

THE LAWS OF CREDIT—NO. 1.

CREDIT is an edifice resting on two foundations; character, and means. In its original elements mercantile credit resolves itself into trusting a man's word. "I let you have my goods on your promise to pay for them." Whether the promise will be fulfilled or not, time only will show; but it is presumed that before such a transaction as this took place, there was that knowledge of the character of the person trusted which would lead to the belief that his word might be relied on.

A person, however, may make a promise of this kind, and, when the time comes for its fulfilment, may not have it in his power to perform,—he would pay if he could, so that you cannot impugn his honesty; he meant to pay when he promised, so that he cannot be charged with falsehood.

So far then, his character is clear; but the damaging fact remains that he cannot perform his promise, which leads to the observation, that unlike a simple trust in a person's truthfulness in warranting a matter of fact, mercantile credit has to do with other elements of character besides probity and honour.

The person who has your goods may be honest;—he would pay if he could, but he is perhaps improvident; he has neglected to shape his business so that the means would be forthcoming in time. Or though perfectly truthful, he is thoughtless.

When he took the goods, and promised to pay for them at such a time, he fully meant to do so, but he did not consider that the purchase was beyond his means, or that the goods were not such as his customers required; or that, though the goods were of the right kind, he was buying far too many of them. The existence of any one of these circumstances would put it out of his power to perform his promise.

But let us reverse the picture. You take my goods or my money, and I take your promise to pay. The time for the performance of the engagement comes, but the promise is broken. Unfortunately in this case there is strong reason to suspect that you could pay it if you would; the creditor applies, but meets only a renewal of the promise, probably couched in uncommonly civil language, but still the civility amounts to nothing but a promise. A fresh application only produces the same result, until finally the law is resorted to for the purpose of compelling the promise to be performed.

When we say then that *character* is one of the foundations of commercial credit, more is intended than that such a one is honest and truthful. Before commercial credit can be firmly based, there must exist, in addition, prudence, forethought, industry, and economy; to which, indeed, we may add another, viz., knowledge of the business to be carried on.

The question of character, in fact, is an exceedingly difficult and complex one; the degrees in which desirable qualities may meet and mix in any individual, are almost infinite and the matter will become more complex still, if we remember that good qualities and bad, are sometimes found mingled in the same person, often in the most contradictory manner. Those whose business it is to grant credit, find the advantage of a special study of human nature, indeed many of them have a sort of instinct in discerning character, and owe to this no small part of their success.

We have not, however, exhausted the foundations on which credit should rest: the second one, and equally important, is what we have called "means."

However honest and provident a man may be, misfortune may overtake him. A fire or a flood may sweep away his property: a bad harvest may impoverish the district in which his business is carried on, and impair the value of his book debts, sickness or death may enter his house, persons whom he trusted may have proved unworthy of confidence; in short, we cannot enumerate the ways in which the honest and prudent man may become unable to fulfil his engagements, if he has no reserve to fall back upon.

Hence the importance of such a reserve;—that is, of adequate business capital, so that when from any reason, the means of fulfilling an engagement are not forthcoming out of the current receipts of business, the capital may be ready to supply the deficiency.

Business capital may therefore be looked on as a margin against loss; and on its amount, in conjunction with the "character" before mentioned, depends the degree of credit which may reasonably be granted.

Capital, however, may be available, or otherwise. A person who asks credit may be able to show a balance sheet in which his mercantile assets will balance his

liabilities leaving a certain amount of real estate, to represent his surplus, or capital. But the real estate may be utterly unsaleable, or it may be partially encumbered, in which case the encumbrance is a personal liability, and may prove a drawback on the assets instead of an addition to them. Or, the capital may be represented by a mass of book debts, the realization of which would be attended with infinite difficulty and considerable loss, or of stock in trade, which has been lying on the shelves for years, and may be put down, for all practical purposes, as unrealizable.

In this country, it is no uncommon thing, as bankers and merchants well know, for traders of considerable nominal capital to become embarrassed, and on their estate going into liquidation, for the surplus wholly to disappear not by dishonesty, but by depreciation of assets. Nay, more than that, during the last few years we have had scores of instances where traders, who estimated themselves to have a fair capital, became insolvent, and did not pay more than five shillings in the pound.

In such instances, it was generally found that the surplus, and more, was represented by real estate of some kind, which, on the attempt being made to turn it into money, left the nominal owner in debt when encumbrances were discharged.

Capital, therefore, to be a foundation for credit must be really available. A trader's assets should at all times be such as can be turned into money; he should keep his books in such a shape that the actual cash surplus or deficiency should at all times appear. If bad debts are made, they should be written off;—if debts become doubtful, they should be written down to their value; encumbrances on real estate should be treated as personal obligations; and in estimating his position, a trader should always deduct from his assets a percentage for contingencies. He may then know how he really stands; and if a statement is asked from him, as it probably will be, by those from whom he asks credit, he can show them, with a safe conscience, and with the certainty that his statement will stand the test of unforeseen circumstances, that he has a reserve of means to fall back upon.

When therefore a person asks for credit, the course of inquiry should be as follows:—

- 1st. Is he honest?
- 2nd. Does he understand his business?
- 3rd. Is he prudent, temperate, economical, and industrious?

If these inquiries are answered satisfactorily, the further enquiry may be put:

- 4th. Has he capital available as a reserve against misfortune?
- 5th. Is the capital such, both in nature and amount, as to ensure an adequate margin against the risks of his business?

On the answer to such queries will depend the credit a trader will get from an intelligent and prudent man of business.

As to credits granted by men that are not prudent and intelligent, they are a source of mischief both to the grantor and the grantee.

A GOOD IDEA.

WHILE the mercantile and agricultural community of Canada are discussing the prospective changes likely to occur next spring in our relations with the U. States, it seems right and opportune that our people should carefully estimate the different articles of produce and manufacture that may be cultivated to advantage.

One of our daily papers seems to be "taken bad" very often with gloomy visions of an American standing upon the ruins of Victoria bridge, and surveying the desolation of the Canadas, consequent upon the abrogation of the Reciprocity Treaty. These forebodings are generally followed by an admonition to the Government and press to conciliate the Washington authorities in the most abject manner. Nothing can be more suicidal to the interests of a new treaty than this style of writing.

Let us betake ourselves in a manly spirit to the review of our position, present and prospective; ascertain the most profitable manner in which we can utilise our valuable water communications; how we may most successfully attract the stream of emigration; and, if need be, to legislate with a view to making Canada a depot for stocks of imported staple goods, by reducing customs duties, (there is little fear of our finding cash customers therefor.)

But above all, let us have our farmers come out on

the right side. The temporary benefit to be derived by Montreal, Toronto, or any half dozen cities, is as nothing compared with the success of our farmers. If it can be established that Americans have bought our fine, bright and dry barley, because it is intrinsically worth more than anything they can produce, then let our farmers know it, and let them grow it. The same with wool, white wheat, timber, flax, &c., &c. The last mentioned article—viz., flax—is becoming a very important item to Canada, particularly in the sense referred to a moment since. Our climate is very favourable to its cultivation; the very short experience we have had has placed Canadian flax next in rank to that of Ireland, while it far surpasses anything that our American neighbours have grown. Furthermore, during the past eighteen months, two new manufacturing establishments have gone into operation, with a view to spinning and weaving the fibre; at least half a dozen ropemakers are competing for the tow; and oil men are casting about to know where they can buy seed for crushing purposes. It is a fact that they are not half supplied, and are compelled to import lincseed oil for their regular trade. Our Minister of Agriculture has shown a just appreciation of the value of this article to Canada, by advising the Government to import several thousand bushels of genuine Riga seed, harvested specially for seeding purposes. This is a wise and praiseworthy step, and one, we feel sure, the people will appreciate. It will cost the Government little or nothing ultimately; but will confer a benefit upon the growers of flax of at least one hundred and fifty thousand dollars in the next year, in increased quantity and quality, which pure Riga yields over the seed commonly used by us now. The past fall has been an extraordinary one for our farmers, the yield has been large, and the prices received have been unusually remunerative; yet we have not heard of a single flax grower who envies his barley or wheat growing neighbours. The average yield per acre to flax growers has been \$35 to \$40. Already nearly every ton of flax that can be scutched for the next four months is contracted for, at prices 25 per cent. higher than those paid last year. The American market takes a good deal of our flax at prices ranging from 12 to 20 per cent. higher than American grown; and although the Reciprocity Treaty is certain to be done away with in March next, American spinners are contracting for our fibre, to be delivered in May and June. Why? Because they can't do without it; for fine goods they must get the fibre from us, or from Britain. In last week's issue of this paper it was stated that the United States had sold us during the past ten years over eighty-eight and a half millions more than we had sold them—a mere flea bite to the Americans 'tis true; yet if his flea-ship will nibble, say, half of that sum out of American manufacturers' pockets into ours we will try and submit to the affliction with a better grace than does Mr. McCulloch.

There are several articles which we may produce to as much advantage as flax, and which will be as little effected by the repeal of the Treaty. Let the matter be thoughtfully studied, and let the Government legislate both independently and judiciously; we shall then be able to shake hands with Brother Jonathan next March, wishing him God speed—and with his little (!) debt bearing upon a very man and every enterprise, if we don't develop our country, our manufactures, our import trade, and increase our wealth, then we deserve to be sent over to the United States, or any where; we don't deserve to belong to the British Crown.

We have before frequently referred to the flax interest in our columns, and are much pleased to learn within the last few days that Government has concluded to lend its aid to the movement, by importing seed. Our friends, Messrs. Leeming & Buchanan, of this city, have done good service to the movement, by introducing Canadian flax into foreign markets, and importing at their own risk last season a quantity of Riga seed. We think it would be prudent if Government availed itself of their experience and business facilities in connection with the proposed importation of seed.

Cotton.

—The entire value of cotton goods manufactured in England in the year 1760 was about £200,000. In 1772 British calicoes were made to the number of 50,000 pieces. In 1816 upwards of 1,000,000 pieces were manufactured. In 1750 the population engaged in the cotton manufacture was about 20,000. In 1801 the persons engaged were about 80,000. In 1823 there were 10,000 steam looms in Great Britain. In 1822 their number was 399,922 driven with a power of 294,000 horses, and employing 451,000 work-people in 2,387 factories, containing 30,387,427 spindles.