

The Chronicle

Banking, Insurance & Finance.

ESTABLISHED JANUARY, 1861

PUBLISHED EVERY FRIDAY.

Vol. XXXIII. No. 45

MONTREAL, NOVEMBER 7, 1913.

Single Copy 10c.
Annual Subscription \$5.00

BONDS AND WATER.

Mr. J. J. Hill, who has the happy faculty of pre-secating truisms in new and striking guise, said the other day that the United States is "water-logged with bonds." This is a picturesque way of summing-up in a nut shell an indictment against public and private extravagance, the greed of promoters, and the mania for issuing bonds on any and every conceivable kind of security. Mr. Hill spoke of the old standard of bond issues which prescribed as a limit "the total cash value of tangible property in possession, not its value for the uses to which it is being or is to be put but its value as an asset for immediate conversion by forced sale at any time into cash," and said that confidence cannot be restored until the name "bond" has won back something of its old standard, which cannot happen "until issues are limited by moderation, conformed to the value of security and confined to the margin of safety and the form of credit for which the bond was originally designed."

There is in this considerable food for thought beyond the boundaries of the United States. To put the matter quite plainly, it is to be feared that if Mr. Hill's standard for bonds were applied to the bond issues which have been made in Canada during the last few years and abroad on behalf of Canadian corporations, a considerable proportion of them would certainly fail to pass the test. "Not only wild-cat concerns, which are outside the range of this discussion," says Mr. Hill, "but companies of real merit and solvency, conducted by men who would scorn to do an act commonly recognized as dishonorable, do not hesitate to bond their business for very much more than could be obtained from either a forced sale or a careful liquidation." This is the kind of thing which has been done in Canada over and over again during recent years, and which has had the effect finally of making the British financial houses and the British investor thoroughly suspicious of our industrial enterprises and corporation flotations. The trouble in Canada is not so much that the country is water-logged with bonds as that some of our bonds are water-logged.

Aside even from the most common considerations of ordinary business honesty, it is true to say that Canada as a commercial and financial entity cannot permit this sort of thing to go on. There is practically unanimous agreement among all the authorities in finance and economics that at least for years to come the world's demand for new capital will be in excess of the available supply. Not only are new and undeveloped countries all over the world clamoring for capital at a time when the older countries are themselves showing great strides in industrial activity, but enormous amounts of the resources of the few countries who have surplus capital have been and are being wasted in the unproductive expenditure of wars and in the mad race of armaments. There is good reason to believe that wars and the armament craze are responsible more than any other single cause for the present dearth of capital. At present also there seem to be no signs of a moderation in this form of unproductive expenditure, although the *London Economist*, usually an acute observer of the trend of affairs, suggests that the time is near at hand when taxpayers, great and small, without much reference to party considerations will begin "to protest against the fashionable convention under which the armament interests are extracting year by year from almost every national exchequer larger and even larger contracts to supply what a well-drilled press in every country describes as 'the minimum of national safety.'" But it is obvious that any change from the existing condition of affairs in this connection can only be a matter of very slow growth. As a borrowing country, Canada in this matter of the famine of capital is to all intents and purposes helpless. Practically the only help which we can give ourselves in this direction is by the stern practise of the old-fashioned virtue of thrift, thereby increasing the amount of our own funds available for purposes of development and by refusing to countenance high finance methods of an objectionable type which as in the case of bond-watering merely mean the waste of capital and the bringing of our name as a borrower into disrepute.

