

NATURAL RESOURCES -- A KEY TO FREEDOM

BY

RICHARD B. McENTIRE

COMMISSIONER, SECURITIES AND EXCHANGE COMMISSION

BEFORE

PROSPECTORS AND DEVELOPERS ASSOCIATION OF CANADA

Royal York Hotel, Toronto

March 10, 1952

I am genuinely happy to be in Toronto this evening and to have the opportunity to speak to this important organization. The kind invitation to address you is, indeed, an honor. I am glad that it was possible for me to accept.

It has been my good fortune to come to Canada on a number of occasions in the past few years. I have greatly enjoyed those visits and I know that I shall enjoy this one. However, much more important than my personal pleasure is the opportunity that is afforded to speak to you -- and with you -- about matters which are vital not only to our two countries, but to free men everywhere. The chance to exchange ideas is a valuable thing; for the exchange of ideas is the foe of misunderstanding.

It has long been, not only the pride, but the strength of our two nations, that through the years we have enjoyed such splendid relationships. Probably nowhere else have two peoples lived in such complete harmony and mutual understanding. This doesn't mean that we do not have our own points of view. Nor that we have always fully understood the position of the other country. Perhaps a primary example of this has existed on both sides of our common border concerning some matters in which you have a very real interest and concerning which I have official responsibilities in the Government of the United States.

Misunderstandings, especially between peoples of friendly nations like ours, are always regrettable. But in these parlous times, when Canada and the United States are facing as stern a test as has ever been presented to free men, we should seek every chance to overcome them. This is even more true since our common ability to meet that test depends upon our success in removing all impediments to joint action. We have come a long way in doing just that. I am sure that in my own sphere of activity your invitation to me attests to that fact and I am certain that it was motivated by the desire to make even more progress in that direction.

The most important and significant fact that faces everyone of us here tonight is the existence of a struggle between the forces of tyranny and freedom. That struggle is going on all around the globe. Much as we all wish that we didn't have to engage in this battle, we are in it. We believe in freedom. We have lived in freedom; our whole mode of existence depends upon freedom. We have built everything we have, and we shall create everything that we want to become, on the foundation of freedom -- a recognition of the value and the inalienable rights of the individual.

All of that is being challenged. Our whole way of life is in jeopardy. We must meet this challenge or we will lose all that we have. And this too is true: this freedom of ours is particularly important to the kind of people that make up this Association. You have been especially nurtured by the freedoms of choice and of action.

There are some to whom regimentation is an irritant, not necessarily fatal. But to those who are willing to risk their fortunes and their opportunities on the chance that they can make a discovery in the wilderness and can create a successful enterprise from that discovery, the freedom to do so is as indispensable an ingredient to life as the very air we breathe.

In the present situation, our two countries have a major responsibility to freedom-loving people everywhere. While we are joined in spirit by many folk all around the globe, it is nevertheless obvious that upon Canada and the United States rests the primary responsibility for furnishing the weapons for the arsenal of freedom. At the very least, we must supply the major portion of the material, the planes, the tanks, et cetera. There is more at stake than just our ability to produce military items. We must also produce peacetime goods in such quantity and of such quality that the free World can demonstrate the superiority of its economic system and its technique of industrial organization. In the long run, the significance of this phase of our common struggle will transcend the immediate task of raising armies and making weapons. Division of soldiers and stockpiles of munition alone will not win a cold war. To win it we must demonstrate that co-operative measures taken by free nations can bring about improvement in man's economic lot.

Of course, I know that you are already well aware of these things. I did not come here just to carry coals to Newcastle; nor am I a preacher by either inclination or experience. On the other hand, I think we are justified -- you, as prospectors, and perhaps even I as a regulator -- in considering for a little while just how we fit into the larger picture and how it affects the things we are doing. For that reason -- and I shall try to avoid sounding like a Sunday editorial -- I think we should talk together briefly about these matters.

In the first place it is of special importance to the free World today that it have an adequate supply of natural resources -- truly a key to freedom. Raw materials must be available to provide the industrial base for mobilization and for peacetime goods. We cannot afford to overlook this long-term need by giving attention solely to the short-term problem of guns and soldiers. We must have foresight and vision to assure that our mutual efforts will not be frustrated in the long run by a shortage of natural resources.

Certainly this great organization has a major part to play in this endeavor. Your Association is composed of those who have been responsible for the discovery and development of Canada's great mineral wealth. Among your members are every Canadian prospector of any account, practically every Canadian geologist, the President of every chartered bank in Canada, most of the big producing mines, as well as most mining supply and machinery firms. In short, your Association is composed of

people who spend their lives in discovering and developing the mineral wealth of Canada. Your responsibilities then are underscored by the World requirements to which I have alluded.

It is impossible to put too much stress upon the importance of mineral wealth. Mr. Churchill's recent visit dramatically emphasized their importance in the struggle of the free nations. He made it clear that he sought not money or credits -- but the earth's treasures. As you will recall, the barter deal made at that time obligates the United States to export about a million tons of steel, pig iron and scrap to the United Kingdom. In return, the United States will obtain about 15,000 metric tons of aluminum, produced in Canada, and 20,000 long tons of tin. This transaction highlights the stringency in the supply of metallic commodities.

Unfortunately, the fact is that during the first half of this century, our capacity to produce material items, both military and civilian, has outstripped our capacity to produce the raw materials for industrial machines. For example, since 1939, the rate of increase in American industrial capacity has been 6% annually, or one-third greater than it was from 1870 to the so-called first World War. In other words, the increase in the free World's industrial capacity is accelerating, not slackening. When this tremendous industrial growth is compared with the rate of growth of the primary resources, a gap is immediately apparent, because since 1913, our primary production has increased only one-half as rapidly as our industrial rate of increase. It is plain, therefore, that free nations urgently need, and must find, additional sources of the raw stuffs that our industry consumes.

Because of our geography, Canada and the United States have the major burden of restoring this deficiency and providing for the defense structure of free nations. Our responsibility is particularly heavy because we must find within our borders the resources which will be available to our Nations under all circumstances, without the necessity of long and dangerous overseas transportation. Our two Countries have the advantage of interior lines of communication and transportation. In the event of another war, we must be able to supply our industrial machine without fear of shortages brought about by submarine sinkings, etc. Therefore, it is not enough for us to feel that raw materials are available somewhere else in the World -- they must be here where we can have them and use them.

We are, indeed, fortunate in this respect. Nature has endowed us with these raw materials. Both of our Countries are tremendously rich in metals. The available supply in the United States has been much more fully exploited than has your supply in Canada, and while I am sure that we shall make further significant developments in the United States, upon the Dominion of Canada must be placed the chief reliance for the new discoveries and the further development of the resources on which we will depend, for your Nation is destined to play one of the chief roles in the expansion of the free World's supply

of primary resources. It is a notable fact that during 1951 Canadian mineral production had a value of about 1 1/4 billion dollars. This included the extraction of copper in Quebec, iron ore in Labrador, uranium in Saskatchewan, nickel in Manitoba, as well as the extraction of oil in Alberta, and so on in all of Canada's great provinces. Your mineral wealth comprehends most of the basic materials needed to supply modern industry. Canada's importance in this regard is attested to by her designation as a member of the International Materials conference which was formed to help alleviate the current scarcity of raw materials. It is an obvious fact that in the future Canada's treasure house of metals will be a vital element in the struggle in which we find ourselves.

Nature has put our Nations in a position to be partners. And so have historic factors, for our partnership has the advantage of cognate political traditions, of long and amicable diplomatic relations, of past experience in joint efforts, and the advantage of a common language. Our task is difficult; our responsibility is great; our partnership is inevitable.

In what I have said, I have not placed any emphasis upon Canadian agricultural and industrial resources, not because they lack importance, but because here tonight we are primarily concerned with those aspects of the problem relating to mineral resources. With the tremendous quantitative demands that face us, and in view of the urgent need of metallic and petroleum resources, we must seek and develop all possible mineral sources. And we must particularly mine and develop those sources located in Canada, because of its strategic position relative to the defense of the free nations' main arsenal -- the Canadian-American industrial machine.

We cannot, of course, rest secure in the knowledge that our continent is endowed with great mineral resources. They must be found and must be developed. To do so today requires great skill and much capital. The old time prospector who went out into the bush with simple tools and a grubstake is no longer typical. The sourdough's heyday is past, but his spirit must be preserved. The same drive and spirit of venture must be maintained by men who use the tools of science or the capital available in a highly developed economy.

To make a mine is no longer a wholly individualistic enterprise. Geological data must be collated and analyzed before the real prospecting begins. Complicated, intricate, and often delicate machinery and instruments must be transported, erected and used in the field. All of these activities require the cooperation and joint efforts of many minds and many hands. It also requires the accumulation and investment of many dollars from many savers. These activities require time, patience and skill.

This then is the task that lies before our two Countries and the highly important part which this group must play in its accomplishment. Your group has the experience, qualities, and the skills

necessary for the successful quest for mineral wealth. You have already proven yourselves in the many discoveries you have made. You have demonstrated the determination to persist in the search for new sources of minerals. You have proven your willingness to undergo the hardships and undertake the hazards of seeking the elusive minerals so greatly needed.

I fully recognize that you, of necessity, must have some question in your minds at this point. You may be asking yourselves by what right do I come to you to speak of the importance of individual freedom and to eulogize the importance of the discovery of natural resources. You may well be wondering whether I am guilty of engaging in "double talk" and whether I am being entirely frank, since my official responsibilities with the Government of the United States relate to the restriction of what might be termed a "freedom" in the important aspect of raising capital with which to conduct the development of these resources.

If such questions are present in your minds, I want to hasten to state that I believe that they are perfectly natural questions and that they deserve an honest and forthright answer. Indeed, I hope I will have answered them before my remarks are completed. For I am firmly convinced that in our complicated society, securities laws such as those which I help administer are an aid to, not a foe of, honest enterprise. The global requirements that confront us make it more important today than ever before that such laws be administered with fairness and understanding to all who would comply therewith. By the same token those who seek to finance developmental enterprise in our country must understand first hand what those laws are all about, and must meet the obligations they impose, lest access to vitally needed capital sources be blocked off and destroyed. It is to the interest of all of us to consider the matter from the broad gauge point of view.

To accomplish the task which is yours, you need available funds. American capital is available for investment in Canada. It is anxious to be put to work in this endeavor to expand the mineral resources of the World. It is anxious to participate in the gains that will flow from the successful exploration and development of Canada's potentials. No one in the United States, and no one at the Securities and Exchange Commission of our Country, wants to prevent American capital from being so employed. I have spoken of a joint responsibility and a common effort. We are just as desirous of doing our share in that enterprise as you are in doing yours.

However, if we are going to be realistic in our approach to this problem, and if we are to accomplish our objectives on a sound basis, we must analyze the problem of raising capital with as much care and consideration as is given to the analysis of the myriad problems attending the discovery and development of resources. Therefore, for a few minutes let us look at some aspects of this problem.

We cannot properly appraise the situation unless we recognize at the very outset that capital is inherently timid. It will continue to flow into speculative new enterprises only so long as the investor believes that there is a reasonable chance for profit and only so long as his confidence in being treated fairly is maintained.

Certainly I do not want to be misunderstood on this important point. I do not want to imply that anyone should expect -- or does expect -- that there is any guarantee of profit. Far from that, everybody recognizes that the search for natural resources is inherently a risky business. Failures are to be expected. No one need be blamed if a legitimate venture, honestly represented and conducted, turns out unfortunately.

On the other hand, the one thing that the investor does demand is a fair chance to ascertain all the available and pertinent facts and to know the use to which his money will be put. The investor is willing to take a chance, but he does want to know what sort of chance he is taking and to be certain that the gamble upon which he has hazarded his money is an honest gamble -- that the cards are not marked and the dice are not loaded.

Certainly there is nothing unreasonable about that insistence on the part of the investors. By the same token, the prospector wants to have all the available facts before he invests his time and effort in the enterprise.

One has to be something of an optimist to be either a prospector or an investor in prospecting ventures, but buoyant optimism alone is not enough to nourish speculative enterprises forever.

A chance to assess the risk has to be afforded before either intelligent prospectors or intelligent investors will undertake the enterprise. To deny the opportunity for making that kind of an appraisal is unfair to the prospector from his point of view and to the investor from his.

In order to put this kind of philosophy at work in the scheme of raising capital, laws have been enacted in both Canada and in the United States.

In 1911, my own State of Kansas enacted the first Securities Act in North America. One year later, in 1912, the Province of Manitoba enacted the second such Act. Following those two, 47 of the 48 States and all 10 of the Canadian Provinces have followed suit. In my Country, the Federal Government has also passed such a statute.

In discussing the basic philosophy of our Federal Securities Act, let me read to you a statement which I believe sums it up pretty well:

"**** it must be generally acknowledged that a person who is invited to subscribe to a new undertaking has

practically no opportunity of making any independent inquiry before coming to a decision. Indeed, the time usually allowed between the issue of the prospectus and the making of an application does not permit of any real investigation. The maxim of Caveat Emptor has in the opinion of your Committee but a limited application in such cases.

"It is therefore of the highest importance that the prospectus upon which the public are invited to subscribe shall not only not contain any misrepresentation but shall satisfy a high standard of good faith. It may be a counsel of perfection and impossible of attainment to say that a prospectus shall disclose everything which could reasonably influence the mind of an investor of average prudence. But this in the opinion of your Committee is the ideal to be aimed at, and for this purpose to secure the utmost publicity is the end to which new legislation on the formation of companies should be directed."

When do you think this statement was made? To what authorship would you attribute this quotation? Isn't it a surprise to learn that this basic statement was made in its Report by the Davey Committee of the British Parliament in 1895, nearly three score years ago? This report was the basis for the English Companies Act of 1900 which adopted the full disclosure approach to the regulation of securities issuance. This philosophy, is, therefore, over fifty years old. It is neither novel socialistic, nor paternal.

Thus it was that while I may boast about my home State of Kansas, and the Dominion of Canada can boast about the actions of various Provinces, we have all gone back to the basic philosophy enunciated by the Davey Committee now nearly 60 years ago and adopted by the English Parliament 52 years ago. Clearly then, Canadians should not view our Securities Act as an alien product.

In 1933, impelled by the market crash that followed the blatant stock-jobbing of the 1920's, the American Congress adopted this full disclosure philosophy that the British Parliament had pioneered. The essence of the Securities Act of 1933 is full disclosure. It is based upon the assumption that Government should not interfere with individual investment judgments. But the law does require that all material facts be made available to the investor. It requires that the facts be stated in a manner which is not misleading. The aim of the law is to insure that investors have sufficient information to make an intelligent decision whether or not to buy securities offered to them. The Act does not concern itself with either the quality of the security issued or the residence of the issuer. It matters not whether it may be a good, bad, or indifferent investment nor whether the issue is gilt-edged or speculative. The Act does not require or permit the Securities and Exchange Commission to "approve" the issue. It is, in fact, a criminal offense to represent that the Commission has passed on the merits of an issue.

All that the Act does require is that the investor have all of the facts. It is intended that he must be told the truth and the whole truth, and then he shall be the jury.

Experience demonstrates that this type of regulation is not a barrier to legitimate promotions. On the contrary, investors are able to make a full examination of the merits of the proposition offered to them. They are assured of a square deal. They have the facts -- not just a rumor, hearsay, and hunch. Having those facts, and feeling that they are getting them, investors are more apt to make their own analysis and to risk their money than they are if they have reserved doubts about the authenticity of the proposition.

I am sure there is nothing unusual about this for I believe that the investors react in exactly the same way the prospectors do. The prospector is more likely to invest his time, labor, and money if he has before him all the available geological and geophysical information about the area under consideration. The investor, like the prospector, wants the facts and is entitled to them before he goes ahead.

I have spent more time perhaps in discussing this philosophy of the Securities Act than I otherwise would because there seems to have been a considerable amount of misunderstanding about it. There seems to be an impression that we have some desire or design to control the flow of capital, to restrict it from going into speculative ventures, or to stifle the development of enterprises. Since it is my purpose to speak honestly and frankly to you, I think I would be remiss in my duties if I did not point out exactly wherein I think a good deal of these misunderstandings have arisen.

I firmly believe that much of this misapprehension has arisen because of the nefarious activities of a small fringe group of share pushers who, operating from Toronto, have over the past 10 or 15 years, extracted large sums of money from American investors through fraudulent devices. Apparently it has been to their pecuniary advantage to sow seeds of distrust regarding our aims and objectives.

A great deal has been said and written about these activities for they reached the proportions of a major problem between our two nations, and it has been necessary to meet them with press and radio publicity in our Country. I know that many Canadians have expressed the thought that the picture we have painted of these operations is highly colored and greatly exaggerated. But I want to assure you that our statements have been based on facts -- facts which revealed fraud as you know it and as I know it. True enough the prospectuses filed with your authorities have disclosed information that would have been most valuable to our investors. But those prospectuses were rarely, if ever, sent to the United States -- and the major excesses -- the complete distortions and misrepresentation of fact about which we have complained -- have been committed over the long distance telephone. Our files reveal that the telephone salesmen have operated without any moral restraint.

Let it be clear that in all that has been done to meet this problem, we in the United States have tried to make it plain that we have no desire nor intention of inhibiting the honest Canadian promoter. We have been scrupulous in stating that the activities we have been fighting have been those of a fringe group who do not represent either the legitimate Canadian securities industry or legitimate Canadian prospectors and developers. Yet such distinctions are often lost on people who have suffered at the hands of the fringe element and the friends and neighbors whom they have told about their experiences. The ubiquity of these operations and the nature of the excesses committed have succeeded in creating the impression among many of our citizens that this group is representative of Canadian mineral resources financing. They have had the capacity to alienate the reservoir of capital that you need and want. And more than that, they have served little if any economic purpose. For they have been stock jobbers, not developers. The cold hard fact is that they have diverted into their own pockets large sums of money which should and could have been used for the development of your natural resources. In so doing they have rendered a disservice not only to our investors but to those of you who have endeavored to bring in mines.

All of us engaged in securities regulation have become increasingly aware of the damage this group has done and of the need for stamping them out. I believe that our regulators and yours -- such as Mr. Lennox -- have made a great deal of progress recently in this connection. Valuable help in this direction has come from the trade organizations within the securities business itself. Again, understanding and cooperation have been most effective weapons. I sincerely hope that history will support the suggestion that the day of this fringe group is past -- and that mine financing will not again be placed in such hands. We cannot, however, rest on whatever laurels we have gathered up to the present time. We must be ever vigilant to keep such practices out of business and to step in whenever it appears that they are being employed.

In this regard I presume to suggest that a responsibility also devolves upon you prospectors and developers. It is to your interest -- and indeed to the interests of our two nations -- that you take every step to insure that your financing arrangements are placed in the hands of persons known to be honest and beyond reproach. I assure you that if you do so, you will have the confidence of American investors and securities regulators and your enterprises will benefit vastly thereby.

The task of developing Canadian resources remains important to you, to us, and to the entire World. It is, as I have said, a key to freedom. We must, therefore, do all within our power to create and maintain a financial border between our Countries fully as free as that which exists in other respects.

I wish to assure you that those of us who are charged with responsibility for the administration of the securities laws in the United States, are ready, are willing -- and are anxious -- to help achieve this goal. In doing so, however, we are not only committed by our duties, but we are also firmly convinced that this can best be achieved by applying the "full disclosure" doctrine. The best way to interest American capital is

to convince the American investor that he will have all the facts before him when he is invited to furnish the money for an enterprise. As soon as we can get that message to him, and firmly fixed in his mind, just that soon will we find him ready to assume his role of becoming a partner in the important task of aiding in the further development of the great Dominion that is yours.

I believe that this is, indeed, a worthy cause for us to undertake. Under the compulsion of this hour in the World's history, it is more than an opportunity -- it is our duty -- and I know that we have the desire, the ability, and enough plain, old-fashioned "horse-sense" to accomplish it.