National Board but each Regional Board as an independent local agency might be continued after the war.

All these suggestions have one thing in common—a recognition that the practical effectiveness of settling differences peacefully around a table instead of through costly and damaging strikes or lockouts is of the greatest value, both now and for the years after victory.

The Industrial Development Bank

By W. E. Scott

THE first of several economic and financial measures to meet post-war problems, which were forecast at the opening of Parliament this year, to be introduced into the House of Commons was the proposal to establish an industrial development bank. At date of writing the Bill to provide for such an institution has been given first and second reading and referred to the Banking and Commerce Committee where it is presently under discussion.

The measure in question contemplates an industrial development bank in the form of a corporation subsidiary to the Bank of Canada, its directors being Bank of Canada directors and its capital stock of $25 millions all to be owned by the Bank of Canada. In addition to capital the Industrial Development Bank would be given power to obtain funds by the issue of bonds and debentures provided that its total liabilities might not exceed three times paid-up capital and reserve fund. Initially, therefore, the maximum resources of the Bank would be limited to $100 millions. The net profits of the Bank are to be added to its reserve fund at least until this fund is as large as the paid-up capital, after which a dividend on capital not exceeding four per cent might be declared in any year.

The Industrial Development Bank is intended to provide financial resources for industrial enterprises which may not be able to obtain such assistance elsewhere on reasonable terms and conditions.

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In the Preamble to the Bill the intention is expressed of confining the activities of the Bank to those industrial enterprises "which may reasonably be expected to prove successful if a high level of national income and employment is maintained". This clause has been elaborated during the discussion of the proposal and apparently means that there is no intention of financing projects which from the outset are likely to fail; but in forming an opinion on the future chances of a proposition the Bank is to assume that there will be on the average a high level of economic activity in Canada. Since obviously the operations of the Bank itself could not be the major determinant of economic conditions, this means that the Bank's management will choose its risks in the expectation that the whole approach to post-war economic problems, national and international, government and business, will be successful.

Why is it necessary to have an industrial development bank to provide credit for borrowers who are likely to be successful and, therefore, repay their loans? Why will not our present financial institutions be able and willing to grant all the necessary credit? The sponsors of the Bill have pointed out that there is a "gap" in our existing credit structure. Chartered banks confine their lending almost entirely to short term industrial advances—loans which usually can be repaid or reduced to rather small figures, at least once a year. In other words the chartered banks usually supply working capital to industry rather than funds for plant and equipment which would only be paid off over a period of several years. In the discussion of the project it has been made quite clear that the Government does not criticize the banks for confining their lending to liquid advances but believes that such a course is desirable in view of the fact that their deposits are withdrawable on demand or quite short notice. Industrial borrowers needing funds for a term of several years are pretty much dependent on the investment market. Proponents of the Industrial Development Bank point out that the facilities of the capital issues market are not available to all borrowers at reasonable cost. A large part of the flotation expenses connected with a new issue of securities is fixed in character and, therefore, becomes an increasingly heavy charge as the size of the issue diminishes. The effect is to make the total cost of borrowing money considerably higher to the small corporation. Access to the capital market is further reduced by the natural preference of the investor for securities of concerns with a nationally-known name and a record of successful operation.

The "gap" in our present credit structure thus appears to affect borrowers who want money for a longer period than chartered banks can accommodate but who are not for one reason or another, able to make a public issue of securities at reasonable cost. There are no statistics to show how big this "gap" is and how many potential borrowers would not be aided by existing agencies. Opinion appears to vary from those who claim that there are practically no credit worthy borrowers who do not get necessary credit from present institutions stretching their usual standards to others who believe that there would be many deserving projects going begging for lack of a source of medium or long term funds.

A number of other countries have special credit institutions to meet the needs of industry for medium and long term capital. In the United States special facilities of this kind have been available for some ten years through Reconstruction Finance Corporation and Federal Reserve Banks. In the United Kingdom the Macmillan Commission of 1931 drew attention to the difficulties experienced by small firms in making public issues of securities, following which several companies were formed with the object of correcting this situation.

If we are to have a high level of employment and income in Canada after the war, a period of large-scale industrial development appears very probable. It has been estimated that at least 4,700,000 Canadians will seek civilian employment after the war as compared with about 3,200,000 persons engaged in such work at the present time. If we are successful in solving this problem it is obvious that vastly more civilian goods and services will be produced and consumed than ever before.[1] It is apparent that 4,700,000 workers will not all be effectively employed in the same civilian activities now providing work for 3,200,000. It will be necessary to convert war plants to civilian purposes, to modernize and expand existing firms and establish new concerns to exploit new methods, new products and new markets. Some firms will be able to arrange financing through existing institutions. But there will be others which will need special assistance if they are to go ahead. It seems reasonable to infer that the Government is sufficiently impressed by the magnitude of postwar problems to want to make quite sure that desirable projects are not blocked by reason of adequate financing not being available—whether such cases be many or few.

Canada has always tended to move cautiously when changes in her banking institutions are involved. Perhaps the fact that our system of chartered banks has provided satisfactory commercial banking service over a long period and is highly regarded by other countries makes Canadians careful not to do anything which might spoil the record. Our success in the field of commercial banking may have made us slower to recognize that the scope of banking is somewhat

1. See page II of Bank of Canada Annual Report to Minister of Finance for 1943.

broader than commercial banking proper. One can still recall the controversy a decade ago over the proposal to establish a central bank in Canada even though most countries had such an institution or planned to have one. Similarly, in the case of Industrial Development Bank there has been an evident caution even among those who approve the principle and recognize the need, with regard to the effect which the new institution might have on existing banks and other financial agencies.

The Preamble to the Bill and the wording of Section 15 indicate that the Industrial Development Bank would not supply financial resources which the borrower might obtain from a chartered bank or other lender on reasonable terms and conditions. Appearing before the Banking and Commerce Committee the Governor of the Bank of Canada who would become President of the Industrial Development Bank said that the practical application of this directive would be for the management to have the borrower apply to at least one representative private lender whenever there was any chance that such lender might be interested in providing the borrower's requirements in which case the Industrial Development Bank would not come into the picture.

The Bill provides that the Bank would have power to make or guarantee loans to industrial enterprises and to acquire stock, bonds and debentures of such enterprises either by underwriting or purchasing direct from the issuing corporation. The Bank would have broad general powers to take and, if necessary, realize upon any collateral security, including real property in very much the same way as is provided for chartered banks under The Bank Act.

The power of the Bank to guarantee loans made by other lenders would appear to envisage the possibility of co-operation between Industrial Development Bank and the chartered banks through which the latter would make medium or long-term advances to industrial borrowers with the protection of a partial or complete guarantee from Industrial Development Bank. Presumably the Bank would charge a fee for its guarantee on a scale commensurate with the risk which was being assumed. The chartered bank participating in such an arrangement would retain the advantage of direct contact with its customer and would obtain a smaller net return on the loan as a result of the guarantee protection.

The Bank's power to enter into underwriting agreements respecting the issue of shares or other securities by an industrial corporation was probably included in the Bill with a view to meeting certain special situations which might arise. For instance, there might be security issues for which the receptiveness of the public market was somewhat in doubt. If everything went well the whole issue might be placed; if not, perhaps an appreciable part would have to be taken by the underwriters. An undertaking on the part of Industrial Development Bank to subscribe for part of the issue if the public sale fell short might encourage the other underwriters to go ahead and make the public offering. Section 25 of the Bill contains a sub-section prohibiting the Bank from acquiring any stock, bonds or debentures except as specifically provided in certain other sections. The effect of this prohibition would be that the Bank would have no power to purchase industrial securities on the open market but could only acquire them as the result of an underwriting agreement or purchase from the issuing corporation.

The scope of the Industrial Development Bank's operations is limited to "industrial enterprises" which the Bill defines as businesses carrying on the manufacture, processing or refrigeration of goods, wares and merchandise, or the building of ships or vessels or the generating or distributing of electricity. New as well as existing concerns are included in the scope of the Bank. Confining the lending activities to industrial enterprises appears to exclude primary industries which do not involve manufacture or processing. The Government has pointed out that in the case of agriculture there are certain other measures under consideration to provide special credit facilities for farmers. Construction contractors would not be eligible borrowers under the terms of the Bill but assistance to industrial enterprises and to housing for which the Government may also provide special measures would tend to help building contractors indirectly. Also excluded are trade and service establishments, probably for the reason that their credit requirements tend to be chiefly of a short-term character and therefore capable of being provided by present institutions.

The Bill adopts the policy of drafting general definitions of the objectives which the Industrial Development Bank is to serve, the persons to whom assistance may be given and the ways in which such help may be provided, but does not lay down detailed regulations for the Bank's management within the general field which has been outlined. There is no limit set as to the maximum size of loan which the Bank may make. The Government has said that because of the nature of the "gap" in the present credit structure it is expected that most borrowers will come from small and medium-sized business but that it is conceivable that there may be an occasional deserving case among the larger borrowers and for this reason no upper limit on any one loan has been deemed desirable or practical. Similarly there has been no limitation on the term of credits which may be advanced by the Bank. Management has been given a relatively free hand to vary the terms and conditions of its operations to fit the particular needs of the borrower provided that the general considerations conform to the spirit and letter of the Act.

There have been questions raised as to whether or not the Industrial Development Bank could hope to be successful financially in a field which private enterprise has not seen fit to enter because the risks are substantial and the potential profits small. The Deputy Minister of Finance has expressed the belief to the Banking and Commerce Committee that the functions to be carried out by Industrial Development Bank should yield a small profit on balance. The Governor of the Bank of Canada has supported this point of view by submitting to the Committee on request certain estimates of income, expenditure and losses which the Bank might experience. The text of the Bill and the discussion of it which has taken place so far indicate that it is not the expectation that the Industrial Development Bank would engage in interest rate competition in order to make loans and investments. It is implied throughout that the chief concern is that worthy borrowers should be able to get access to credit at a "reasonable" cost. The Governor of the Bank of Canada used a figure of five per cent for the average return on loans and investments when submitting the estimates referred to above; five per cent is a common rate for chartered bank loans to industrial borrowers at the present time. Since the Bank is prohibited in the Bill from engaging in the business of accepting public deposits and doing a general banking business such as is performed by chartered banks, it is unlikely that there would be need for an extensive branch system. As it has been expressed, the staff of the Bank would not be very large but would have to be of high calibre. Losses on loans and investments like those of other banks would fluctuate with the level of economic conditions. It is expected that they can be kept down to manageable figures if on the average Canada is able to maintain a high level of employment and income.

The proposal to establish the Industrial Development Bank appears to be another stage in the process which began a decade or so ago to round out the Canadian financial structure by providing special credit institutions to fill needs not served by existing agencies. To date this process has not involved any major interference with the functions of private financial institutions. The present Bill apparently aims to continue the same policy of not competing with the normal activities of existing agencies. If it should turn out that the Industrial Develompent Bank could not perform its functions except at a loss, the proposed set-up of the Bank should guarantee that this state of affairs would soon be drawn to the Government's attention and Parliament would have an opportunity to decide whether or not the Bank should be continued. If, on the other hand, the Industrial Development Bank can operate within the limits of its own financial resources and add even in a small way to the level of economic activity after the war, it would seem that we have nothing to lose and something to gain.

Aiding Trans-Canada Airways

By A. W. Currie

CANADIANS have reason to be proud of the government-owned Trans-Canada Air Lines. Created only six years ago and competing with well-established American companies, Trans-Canada gives a service which for speed, reliability, safety and economy is as good as any in the world. Best of all, it has a surplus on its operations.

To a people inured for a decade to huge losses on the Canadian National Railways, it is almost unbelievable that any government-owned transportation system should actually have a surplus. This incredulity is increased when T.C.A. states that it meets all its operating expenses, regularly pays five per cent on its capital stock, and still has a surplus. All this seems too good to be true.

Does Trans-Canada really cover all its costs and still make a profit? Well, to be blunt, it doesn't! No company engaged in air transport anywhere in the world does. Commercial transportation by air is subsidized by every country. Each major nation wants to aid its exporters, develop its outlying areas, assist its own national defence and, in particular, add to national prestige. The result is that, despite the earlier attitude that "civil aviation must fly by itself," almost every nation is financially assisting the development of commercial flying within as well as beyond its borders. Canada is no exception.

Facilities Provided

How much subsidy Canada pays annually to airline operators it is practically impossible to determine. In general, the government provides terminal and emergency landing fields, radio beacons and meteorological services for use by commercial airlines and private flyers without charge. Some of the airports were built by adjacent municipalities with the Dominion government contributing, usually, three dollars for every dollar invested by municipalities. During the depression great improvements were made under unemployment relief plans. All airports had to be substantially enlarged and rebuilt to accommodate the large planes now in use. Since 1937 when control of aviation was taken over by the Department of Transport and, more recently, by the Department of Munitions and Supply, there has been invested in land, runways, radio and lighting systems, and other permanent facilities a total of about twelve and a half million dollars. Very large sums have been spent on airports and navigation aids for the Royal Canadian Air Force and the British Commonwealth Air Training Plan, some of which will be chargeable after the war to civil aviation. Obviously no accurate estimate of the public investment in landing fields and aviation aids can be made but the amount must approach twenty million dollars.

On this very large investment commercial aviation companies pay only a small amount. For example at certain fields Trans-Canada pays $1,200 a year for the first scheduled flight and $600 for each additional flight. It must also pay for rent of hangars, labour, and tractor service supplied by the airport management but such payments are

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