The Chronicle
Banking, Insurance and Finance

ESTABLISHED 1881. PUBLISHED EVERY FRIDAY
F. WILSON-SMITH, *Proprietor and Managing Editor.*
Office:
406-408 LAKE OF THE WOODS BUILDING,
10 ST. JOHN STREET, MONTREAL.
Annual Subscription, $3.00 Single Copy, 10 cents.

MONTREAL, FRIDAY, AUGUST 1st, 1919

(Continued from front page)
is a growing conviction among the business community that no real relief will be secured in this direction until the preposterous McAdoo schedule, with its grossly-inflated wage-scales has been got rid of, but what the prospects are in this connection is not altogether obvious. While it is becoming recognized to an increasing extent that relief from present high costs must be generally sought in other directions than wages, the McAdoo schedule is an absolute millstone around the necks of the railways, and it appears doubtful whether it can long be kept in force and at the same time, the railway systems of the continent be maintained in reasonable efficiency, and operated at a profit.

Considerable interest has been displayed by the business community in a stament made by Mr. James S. Alexander, president of the National Bank of Commerce in New York, regarding the organization of American credit for the supply of Europe's needs in regard to foodstuffs, raw materials and manufactured goods. Mr. Alexander advocates an eleborate organization whereby "the total amount for the United States, in respect to all nations and all commodities, would be submitted to analysis, and allocation for the common good." To achieve this end, Mr. Alexander proposes that a pool of Europe's needs should be met by a pool of American resources, for which he considers necessary the setting up of a special instrumentality, along lines recently suggested in behalf of American bankers' groups, probably in the form of a great credit corporation with capital enough to handle transactions of the size that would be involved—that is transactions representing not mainly business with individual concerns, but the combined requirements of nations. Mr Alexander proposes that this credit corporation should be financed through issues of bonds or debentures, which would have as the security behind them everything in the way of collateral that Europe is able to offer with the endorsement of a conservation of banks, reinforced where possible by governmental guarantees. On this point, it may be permissible to remark, that American financiers as usual, do not intend to take any chances although at the same time, Mr. Alexander admits that some plan of this kind is essential to a continuance of American prosperity, since the present industrial capacity of the United States, is far ahead of the domestic consumption. Whatever eventually becomes of this plan, it is quite clear that the next year or two will see economic and financial expedients quite as novel as any which were adumbrated during the war period, in order to meet new conditions.

While the daily cables are full of lugubrious accounts of conditions in England it is refreshing to find that in some respects at least the old country is not going to "the dimnition bow-wows," It appears that New York is the only foreign market where there is any marked depreciation in sterling exchange, other belligerent exchanges being in London's favour, and even rates on neutral centres are either approximatively at par or are actually favourable to England. In other words, demands for British goods and for London credits, at every centre save New York, are sufficient to offset, or more than offset, the obligations which England must meet in foreign markets. This fact has some bearing on the plan of financial reconstruction referred to above. It is believed that any American efforts in the direction indicated will be made in conjunction with Great Britain, France and Italy, which are in a position to furnish credit to the newer European states which have come into being as a result of the war. In any case, it is clear that the problems involved in the financial reconstruction of Europe will not be speedly settled or the demands of the new countries met in the space of a few months.

CAPITALIZING RESERVES.

Of much interest to joint stock enterprises, is the following article appearing in the June issue of "The Secretary" the official journal of the Chartered Institute of Secretaries of Joint Stock Companies.

There has in recent years been a marked tendency among industrial and certain other companies to dispose of large reserve funds, often the patient work of years of cautious and conservative profit distribution, by their capitalization in the form of bonus shares, issued to shareholders "pro-rata" to their holdings.

Why should there be this change of view towards a principle which, when adopted in earlier days, was frequently the subject of adverse comment by financial critics?

In the first place, the instinct of self-preservation has undoubtedly been a contributing factor. The old plan of writing assets down to the bone and sinking undistributed profits in what were real capital account expenditures restricted dividends for a time and kept down capital permanently, thus permitting, when the new capital expenditure became productive, the payment of a higher rate of dividend upon the issued capital than would have been the case if fresh capital had been raised for the purpose of extensions.

But experience has unfortunately proved that such cautious finance does not pay in the long run. High rates of dividend naturally have the effect of attracting competition to the industry concerned,

(Continued on page 787)