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ADDRESS BY G. F. TOWERS
TO INVESTMENT DEALERS AND STOCK BROKERS
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For many reasons, I am glad to have this opportunity of meeting the Investment Dealers and Brokers; and this is not simply a polite remark, for there are innumerable reasons why anyone connected with Bank of Canada or with the National War Finance Committee - not to mention Foreign Exchange Control Board - should have a deep, practical interest in the Dealers' and Brokers' organizations. To avoid having constantly to refer to the separate groups comprised of Investment Dealers and Stock Brokers, I propose, if no one objects, to refer to these members of the financial community by the one word "dealers".

Thinking for a moment only of Bank of Canada, why should we be so concerned with the dealers - with the place they occupy in the community, and the way in which they do their business? The answer is that we believe the facilities you provide are essential to the satisfactory operation of our financial machinery. So long as our industries need to turn to the public to obtain capital from the public's savings, so long as our Governments, municipal, provincial and federal, conduct their borrowing operations by offering their securities for sale, we must have dealers to do the job of distribution in the first place, and to organize a market for those investors who desire to sell. Our whole economic system, based as it is on voluntary public participation in the financing of Government and industry, is bound up with the existence of a market in which securities can be bought and sold. For that reason, we are vitally interested in the maintenance of a strong and effective dealers organization across the country.

Now I have often heard those in the security business called hard names - and I expect that, on occasion, you have heard one or two unkind remarks about bankers. In the case of dealers, the criticism, more often than not, has been based on the thought that their only purpose in life was to scalp a commission, if possible, a sizeable one. Quite apart from other weaknesses in this point of view, it places no importance on the job of selling. There are some people who tend to regard many forms of selling activities as wasteful - who regard advertising as wasteful. The theory is, I suppose, that the individual will know what is best for him, and will act without any reminders, so that if certain things are available for sale he will step up and buy them. Now that may be true in the case of some things. Certainly, no one has ever found it necessary to ring my door-bell, with a blank cheque form in one hand and a bottle of Johnnie Walker in the other. But I do not think that the theory is applicable to the purchase of anything which relates to savings, and which is for the individual's long term good but does not provide immediate, keen satisfaction. If public savings have to be mobilized for investment in industry, and to cover governmental requirements, someone has to do the selling. That is one of the reasons why I believe that the dealers perform an important and useful function, and that they are an indispensable part of the organization of a modern democracy.

If that view is correct, it follows that those who are in the security business have certain responsibilities to the community. They have the responsibility of providing

efficient service at the lowest possible cost, of maintaining high standards in the conduct of their business, and of protecting investors so far as it is humanly possible to do so.

I have not had contacts with the industry for twenty-three years - quite close contacts for thirteen years - without catching on to the fact that dealers are by nature great individualists, and that many pride themselves on the thought that they are highly practical, not to say hard-boiled. They tend to distrust generalities about the dealer's place in and responsibility to the community, because generalities have an academic flavour; and no one can stay in business who doesn't keep a very practical eye on his own interests, and operate at a profit. My belief is that there can be a reasonable and practical combination of the short term and long term points of view. More specifically, I believe that the Investment Dealers Association should have strict standards for membership, but that it should not have any thoughts of being an exclusive club. Those who can pass the financial, character and other tests should be admitted, whether they are large or small. It is not as if there were a strictly limited volume of business which had to be divided. The business can be developed and enlarged. I believe that an important factor will be the encouragement and support of dealers - old and new - operating in the smaller centres throughout the country. It seems to me, also, that all conceivable steps should be taken by the Investment Dealers in the post-war period to develop in an orderly way the sub-agency organizations. The net financial rewards to member firms may not be great in the short run, but if a much larger section of the public can be given decent investment service and investment advice, the long term results cannot be anything but satisfactory for the Investment Dealers as well as the country. In a nutshell, I suggest that dealers should not despise chicken feed - for two reasons. First, the chicken can be made to grow, and, second, an industry which does not serve a substantial section of the public hasn't any future.

The remarks I have just made refer specifically to investment dealers. I recognize that both the form of organization of the Stock Exchanges, and the problems they face, are somewhat different. But they share the responsibility of providing an adequate and efficient financial service to the Canadian public.

I should like to turn for a few minutes to the part played by the dealers in the war-time savings programme. It has been a splendid part. The professionals are the backbone of the organization which has accomplished an educational and merchandising job on a scale which I think few of us would have believed to be possible four years ago. Who would have dared to predict in 1939 that over three million applications could be secured on the occasion of one Loan, or that the subscriptions of the small fellow would add up to a sum not a great deal smaller than the amount obtained from large investors - governments, insurance companies and business corporations. Well, it has been done, and I think dealers should feel proud of the part they have played. They have done their country a great service in war time, and I think they have been glad to have the opportunity, as anyone must be who remembers what others are doing in the air, on the sea and on land, day by day and hour by hour. The contribution which our men in the Services are making should not be mentioned in the same breath as anything which relates to the home front. But the home front job has to be done, and well done, to give our Forces all the backing they deserve. And right here I would like to state my own deeply-held conviction that the war-time

savings operation has been the most worth-while civilian job which Canadians have done during the war. You may think it rather extraordinary that I do not give war production pride of place, and put the savings programme third on the list. But this order of importance is based on sound reasons.

To assess the importance of a thing of this kind, I think one has to make extreme comparisons. For example, I have no clear views as to what the situation might have been if public response to the savings appeal had been, say, 10 per cent below our actual experience. But I have very definite views on what would have happened if no effort - or if a very inadequate and half-hearted effort - had been made to develop voluntary savings and investment in Victory Bonds and War Savings Certificates.

For one thing, individuals would have had some \$2,500 millions more cash burning holes in their pockets or their bank accounts - dangerous, inflammable dollars, forever irritating the itch to spend - in short, the very fuel of inflation. For another, they would have had no proper explanation or understanding of the patriotic as well as the personal reasons why spending should be postponed as much as possible until after the war, and why wartime saving has been so vital to the strength of our war effort. One should not be dogmatic on questions of this kind, but if such a set of conditions would not have blown the roof off any price ceiling, then I don't know what would. If price ceilings could not have been maintained, then I have no hesitation in saying the resultant disorganization would very seriously have reduced war production - and, incidentally, immeasurably complicated - probably destroyed - our chance of orderly reconstruction post-war. That's the reason I put the savings campaign, and all the education that goes with it, in the place of first importance on the home front. It is success in this field which has made possible the degree of success attained in war production. I could add one more thing. If the dependents of our men in the Armed Forces had been struggling - necessarily unsuccessfully - against inflation at home, then the cruel hardships they would have experienced, and the bitter attitude they would have developed, would certainly have produced some adverse effect on the morale of our men overseas.

I am not saying these things as a boost for National War Finance Committee, but because I believe them, and think they need to be said. For myself, I am proud to be connected with this War Finance organization of 150,000 Canadians, proud of the spirit with which they tackle the job, and of the results they get. And I hope every one of you who is connected with the National War Finance Committee feels the same way. I ask you to remember that the job is far from over. The need for the National War Finance organization will most certainly outlast the war. What other form of organization could get down to the grass roots and mobilize the savings of the mass of the people. None that I know of. And yet that type of distribution of Government bonds will continue to be of the greatest importance in the demobilization period. All of which means that you - who are the very core of the organization - will be asked to continue your whole-hearted support until we are over the hump.

I think you will agree that the part which dealers have played in our war-time finance effort has increased the prestige of the investment industry, as well as broadened its contacts. After all, it is no small thing to have had a major share in a vitally important war job, which I believe has been done in Canada as well as it has been done in the United Kingdom,

and better than in any other country. In the process of doing this job, many hundreds of thousands of new, permanent investors in securities have been created. There they are, gentlemen, and they represent your opportunity, and, in a sense your responsibility for the future. They need facilities for buying and selling; they need advice; they need a square deal. And not by any means all of them, small or large, individuals or corporations, are fully invested after each Victory Loan. Do not let us have any illusions about that. Read the figures of bank deposits of December 31st. Better still, read the classification of bank deposits as at October 31st last when those figures are published. One of the significant things you will see in that classification is the large increase in the number and amount of savings accounts between \$1,000 and \$5,000. There were 62,000 new accounts which came into that category in the twelve months which ended last October, and the dollar amount of such accounts was up \$123 millions. As to the effects of the Loan on savings accounts, in general it is probable that they came close to regaining their pre-Loan level by December 31st, about seven weeks after the campaign ended.

I hope that dealers in their activities in the period between Loans will never do business in a way which tends to develop doubts about Government security values. I know that they would not do so intentionally, but the character of approach to a client has an influence on his attitude. If you go to a corporation and say, "I can get you out of your '57's" or whatever the particular issue may be, without a loss, what is the implication? Obviously, that the company has securities which do not represent the best possible value for a permanent investment. If dealers exhibit any feeling of doubt in respect to the value of securities, who can blame clients for sharing the doubt? I believe that such feelings are completely wrong. I think that holders of Victory Bonds have the best investment in the world, and I would never give them any impression to the contrary. If they don't agree, I personally would never over-reach myself in trying to persuade them to retain their investment against their own desires. A nervous holder is a double liability. Let him sell. There will be others who have sufficient intelligence to take his place in due course. But I would not like to feel that the doubtful investor is in this frame of mind because of the character of the approach made by anyone connected with the War Finance organization.

While I am on this subject, I would like to express the view that Canadian corporations will participate in the securities market - mainly for Government bonds - to an infinitely greater extent after the war than they ever did before. Idle demand deposits available for investment will be much larger, and corporations in this country will catch on to the idea that even moderate earnings from short term liquid securities are well worth while. I recognize that this development is much more likely to take place if dealers have better facilities for participating in the market for short or medium term Government securities.

So far, I have not burdened you with statistics or details, but I think it might not be out of place to say a few words in regard to Dominion Government debt and interest charges. Since the beginning of the war, the Government's domestic debt has increased by \$7,654 millions. About one-third of that increase is in the hands of banking institutions, including the Bank of Canada; another third is held by large investors, including insurance companies, provincial and

municipal sinking funds, pension funds and business enterprise in general, and the remaining third is in the hands of individuals - the general public. A substantial portion of the increase in domestic debt is due to repatriation of Government securities from the United Kingdom, or to loans to the Canadian National Railways to enable them to bring home their securities.

In referring to the increase in interest charges which has taken place, the most convenient thing to do is to combine the interest costs on Government and C.N.R. debt held by the public, and then deduct from that figure the interest which the C.N.R. is able to pay out of its own resources, and also to deduct the Government's cash receipts from other enterprises which the Government owns or to which it has made advances. And by cash receipts I really mean cash receipts from going concerns which are on a profitable basis.

At the present moment, the net interest figure on the above basis is about \$220 millions per annum, as compared with \$145 millions in 1939, and there is the additional factor that the C.N.R. is now earning a substantial surplus which accrues to the Government, but which I have not taken into my calculation. The increase in interest payments is not a small one as you can see, but I think it is well to remember that twenty years ago the interest charges were approximately the same as in 1939; and twenty years ago, in 1924, a substantial portion of the interest paid by the Dominion Government was tax free. Making allowance for the non-tax-free feature of Government interest today, the increase in net interest charges in the last twenty years has certainly not been frightening.

I do not suggest that the Government could continue indefinitely to increase its debt by staggering sums each year and not eventually get into difficulties, even though the interest is paid to Canadians and a substantial portion is recovered via the income tax route. At a certain stage, the machinery would begin to creak. But I certainly do believe that we can bear the war debt, and the increases which will inevitably take place for a time after the war ends, without straining ourselves.

The question is sometimes asked as to what will happen in the post-war years if individual investors throw their bonds on the market, in great quantities, to purchase automobiles, washing machines and what not. Incidentally, I don't believe that we shall see a great flood of selling for the purposes I have just mentioned. The most improvident will have sold their bonds before the end of the war. That process is going on right now. As for the remainder, I believe that people who have accumulated some savings will think twice before they voluntarily spend more than a modest portion of their reserves. Once a person acquires the savings habit - and the main object of our work in the National War Finance Committee is to instil that habit - once a person realizes the benefits of saving - he does not change over-night.

I readily admit that my scepticism in regard to a flood of sales is based on my personal opinion that, with the exercise of a reasonable degree of intelligence, we can avoid mass unemployment in the post-war years, and that for the most part, under those circumstances, people would earn enough current income to pay for the great bulk of the things they buy. Actually, the amount of savings which people will use to finance outlays in the post-war years will depend on a number of factors, mainly the state of business and employment. For instance, if incomes

continue at relatively high levels, the main significance of war-time savings will probably be their influence on the decisions of people, as consumers, in regard to the use of their current income. If they have a good back-log of savings, and are confident about their continuing ^{earning} ability, then they are likely to spend a higher proportion of their current income than they would if they had little or no savings. This spending will take care of their wants, and they will not need to use their savings, or, at worst, not very much of them.

On the other hand, I must admit that if the incomes of the mass of the people decline sharply when the war is over, many of them will find it necessary not only to reduce their current outlay but also will need to draw down some of their war-time savings to keep up with essential living expenses. But whatever transpires in respect to selling of securities, we have the machinery - and I hope we have the wit - to deal with the situation in a way which will avoid serious upsets or disturbances - in a way which will keep faith with the millions of small investors who are supporting the savings programme during the war years.

I should, perhaps, add a further word of explanation on this subject, as some people regard these wartime savings as potential gunpowder to our economy. It is undoubtedly true that we shall have to guard against inflationary tendencies in the immediate post-war period while shortages continue to exist. But after these shortages have been overcome, inflation - in my opinion - will not be a matter for serious concern. The productive capacity of this country, and the facilities which I hope we will have for buying things from other countries, are such that I cannot visualize a volume of purchasing power which would overtax our capacity to supply goods, and result in dangerous upward pressure on our price levels. In fact, after war shortages become a thing of the past, I am more inclined to fear a decline in the price level rather than an increase. Incidentally, the disappearance of shortages automatically involves the disappearance of controls which were made necessary by shortages; and that means almost all the war-time controls, although I would not be surprised to see control retained over the export of capital.

I do not want to give the impression that I believe our post-war problems will be easy to solve. Far from it. The difficulties of reconversion, and of finding useful work for many more people than were employed in our best pre-war year, can hardly be exaggerated. We will never solve these problems if we approach them timorously from any point of view, including the financial. It doesn't take a prophet to visualize a very large Dominion budget in the post-war period. But the main thing is that we should succeed in providing useful employment for our people. If we reach that goal, the financial problems can be solved, granted a reasonable degree of intelligence and honesty. If we fail to provide employment, the penalties will indeed be severe.

The policies of other countries will exert an important influence on the Canadian situation, having in mind our dependence on international trade. Many efforts are now being made to build the frame-work of international co-operation post-war. I am sure that Canada will assist these efforts to the limit of her capacity. An indication has already been given by our participation in the discussions of plans for international currency stabilization. If these and kindred plans should break down, we shall have need of all our wits to fight for our interests in a bad bilateral-minded world. But that is a defeatist suggestion, and I do not want to give any impression of

defeatism. Surely the spirit which is enabling the United Nations to win this war can be preserved to win the peace. The degree of vision and understanding which is required is not great. Whatever transpires, I believe that Canada will reach the conclusion of hostilities in as good shape as any country to tackle her problems. Our Armed Forces will have gained a reputation second to none. Our war production record commands respect. On the financial and economic side, I hope and believe that we will have preserved an orderly situation within the country. We will have repatriated a large portion of our foreign debt, contributed great quantities of weapons and war materials to our Allies without taking blood money, paid cash for what we needed from others, and will still be in a position to command sufficient resources in foreign exchange to preserve our liberty of action. Providence has been very good to us in many ways, so that we have no occasion to boast. But neither have we reason to feel ashamed or timorous; and that is a good starting point for our post-war life.

I think I have already kept you too long, and I must bring these remarks to a close. While I have touched on a number of subjects, I have had to steer clear of certain very interesting ones, such as the future level of taxes, or the probably behaviour of the premium on U. S. funds. There are many things about the future which none of us know. But some can be foretold. For example, I do not mind predicting that with your whole-hearted support, and a lot more work - all of which I am sure will be forthcoming in the future as it has been in the past - our war-time and early post-war savings and borrowing programme can be carried through to a successful conclusion. That programme will have broadened tremendously the foundation on which your business rests; and your participation in it will have earned high public regard. For the investment industry, I think the future will hold many and interesting opportunities. Certainly I hope that this will prove to be the case, and I add to the hope my assurance that Bank of Canada will not knowingly overlook any opportunity to contribute to the sound development of the investment business in Canada.