but annually to the public and to industry as well.

Leadership from the farmer, from industry, from labor, development of public attitudes and understanding is an essential part of this exercise in cooperation. In a free society the difficulties can hardly be exaggerated, but we intend to do our best to make it work on this keystone principle and all within the framework of the established constitution.

Reject "Big Daddy" Bureaucracy

Secondly a group of other agencies is being set up whose names describe in general the functions that they will perform. There is the Export Corporation, the Research Council, the Design Institute and the Small Business Modernization Fund. These agencies will supply experience and resources in the various fields indicated by their titles. They will benefit Manitoba's essential small business complex by bringing knowledge and skill to accelerate their development. Let it be clear that we are not interested in new "Big Daddy" bureaucracy. We plan to man these agencies by volunteer directors drawn from the ranks of successful businessmen and labor leaders and professionals in our province. This is a method we have already employed to advantage in other government activities. Customers will be charged for services rendered where possible to provide a realistic measure of the worth and efficacy of these new tools for growth.

You may very well ask, "It sounds good—but will it work?" My honest answer must be, "We won't know until we try." But we do know that try we must to prove the value of this voluntary and cooperative approach to the

problems of planning as a challenge not only to government but to leadership in every economic sense. Management, labor, farmers, professionals and government are now all put to the test. The challenge lies squarely before the enlightened self-interest of all to prove that voluntarily and freely we can work together for higher and wider growth and development in Manitoba.

Reason for National Disunity

While I believe wholeheartedly in the need for and the responsibility of provinces like Manitoba to help themselves to attain the goals of growth, no one can ignore the fact that many of the main levers of economic power and decision rest in federal hands. That is why on more occasions than one I have suggested the need to coordinate federal plans for development with provincial plans for growth. This is especially desirable if we are to take into full account the necessarily federal character of our nation. Indeed our present inability to reconcile in our constitutional framework the economic activities and policies of the federal government in a manner consistent with our national purpose is, I believe, one of the root causes of our present unhappy problems of national unity.

Canada is a federal state and faces many problems in government not to be found in unitary nations. The provinces together with their municipalities account today for almost half of the total expenditure on government of the nation. This represents a dramatic shift in recent times in the balance of government spending. Recognition of the scope of these provincial activities has been slow to come in some quarters. For this reason fiscal relations between the provinces and the Dominion are at the heart of much of our current discussions, as has been clearly indicated by the Prime Minister of Quebec.

New Federal-Province Fiscal Relationship

I do not seek to add my judgment of these issues on the present occasion, but I am certain that the longer their resolution is put off the harder it will be to reach just and acceptable solutions. The Federal Government must have resources to do its duty to the nation. This we must acknowledge for first and foremost we are all Canadians. That of course cannot exclude a reasonable resolution of

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provincial needs if this nationhood is to be a working reality.

I am confident that the Prime Minister is not unaware of the urgent financial and constitutional necessities of the moment. His views on equalization of tax resources between the provinces are, as I understand them, generally coincidental with my own. It also well may be that his proposal for Ottawa to withdraw from mature federal-provincial shared cost programs and to commute the federal payments now being made under these programs into wider fiscal elbow room for the provinces is not only good tax phil-

osophy but also a step farther than might appear at first glance to remove the earnest reproaches of the Province of Quebec about Ottawa's steady encroachment on what the Quebec Government deems to be its provincial constitutional rights and responsibilities. It will be essential, however, to develop alternative methods of perpetuating the essential co-operation in which these programs materially assisted.

Thus a constructive attack on federal-provincial fiscal problems might include the commutation of certain mature federal conditional

fiscal grants to allow provincial fiscal elbow room and also a return to the full principle of equalization of tax resources between the provinces. I believe that this sort of approach would go a long way towards adjusting the legitimate contentions of French-speaking Canada and restoring a sense of harmony to the national fiscal scene.

Suggests Convening a Conference

To this end I express the hope that the Government of Canada will realize the importance of

convening a federal-provincial fiscal conference at the earliest possible date. There we may explore these possibilities and establish good faith in dealing with the challenge to the unity of the nation.

In human affairs time is of the essence. We have accepted that compulsion in the Province of Manitoba in our efforts to strengthen and develop our economic community and to open up new possibilities to attain the good life for our people. That effort, however, can only succeed in

a united and harmonious nation. I hope that my proposal for a joint and continuing federal-provincial attack on the problems of unity and of national purpose may prove acceptable of consideration.

Canada is one nation or it is none. Let us widen the circle of citizenship so that all Canadians, whether they live on the banks of the St. Lawrence or of the Red River of the North may rediscover the purpose and the destiny for which this nation was born 100 years ago.

*An address by Mr. Roblin before the 47th Annual Convention of the Investment Dealers' Association of Canada, Jasper, Canada, June 21, 1963.

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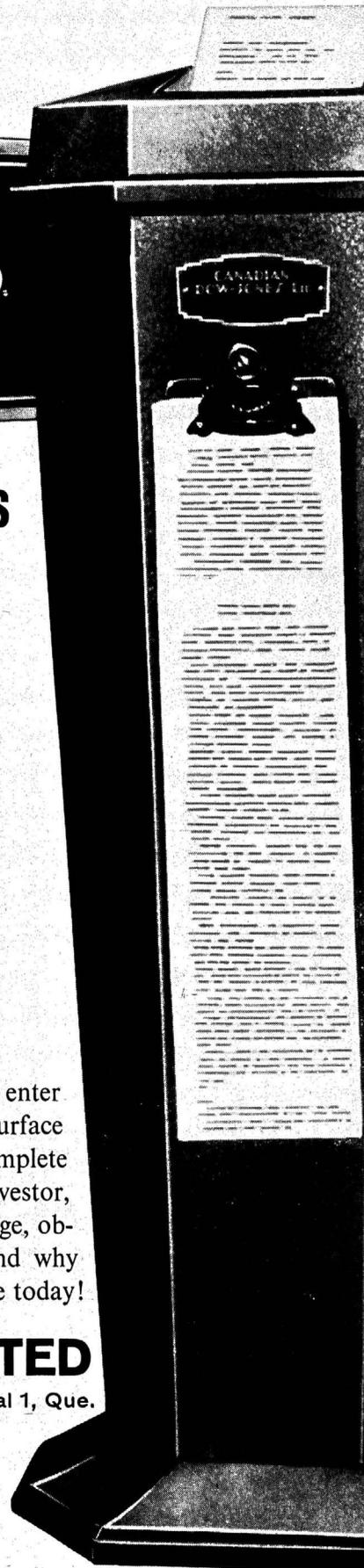


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