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OVER-PRODUCTION.

The complaints of over-production in certain manufactures, in the United States, may be taken as a warning that the commercial cycle is in that stage which portends disaster. Indeed, in some lines, disaster is already visible. The disturbance in the iron industry shows itself in rolling mills coming to a stand-still. In the cotton manufacture, over-production is represented as being very large. "Every week that passes," says the *United States Economist*, brings its quota of failures among manufacturers. Look at the depression in values of cottonades, low grade ginghams, checks, plaids, striped cheviots, and Kentucky jeans. What manufacturers have made any money for the past twelve months in the production of these fabrics? On the other hand, count up the losses they have suffered, and is it any wonder so many of the mills have stopped? Take hosiery as another example. A few manufacturers, who are able to buy all their materials for cash down, are making, perhaps, the interest on their capital invested; but if those who are so fortunately situated find it so hard to get a new dollar for an old one, what about those who purchase their raw materials on time and are not prepared to take all the advantages which ready cash affords? Hosiery manufacture, like many other industries, is overdone, and the low prices at present existing are the direct result of fierce competition engendered through an over supply of goods."

These, we remark, are the usual indications that mark the approaching term of the prosperous period. That period always comes in the United States before it reaches Canada, sometimes as much asta year or two. It is yet a matter of doubt how many industries are overdone. Universal over-production is an impossibility; if that were possible it would mean an excessive creation of wealth. Over-production is always limited to certain industries, and implies an error in the application of too much labor and capital in particular directions. A glutted market may result from a falling off in demand; and under-production, in one direction, may be the cause of over-production in another; the class which has produced less than usual having less to exchange for things which others produce, and if these things are produced in the same quantities as before, they will not all find buyers. Scarcity is generally the cause of what passes under the name of over-production. But a glut may be caused by an extraordinary production.

The high tariff, of the United States, which has just been cut down, has a tendency to cause over-production of highly protected articles. The desire to share the high profits which are at first possible, under such a tariff, entices too many into a particular manufacture, and as a natural result the business is overdone. Thus, by a natural law, the tendency of profits to a minimum, is enforced. For over-production, in special lines, there is but one remedy: the lessening or even the cessation, for a time, of the manufacture. But stoppage may mean bankruptcy, and every one is anxious to go on, without slackening speed, if possible.

In some lines, we may expect to see over-production, in Canada, as well as among our neighbors. Where it is not too late, the danger should be guarded against. An excess of machinery and buildings, over and above what can find profitable employment, is a waste of capital; having once taken that form, the capital must remain where it is. Buildings may be adapted to other purposes, at a loss; machinery must be idle. Let us take warning by the fate of our neighbors, if it be not too late.

The indications noted may exist among our neighbors without portending an immediate financial collapse. Before that can happen, the disturbed equilibrium between supply and demand must be visible along a very extended line. Three or four industries may suffer from want of purchasers, without bringing about a general financial cataclysm. The outlook will, for some time, be scanned with interest. The change of tariff can hardly be without its effect. In the long run, that change will tend to give greater stability to manufactures. since the temptation to over-production will, in a great measure, have been removed.

FICTITIOUS BANK CAPITAL.

The creation of fictitious bank capital is a device which takes us back to the days of wild-cat banking. This species of forgery was rife in the United States, between 1830 and 1840. A bank would be started on a capital of nothing or next to nothing; and once set agoing the chief operators would meet their stock calls by borrowing from the new bank. If the law required the bank to have a certain amount of specie, that, too, would be borrowed for a few hours, during which the required return could be made. The bank borrowed from the public by issuing bills, and when the collapse came, the swindlers had transferred to their pockets what the public had lost. The days of wild-cat banking are past and gone, but so late as the year of grace 1871, Canada suffered by a survival of this practice. Fictitious bank capital to the amount of two millions was created by the pledge of pre-existing bank stock. Now that additional bank charters are asked for, there are special reasons for guarding against this abuse.

The chief danger in this connection arises from the illegal practice of banks making loans on bank stocks. So long as this practice continues, the danger of fictitious bank capital being created will exist. If the bank capital of the country should be nominally doubted to-morrow, and the new stock were paid for by loans obtained from the banks on the pledge of pre-existing stock, the new "capital" would not add a dollar to the real capital before in existence. But it would be the means of causing an enormous expansion of credit. The note circulation could, without a violation of law, be doubled. Practically, it could not be doubled, because the amount of currency which can be kept out, at any time, depends upon economic laws and conditions, which are self adjusting and under which an excess of bank notes beyond the requirements of the public, cannot be kept out. But any increase of note circulation, resting on fictitious capital, would be a danger to all concerned. Bill-holders and depositors would be placed in jeopardy.

Loaning on bank shares is a refinement on the old methods of creating fictitious bank capital. But when used to create new bank stock, the process is as bad as the worst schemes of wild-cat banking were half a century ago. A bank lends on its own stock for the purpose of creating new shares. The only thing created is a bit of paper, utterly devoid of intrinsic value. One bank loans on the stock of another bank, for the same purpose; this is done reciprocally, not a dollar of real capital exists to represent the new stock. For this purpose, the practice of loaning on bank stocks can be used with deadly effect. When an issue of stock is made, the issuing bank can lend ninety or ninety-five cents on the stock, which with the margin put up, gives the stock the appearance of being paid up. But how is it paid? out of the pre-existing capital or the deposits of the bank: no real capital is added, beyond the margin put up, and this is a fluctuating amount, which a fall of prices may sweep away altogether in a single day. The bank, in that case, obtains the right to increase its note issue by the amount of stock so paid up. That note issue has no capital to rest on. The notes have no value beyond the bank reserve and the double liability of shareholders; and from the latter, nothing has ever yet been realized in Canada.

Loans by banks on bank stocks decapitalize the shares. The real investor steps out and the bank takes his place. The partners whose capital remainr in the shares not dealt with in this way, have their liability greatly increased, though it remains nominally the same. They are compelled to assume all the risks which their partners shared before they sold out. The risks to the public are not the less. The real capital of the bank is no longer identical with the nominal capital. If half the capital of a bank is held on margin, the half so held is in the position of stock on which only the five to eight per cent is paid. Everything in it, except the narrow margin by which it is held, is capital represented by other shares, and therefore counted twice, or it is capital which has been borrowed from depositors. These shares afford no security to the public beyond the small amount of the margin: yet on the strength of their existence, the note circulation may be increased and the liabilities to depositors may also be increased by the delusive attractions of an apparent augmentation of capital. Depositors will learn to make a distinction between banks which are guilty of this abuse and banks