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SHOULD THE BANKS LOOK ABROAD FOR CAPITAL?

The sudden falling off, almost stoppage in the banking capital increases during 1907 is quite remarkable. Since the beginning of the year paid-up capital has increased less than $150,000. Allowing for the $1,000,000 reduction effected by the Sovereign Bank the total increase shown by the others is but $1,150,000. For the same eight months of 1906 the increase was $7,699,400; in 1905 it was $2961,508. Now, when the need for more capital is apparently most pressing, new supplies seem to be almost cut off.

Not long ago a prominent Montreal financier, who is also a bank director, explained that the banks were having difficulty in getting their new issues of stock taken up by shareholders, owing to the prevalent scarcity of money. There has been a steady increase in paid-up capital going on for a number of years. Some seventeen odd millions have been issued in 3½ years, a good deal of it at a high premium. And, no doubt, quite a number of stockholders have pretty well exhausted the supply of funds they had available for that purpose. But, even if this source cannot for the time be tapped so freely as in the past, there is another source available. Of course, if the bankers think the present shortage in the supply of credits is only temporary, and that if they only wait a little while, the pinch will pass, and bank funds prove fully equal to the borrowing demand, they would be unwise to move too hastily in making large capital increases. The questions they have to settle are these. Is this year's stringency merely a temporary squeeze due to a special period of speculation and business activity which has not the element of permanency? Or did it happen because Canada has outgrown her banking facilities? If it turn out that the first question should be answered in the affirmative then the banks would perhaps be putting themselves in a doubtful position, as regards maintaining their present dividend rates in lean years, by making large capital increases that were unnecessary.

However, there will not be many Canadians willing to accept the theory that the Dominion is about to undergo a reaction or set-back important enough to lessen materially the steady or fixed demand for banking credits. By far the great majority lean to the opinion that the progress of our industries, our population, and trade generally cannot but be upwards; that the country has really overtaken its supply of banking facilities; and that it behoves the bankers to enlarge their capacities for discounting as speedily as may be. If this view is correct, the banks that boldly enlarge their capitals, and stand ready to carry all the sound legitimate business their customers offer them, will be in the best position to profit through the country's development. The special reasons why Canada may expect to escape an important set-back, even if other countries do experience something of the kind, have often been mentioned. The most important of them are: the immigration movement and the extensive railroad and other construction projects down for the next few years. Evidently some of the important banks are according full consideration to these things. Three banks, which not many years ago ranked in the medium class of institutions, have just this year got authority from their stockholders to increase their capitals from four and five millions up to ten millions each. And these are not weak or mushroom institutions, but all of them old, strong and reliable, with enviable records for good management and profit earning.

Quite probably all their new authorized capital will not be issued immediately. They, as well as others which may increase capital, may wish to give their existing stockholders the opportunity to take all the new stock they put out. And so the issues would have to be in moderate amounts, with reasonable intervals between.

But one of the three banks referred to has already set an example of going abroad for its capital. Some years ago it had an opportunity to sell to American rich men a block of stock at a price very much above the current market quotations. What the Royal Bank did then could, no doubt, be done again by banks with good records behind them. Perhaps it would not be possible to secure so fancy a price as it secured from the Americans—now especially while the world's money markets are strained—but issues could be arranged, in all probability, on favourable terms. The Bank Act does not stand in the way. If the stock is first offered to the old shareholders and not taken by them, or if they formally renounce their privilege, in special instances, of having all new stock issues offered to them, there would apparently be nothing to prevent issues of stock to for-