

their home ports than ours, and while we can land our fish in excellent condition with little difficulty, it is much harder for them to do an equally good job. Newfoundland, Iceland and Norway have not the continuity of supply coupled

with the ready access to the market essential to limited storage periods. The Atlantic Coast of Canada, especially Nova Scotia, has a geographical advantage that at present is not used to advantage.

Canada's Industrial Development Bank

By J. A. MACDONALD

IT would not occur to most people that there would be any connection between the old League of Nations and Canada's newest financial institution, but the intellectual parentage of the Industrial Development Bank can be traced directly to the work of the Financial Committee of the League.

A report of this Committee, issued shortly before the second World War, drew attention to the problem of the small or medium sized business requiring financial assistance other than short term working capital. The Committee found that in any country whose economy had reached a fairly advanced stage, industrially speaking, the small or medium sized business faced a common problem.

It is clear that in a dynamic economy there is constant change, and this is applicable to most business units within it, both large and small. For example, there are increases and decreases in the size of markets, and changes in styles and in consumer tastes. To expand their facilities to meet the demand of an increasing market for a product, or to reconvert to meet a change in style or consumer taste, many businesses require capital which can be paid back out of earnings over a period of years.

Conventional Methods Inadequate

In most countries the structure of the ordinary commercial banks was, and is,

such as to make it undesirable that they offer any large volume of this type of assistance, even to the larger enterprises. The alternative to obtaining assistance from a commercial bank is the public issue of securities or stock. The overhead and costs incidental to the floating of a public issue in relation to the modest amounts usually required by the small and medium sized business make it virtually impossible for them to use this avenue of assistance. In addition, if a company is not nationally known, as is usual with the type of business we have in mind, the uncertainty of the market's reception of the issue makes most investment houses very reluctant to handle any such issue. The net result was that many desirable businesses either remained static or have gone under, instead of enjoying a healthy growth in keeping with the growth of the country as a whole. Hence the tendency for large business units to grow larger, and for the small to stay small or even disappear.

The particular findings of the Financial Committee that we have discussed so far showed that the frequently heard complaint of the small business man about the unavailability of credit had certain basis in fact, and furthermore, that it was a problem common to all advanced industrial economies. It demonstrated that there was a gap in the existing credit facilities in such countries which would have to be filled.

Filling the Gap

The second World War intervened, and it was not until 1944 that the Government of Canada announced its intention to fill this gap by a special instrument to be called the Industrial Development Bank, whose purpose would be to extend financial assistance to sound industrial enterprises which were unable to obtain their requirements from other sources on reasonable terms and conditions. Because it was intended to fill a gap in the existing credit facilities and not to duplicate them, it would supplement, rather than compete with, the activities of the chartered banks and other lending organizations, and would operate chiefly in the medium and long term field.

After discussion by Parliament and its Banking and Commerce Committee, the Bank was established by Act of Parliament on August 15th, 1944, with an authorized capital of 250,000 shares having a par value of \$100 per share, which would be fully subscribed and taken up by the Bank of Canada. In addition, the Bank was given power to issue debentures up to three times its paid up capital plus reserve.

The First Three Years

In its first year of operations, commencing on November 1st, 1944, the Bank proceeded carefully. It received 485 applications from enterprises that could be classified as "industrial" within the definition contained in its Act of Incorporation. Of these, 228 were withdrawn during preliminary consideration, 160 were declined as unjustifiable risks, and 97 were authorized. The basic reason for the small number of authorizations in relation to the number of applications received is probably that there was not a clear understanding on the part of would-be borrowers of the function which the Bank was expected to perform, and consequently, of the type of application to which it was able to give favourable consideration. Again, another factor which mitigated against

any large scale advances by the Bank was the restrictive effect of labour and material shortages upon reconversion and expansion plans, particularly those of the small and medium sized business, a condition which has continued to make itself felt to this day.

Because of the foregoing factors, the second year of operation saw the Bank receive a decreased number of applications, 377, and an increased number of authorizations, 169—an indication that the Bank and its proper customers were coming together, i.e. fewer applications, but containing among them a greater number of the kind to which the Bank could give favourable consideration. However, the influence of material and labour shortages upon investment plans of these potential customers resulted in a lesser demand upon the facilities of the Bank than might have been expected had these circumstances been more favourable.

The results of the third year of operations were remarkably similar to those of the previous year. The Bank received 387 applications and authorized 177 credits, an indication that conditions in the sphere in which the Bank operates had not changed to any marked degree. All told, in its first three years of operations, the Bank authorized credits to 443 industrial enterprises for a total of \$26,735,809. These 443 firms represent a good cross section of the varied types of industrial activity in Canada. Some examples are the manufacture of woollen and worsted yarn, clothing, hosiery, agricultural implements, industrial alcohol, dental burrs, electrical equipment, chinaware, printing, photographic equipment, boat-building, and many others, some completely new to the industrial economy of Canada.

Procedure

The Bank's procedure in dealing with applications is very simple. An application may be made in writing or in person to any of its offices located in various

sections of the country. The Bank has on its staff, in addition to experienced bankers, officers experienced in industrial engineering, law, accountancy, and insurance matters. When an application is received, these officers are assigned the task of reviewing it. If the preliminary data is satisfactory, a visit is made to the applicant's place of business in order to discuss the plans at first hand.

The standard rate of interest charged by the Bank is 5%, and the terms of repayment are tailored to meet the individual needs of each business. It has, however, been the policy of the Bank to encourage borrowers to repay their loans as rapidly as possible in order to place their finances on a sound basis to meet possibly less favourable operating conditions.

In considering applications, ability to repay the loan from prospective earnings is as important as the existing value of buildings, machinery, and equipment on which security may be taken. The Bank may take any kind or form of security, including loans on goods, wares and merchandise as under Section 88 of the Bank Act. Mortgages on land and buildings may be taken. Chattel mortgages on machinery and equipment may be accepted where they may be legally taken.

The methods used by the Industrial Development Bank in extending financial aid vary in accordance with the circumstances. In a great majority of cases, the Bank makes direct loans, but it has powers to share in, or guarantee loans made by chartered banks. The Bank may also underwrite or purchase securities issued by the borrower. As a matter of principle, the Bank requires that a reasonable amount of money must be invested in a business by persons other than the Bank.

Evaluation

To sum up, the Bank will establish a credit if (a) the enterprise is one which is eligible under the Act, (b) the security

available is sufficient to protect the loan, (c) there is a reasonable amount of money invested in the business by persons other than the Bank, (d) future prospects of the firm justify its undertaking the contemplated expansion.

Under these general considerations, with due regard, of course, to the character and business ability of the principals, the Bank, as indicated earlier, has extended credit to a wide variety of industrial enterprises. These have ranged from cheese factories to the making of soil-pipe and taxi-metres to industrial alcohol.

In many cases the assistance of the Bank has kept intact war-time skills in communities where otherwise they might have been dispersed, and it has helped introduce many new products to the Canadian, and even the North American market. For example, a plant in a north-western part of Canada, built up during the war to manufacture aircraft, might have been closed down at the end of the war. Instead, through the assistance of the Bank, this producing unit, with its skilled craftsmen and accumulated knowledge of production techniques is now producing at capacity in another line and is providing a high level of employment in its community. Another in stance comes to mind of a young man with technical skill and some capital, who, through the assistance of the Bank, is turning out a product which is the first of its type to be manufactured on the North American continent, and which promises to revolutionize its particular field.

One might go on at length, but the point is that the Industrial Development Bank is alert to the possibilities of industrial development, and providing the basic requirements are met and the financing is the type which it was intended to provide, the Bank stands ready to extend its credit facilities to any sound industrial enterprise.

The attractive feature of the Bank's method of disbursement is that a cus-

tomer may arrange in advance for the financing of his project with the Bank, and yet only pay interest on that portion which is actually being used. It works this way—a business man decides that he will erect a plant to be completed in say six or eight months' time. He can arrange for the financing of the project with the Industrial Development Bank in advance, and the Bank then advances funds only to meet actual expenditures as work on the plant progresses. The customer pays interest only on that portion of the authorized credit which is actually in use, resulting sometimes in a considerable saving.

The Bank does not ordinarily lend money for what are commonly known as working capital purposes. By virtue of its Act, it cannot lend to primary producers, nor to trades or services.

At the moment, the Bank's commit-

ments are slightly over the 21 million mark, and are steadily increasing. Since the necessity of conserving our reserves of United States dollars has led to restrictions on the importation of industrial machinery and equipment into Canada, it is likely that some decline in the rate of capital investment in industry may occur. Should such prove to be the case, it does not necessarily mean that there will be a contraction in the Bank's lending activities. Rather there is every indication that in the period ahead there will be many special financing problems for industry of a kind that the Bank was designed to meet.

During its first three years of operation, the Bank has provided a useful service to industry, and the evidence so far indicates a continuing demand for this type of financial service.

New Zealand's Labour Legislation

by HON. JAMES THORN

IN 1873, apart from the Masters and Apprentices Act based on a similar law in Great Britain, there was only one piece of labour legislation on the New Zealand Statute Book. Then a legislative novelty it was called the Employment of Females Act and had three operative clauses. They read:

- "3. No person shall employ any female at any time between the hours of six in the afternoon and nine in the morning, or for more than eight hours in any one day.
4. Every female shall have holiday on every Saturday afternoon from 2 o'clock; and on Sunday, Christmas Day, New Year's Day, Good Friday,

Easter Monday, and any other day set apart as a public holiday, without loss of wages.

5. Every workroom shall be properly ventilated."

In 1873 this was almost revolutionary legislation, but if it is a good purpose to establish good conditions in industry this act is an indication that New Zealand started off on the right foot.

In 1885 the first Congress of Trades and Labour Councils ever held in New Zealand took place in Dunedin. Forty delegates represented 30 Unions. The total membership of these Trade Unions was 3,000. The objects of this Congress were officially stated to be:—

1. To promote the better organization of the working classes.
2. To consider carefully all matters affecting their interests, and pro-

EDITOR'S NOTE: Hon. James Thorn is New Zealand High Commissioner to Canada. This article is an adaptation of an address given by Mr. Thorn before Maritime Trade Union officers attending a Course in Labour Relations held at Dalhousie University, April 26-28, 1948.