

regarded as temporary. Interest and dividend disbursements flow back into the market naturally in a week or ten days after the payments are made.

Interest in the United States is largely given to crop conditions just now. According to the Government's latest bulletin a cotton yield of 14,000,000 bales is indicated. If realized, this will go a long way towards restoring prosperous conditions to the cotton manufacturing industry. The prospective large increase of yield is to a considerable extent due to the high prices resulting from the cornering of the remnants of last year's crop. Also the outlook for a heavy yield of spring wheat in the Northwestern States is good. The conditions in Minnesota and the Dakotas are usually similar to the conditions in the three provinces of Western Canada. No important changes have occurred in the Canadian money markets. Call loans are still nominally $5\frac{1}{2}$ p.c., but money is not easy to get. Business on the exchanges has been materially affected by the heat wave. When the thermometer hovers around the 90 mark people are not much inclined to speculate or trade. There is consequently from that cause some diminution of demand for banking credits. Financial circles here have found some interest in studying the estimates of Canadian Pacific's earnings for the fiscal year just ended. The gross earnings are placed at \$103,577,000, an increase of nearly \$9,000,000 over the preceding year. Net earnings are estimated at \$36,000,000, equivalent after the customary additions and deductions have been made, to over 15 p.c. on the common stock.

THE MERGERS AND FINANCIAL ABUSES.

It is gratifying to THE CHRONICLE to know that the articles which have been lately published in our columns regarding the merger movement and the dangers which attend it have attracted widespread attention, comment and approval. These have not been confined to Canada, but have also extended to England, the Economist, the most conservative as it is the most influential of the London economic and financial weekly journals, having drawn pointed attention to our remarks regarding the over-capitalisation of many of the mergers recently consummated. We have already argued that the banks would do good service to Canada by standing resolutely in the way of these promotions, not least because by doing so, they would raise Canadian finance in the estimation of our European friends. There can be little doubt that the congestion in Canadian new issues in London, now complained of, is due in part to the output of new merger securities there. The London correspondent of the New York Journal of Commerce cabled last week that sales of Canadian

industrials in London are "provoking much suspicion"; if that be the case, it is highly desirable that those who occupy prominent positions in the Canadian financial world should take the practical steps within their power to discourage the kind of financing which thus lowers the good standing of the Dominion abroad.

The financial abuses to which mergers give rise are aptly set out in the report, which has just been published, made by Mr. Herbert Knox Smith, U. S. commissioner of corporations, to President Taft, regarding the United States Steel Corporation. Mr. Smith finds, as every one knew, that this corporation was excessively capitalised at its inception, and he adduces as convincing evidence of this tendency, the enormous payment the Steel Corporation allowed its underwriting syndicate. This syndicate provided the Corporation with \$25,000,000 of cash capital and also incurred expenses of about \$3,000,000 either in buying scattered parcels of stocks or otherwise, making its total cash expenditure \$28,000,000. For this cash consideration, plus its underwriting services, the syndicate received from the Steel Corporation a recompense which left as profit to the syndicate, over and above the \$28,000,000 cash expenditure noted, a net sum of about \$62,500,000. Of this, one-fifth, or \$12,500,000, went to the syndicate managers for their services as such, the remaining \$50,000,000 being distributed to the syndicate members.

Mr. Smith proceeds with this further interesting evidence of financial abuses:—

"It should be pointed out that the syndicate managers were prominently identified with the management of several of the companies acquired by the Steel Corporation, and also with the management of the corporation itself. Three partners of the firm of J. P. Morgan & Co., the syndicate managers, were on the directorate of the corporation, and one of them was also chairman of the finance committee. Moreover, the underwriting syndicate included the heads of several constituent companies. These facts are entitled to great weight in connection with this enormous commission allowed to the syndicate. In other words, as managers of the Steel Corporation these various interests virtually determined their compensation as underwriters. This extravagant compensation to the underwriting syndicate may fairly be cited as further evidence of a general disposition toward excessive issue of securities."

It may be said that the case of the Steel Trust is an extreme instance of financial abuses surrounding a merger. Perhaps so, but only in this respect—that the merger was an exceptionally large one. In Canada the mergers have been on a smaller scale. And THE CHRONICLE repeats that in a number of cases of Canadian mergers, apparently, consolida-