

The Innocent Investor.

By Peter McArthur.

Did you ever have anyone try to prove to you that black is white? If not, you had better have your wits about you, for I am going to try it now. And I mean to prove it to your entire satisfaction—or, rather, I am going to prove that white is black—which amounts to the same thing. What I am undertaking to prove is that the honest, thrifty citizen, who not only earns his living, but invests something for a rainy day, is a burden to the country. In fact, he promises to become an intolerable burden, unless we take him in hand at once. And yet he is doing only what every man should do. He has no intention of being a burden to any man. On the contrary, he prides himself on the fact that he owes no man anything, and that he pays as he goes. He is our best type of citizen, and at the same time the curse of the country. That sounds as impossible as that black should be white, and yet it is absolutely true. It is not for nothing that our big financiers have been called Wizards of Finance. They can do wonderful things, and the most wonderful they have done so far is to change honest, decent citizens into a public burden. And they didn't do it for their health, either. They did it to protect themselves while making their millions. They have managed things so cleverly that, if you try to punish them for their misdeeds, you will find that the men you will really hit will be the best citizens of the country.

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The cartoonists love to show farmers and laboring men as beasts of burden who are carrying the capitalist and his money bags on their bowed backs. This is all wrong. The capitalist never gets on our backs if he can help it. If by any chance he finds himself there, he scrambles off as quickly as he can. His great trick is to sell the seat on our backs to the Innocent Investor, and get away to a safe place with his money-bags. Then, when we get mad, and try to throw off our burden, we find that the man who is oppressing us is a good citizen, who would not do us any harm if he could possibly help it. He is as much surprised as anyone else to find that he is a burden to the producers and consumers of the country, but still he paid for that seat on our backs, and you can't blame him if he wants to stick to it till he gets his money back. He can't get it back from the capitalist, and we have not yet reached the point where we are willing to pay him to get off, so we go on carrying him, and wondering what we are going to do about it.

I know I should not write in this symbolical way, but that is the way ideas come to me first, and perhaps some others get hold of things in the same way. Now, let us look into the question in a plain, matter-of-fact way.

During the past few years a great many mergers and combines have been put through in this country, and it is notorious that most of them are grossly over-capitalized. In one case that I have in mind, the actual cash invested in the various businesses that were merged into one amounted to only a little over one million dollars; and yet bonds and stock were issued to the extent of five million dollars. Having a monopoly in its particular field, the new concern is paying liberal dividends on the five millions. This could only be done by paying the producers of the raw materials used by the concern less than they should get, and charging the consumers of the finished product more than they should pay. It has become necessary to pay profits on five times as much capital as was invested. This is outrageous, of course, but I should like to know what you are going to do about it. The men who put through the merger sold the bonds and stock to innocent investors who bought their holdings in the open market, and whose rights must be respected. They are good citizens who had saved some hard-earned money that they wished to invest. The stock of this company looked good to them, and they bought it. If you try to make that company pay dividends only on capital that really went into the business, you will be robbing these people. Of course, the men who put through the merger were doing a great wrong to the people of the country, who will have to go on paying dividends on stock that should never have been issued, but there seems to be no way of getting after them. They hold all the stock they got out of the deal and pocketed the money. But what they pocketed was nothing to what the great mass of consumers and producers will have to pay during the years to come. And they will not be paying it back to the slick financiers who put through the mer-

ger, but to the innocent investors who bought the fraudulent stock. The capitalists who managed the steal and profited by it are no longer a burden to us. They got away with their loot as quickly as they could, but the innocent investors are a burden, and will be until we find some way of getting rid of them. Doesn't it look as if white had been made black by the magic of High Finance?

Just how these mergers are put through, and who profits by them, will never be made entirely clear until one of them has been thoroughly investigated. Because the promoters of the Cement Merger fell out when it came to dividing the spoils, we are promised an investigation. If it is sufficiently searching, we may find out something that will guide us in trying to effect a reform. At present, all we know is that men like Sir Max Aitken became millionaires almost overnight by promoting mergers and selling stock to the innocent investors. As suggested above, Sir Max did not continue to be a burden to us himself, but took his millions to England, where he is now a prominent figure in the Imperial Parliament. But the people of Canada must pay dividends on the stock which he created and sold, if the thrifty people who invested their savings in his enterprises are not to lose the money they paid to him. In putting through his mergers, he produced nothing of value to the community, and effected no economies that will benefit the country, for people are now paying more for cement and the commodities he operated with than they were before he undertook to merge the competing businesses into one.

There is one outstanding fact, however, that we may be sure of, even without an investigation. In order to put through mergers, the promoters must have access to large sums of money to enable them to purchase the necessary options and carry the stock until it has been unloaded on the investing public. The only institutions that could provide the necessary money are the Canadian banks. They control practically all the savings of the people, and gather it together through their branch banks, so that it can be used for just such purposes as effecting mergers. That it is used for such purposes is unquestioned. Whether it should be so used, is a question for you to answer. There is a prevailing impression which is entirely justified by our banking laws as they now stand, that banks are private business concerns, that have a right to do whatever they like with the money entrusted to their care. Why this impression should exist, I fail to understand. The banks do business because of certain privileges granted to them by the people, and they do business almost entirely with the people's money, which they receive in the form of deposits. At present, the money of the people deposited in the banks exceeds the capital stock by about eight to one. This means that when a merger is being put through, they use eight dollars of the people's money for the purpose to every one of the shareholder's money. Such being the case, it looks to me as if a bank were almost as much a public institution as any department of the Government. But besides operating with the money of the people, their operations affect all the people—from the lowest to the highest. Does it not

seem reasonable that the people should have something to say about how the money of the country should be used? Yet they have absolutely nothing to say. All they can do at present is to deposit their money and await the result in a resigned spirit. They do not seem to realize that when a merger is put through that hits both producer and consumer alike it is their own money that is used for the purpose.

In several letters I have received from shareholders in banks that have failed, the writers spoke of themselves as "Innocent Investors." I sympathize with them entirely in their misfortunes, and yet I do not regard them as "Innocent Investors" in the sense in which I have used the phrase. If they choose to put their money into institutions over which they cannot very well have control, and which are not open to outside inspection, they are making a mistake of judgment for which they are in a measure to blame themselves. I also find that these men almost invariably believe that the Government is back of the banks and inspects them regularly. The sooner they rid themselves of this delusion, and see to it that the banks are inspected by the Government, the better it will be for them. They should not forget that, during twenty-six years 25 per cent. of our Canadian banks have failed, owing to mistakes in judgment, or, worse, on the part of managers and directors. Government inspection would bring to light the mistaken or reckless work on the part of bank officials, and prevent most of the failures that have been so disastrous to the country in the past. The depositors should also agitate for outside inspection, because it is their money that is being used and their money that will be lost if a failure occurs. But most of all, the whole mass of the people should see to it that the banks are so inspected that the possibility of a failure will be reduced to a minimum, and that the money of the country be not used to give countenance or assistance to schemes that tend to enrich the few and rob the many. Capital has been well called "the life-blood of the nation," and it should be so managed that it will nourish all parts alike.

The Bank Act is to come up for revision during the coming year. Whether you are a shareholder, depositor, or just a private citizen without a bank account, you should see to it that your representative in Parliament does what he can to have the Bank Act revised in such a way as will safeguard the rights of the people. I have had letters from members on both sides of the House, both French and English, saying that they are in favor of a revision that will provide for outside inspection of the banks, and that will limit the power of these institutions to finance schemes that are against public policy. It is not a question of politics as it stands, and, no matter which side your member may be on, you should urge him to act. Canada is a vigorous country, but it is not strong enough to carry the growing burden of Innocent Investors who must have dividends paid on stocks that would never have existed under a proper financial system. Besides, it cannot stand the shock of such bank failures as we have had in the past, and may have in the future, unless the banks are properly inspected.



The Juggler.

Producer to Consumer—I produce these for a living. You spend all you make to pay for them, and this fellow pockets the difference. It's a pity we couldn't freeze him out.