

## APPENDIX AL

## EXHIBIT 65

*Filed May 23, 1934, by Mr. W. M. Wilson, for the Vice-President, the Canadian Bankers' Association*

Mr. CHAIRMAN AND GENTLEMEN,—If you examine carefully the factors which have led to any over-capitalization or over-expansion which may have occurred in a Canadian industry, I believe you will find that neither the prime responsibility nor even any material measure of the responsibility for this development can justly be laid at the doors of the banks in this country.

During the period of say, the last ten years no plan to enlarge the capital structure of any industry was, so far as I am aware, conceived by or launched on the initiative of a Canadian bank. I believe it is true also that no Canadian bank took a part in proposing any industrial merger, or in framing the terms upon which any such merger might be arranged and carried into effect.

To the best of my knowledge the banks had no connection with any transactions of this nature until the negotiations between the parties concerned had been concluded. Then it is true that loans were made by the banks to enable the wholesale purchaser of the new securities to finance his commitment during the period he required to market them at retail but that form of financing for reputable dealers is a normal function of the banks.

To permit a fair survey to be made I would ask you to cast your minds back to the conditions existing when most of these securities were distributed. Industry during the three years ending with 1929 was very active. Production, though large and increasing, was barely able to keep pace with consumption so that manufacturers, instead of having to contend with swollen inventories of finished goods, were put to it to fill the volume of orders which kept pouring in upon them.

The dealers in securities who during that period applied for loans to finance the purchase of security issues represented the leading investment houses in this country—men of standing, experience and good repute. The securities which these dealers were offering to the public were accompanied by an analysis which their firms had made of the relative business, a record of its past earnings and an estimate of the future market prospects of its product. The evidence which they submitted warranted the view that the offerings were legitimate and that an investment in these securities would be exposed to no greater risks than those normal hazards to which all commercial undertakings are of necessity subject.

I would not have you think that in order to absolve the bankers I am trying to place upon the shoulders of others any blame that may be due. I would emphasize that it is always a matter of extreme difficulty to estimate with even reasonable accuracy the potential earning power of any industry for this involves an attempt to foresee the various domestic and international political, financial, and economic factors which may arise in future and to weigh the effect which they might have on the business in question. The point which I am trying to make is that in the period through which we were then passing it was an almost superhuman feat, even with the highest possible degree of good faith, for anyone to keep his judgment completely free from any tinge of optimism.

Some part of our troubles may be due to over-expansion and over-capitalization but undoubtedly the principal cause has been the drastic and unexpected curtailment in the volume of our exports, and a lesser one the reluctance of our own people who have money to spend it as they used to do. The whole world developed an unwillingness to buy in anything like the former volume, and for what they did take they offered greatly decreased prices.