

CAPITAL INVESTMENTS IN CANADA

—XIV.—

CANADA'S CREDIT.

By Fred. W. Field.

The heavy borrowing of Canada, during the past six years especially, causes one to examine the position as to the maintenance of Canadian credit. During the summer of 1909 many prominent English houses interested in Canadian enterprises agreed not to undertake any new Canadian flotations for a period of several months. The effect was to stop the flow of British capital to Canada through its principal channel during the time of this inaction. The cause of the financiers' decision was undoubtedly the unusually heavy borrowing by Canada, its tendency to exceed due bounds, and the attempt to market a few worthless securities among the large number of good ones. It was a well-timed hint and rebuke. It is improbable that the lesson will have to be learned here again for many years, although heavy borrowing in the spring months of 1911 almost brought about a similar deadlock.

With a comparatively small population, large areas of undeveloped agricultural land, constant additions to a network of railroads, general business, commercial and industrial expansion, obviously a need exists for a continual inflow of capital. Up to the present, little fault can be found with the methods adopted by Canadian financiers in catering to our monetary requirements. Few complaints have been heard from those who have purchased our securities. The Dominion has created an excellent market abroad for its substantial stocks and bonds. The records of its borrowing during the past twenty years have been marred by few unpleasant incidents. An enviable standard of credit has been made and maintained. That this should continue now that our borrowing is rapidly expanding is important.

Borrowing and the Crops.

Bankers and economists are undoubtedly watching the situation, which is one that might easily become almost uncontrollable. The country is paying a very large sum annually in the shape of interest on its loans. Suppose for a moment that the welcome stream of British and other capital ceased to flow. Canada would be thrown upon its primary support, the wheat crops. Could we feed ourselves and pay our interest charges in such an event? Possibly we could, but it is a wise policy which will not allow too wide a margin to grow between our borrowing records and our agricultural production.

It is comparatively easy for Canada to maintain its credit abroad in good times. Then, one of the chief necessities is to squelch the undesirable promoter and his promotions. In a period of depression, the matter is more difficult; it becomes a question of running the economic machinery with considerably less monetary oil than usual. At this point, the strength of the banking system and the foresight of bank managers are tested. If, prior to depression, credit was extended too freely, when dull times arrive, unwisely granted credit is likely to bring a crash, and consequently a severe blow to Canadian credit abroad would be sustained.

Escaped the Panic.

In 1907, when the United States was suffering from industrial depression and stock market panic, Canada escaped a similar fate. But mistakes had been made in this country, foolish speculation had been allowed to go beyond bounds, with the result that the Dominion learned an important economic lesson with the minimum of economic suffering. The growth and development of Canada is a pleasing task. No necessity exists for forcing that growth. If we borrow too heavily, absorb new population too rapidly, and assume generally a fast gait, trouble

will follow. Fortunately, the men at the helm are steering a good course and appear to have thoroughly studied the chart.

In 1910, the unpleasant incidents in connection with the affairs of the Atlantic, Quebec and Western Railway, the Western Canada Cement Company and the Quebec and Lake St. John Railway (the last named has now been settled satisfactorily to the English bondholders) created some misgivings in England and in Scotland. The advice of Mr. F. W. Taylor, London manager of the Bank of Montreal, that Canadian promoters who have the interests of their country at heart, should exercise restraint, is good. Otherwise they will kill the goose which lays the golden egg. It is only within the last four or five years that the investing public in Great Britain have shown an inclination to purchase securities of Canadian public utility and industrial companies; the former, now extremely well regarded, were previously looked upon askance as being ultra-speculative in character. It is only fair to Canada to add that a good many of the Canadian schemes recently seeking capital overseas, which invited criticism, were hatched in London. Mr. Taylor has said that there is little to fear from the competition of the securities of other British colonies and overseas dependencies, so long as Canadian securities already placed on the market meet their interest obligations without question and avoid criticism.

Terms of Offerings.

An important phase of our borrowing has been referred to by Mr. H. V. R. Jones, the London manager of the Canadian Bank of Commerce. This is the terms upon which Canadian government and municipal securities are offered in the London market. "It is the natural tendency," he says, "on the part of all borrowers to endeavor to secure the very highest rate obtainable for their issues, regardless of the consequences which this attitude may eventually have upon their future borrowings; and, while this is a spirit which will always exist, it is difficult to say that it has been overdone, except in a few instances. In regard to high-grade issues, such as those under discussion, the value of money governs the price which the market is willing to pay, and those who ask too much for their securities usually end in having to witness them depreciate in value and become unpopular with the investing public, but such matters tend to right themselves in the long run, especially so if a government's or municipality's securities are supported by the active operations of a good sinking fund."

Do Not Overdo It.

Canada, as we have seen, holds a prominent position upon the British market, and during brief periods of reaction its securities of various kinds have suffered less than almost any other. The advice is still given to those anxious to secure capital there to go slowly. It is the duty of those interested in such matters in Canada to see that only first-class propositions are taken overseas, and, as far as industrials are concerned, that they will bear the fullest and strictest investigation.

The railroads of Canada should continue to be a popular, and, indeed, an improving form of investment. The near future must see the lines of the Grand Trunk Pacific and the Canadian Northern Railways progressing yearly towards completion, and the ever-increasing grain areas of the West must of necessity largely increase the earnings of the Canadian Pacific and other roads under favorable circumstances.

The trade between Canada and the Motherland is expanding, and doubtless will continue to do so. British manufacturers and producers have, perhaps, been slow to use the advantages offered them by Canadian preference, but a better knowledge of the country and its resources is resulting in a deeper interest being taken.

There seems no doubt that Canadian propositions, properly verified and supported, will continue to receive the same sympathetic consideration in the future as