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THE BURDEN ON THE BANKS AND THE TRADE OUTLOOK.

The effect of the high money rates in checking industrial activity is becoming more apparent. All the authorities on economics tell us that when interest is persistently high and conditions stringent it is a sign to borrowers that "the ice is thin" and that they had better move with caution. For, when credit is not dispensed so freely as usual, when big users of it do not feel easy in their minds about their ability to command the full supply they need, there is a greater probability that financial rottenness, if it exist, will come to light. And if great companies fail—companies in which the people had an abiding faith—no one can tell just how the breakdowns will act on the public mind and on the general stability. The fact that the great money centres have so far come through the strain without any big confidence-destroying failures is one of the encouraging features about the present situation. It is naturally taken as an indication that underlying conditions are of a healthy soundness. When that is the case a too-rapid progress automatically works its own cure. Everybody knows how the enlarged operations of producers, merchants, manufacturers, have increased the strain on the banks and other lending institutions. One of the proofs that these demands for accommodation have outrun the gains in loanable resources is found in the rise of money rates. A brisk general demand for money at remunerative rates in itself is one of the best of signs. It signifies that borrowers and lenders alike are making good profits. But when business and speculation get so active that they tend to absorb the available supplies of capital faster than those supplies can be replenished, and when that state of affairs is persistent, the time must come ultimately when business men in good credit cannot get what they need for carrying on their regular operations and for meeting their maturing obligations. If allowed to run to this extreme a financial panic would almost certainly be provoked.

The news items show however that the stringency is already at work in checking business activity in the States. In New York there is a poor market for large bond issues. The bankers are not anxious to take them because they may not be able to dispose of them quickly to investors. Therefore they ask what the issuing corporations think are outrageous terms. Sooner than make large increases to their permanent debts at such high interest rates the corporations prefer to issue two or three year notes at still higher rates to tide them over the stringency. In thus borrowing on notes the railroads and other companies are invading the field of another class of borrowers which seeks loans in much smaller amounts. This field will be pretty well exhausted after a few twenty-five and fifty million dollar lots have been drawn from it. Debarred from issuing bonds and with well defined limits put upon the amounts they are permitted to draw from the short loan market, nothing was left for the railroads, but a curtailment of their outlay. The New York Central has just announced that its projects of improvements are to be abandoned for the time, except those whose completion is absolutely necessary. When the powerful New York Central is driven to this it may be conjectured that there are others in similar case. It is now expected that 1907 will see some degree of railway retrenchment. This means that there will be a diminution in the orders given by the railroads for building material, iron and steel, for locomotives, cars, and other equipment. The industries related should thus have an opportunity to catch up with their orders. The financiers evidently anticipate that the depression will be but temporary and of moderate dimensions—like 1903 on perhaps a smaller scale—merely enough to permit the money situation to right itself. It is hardly to be believed that it will be lasting, because there is sore need for greatly increased mileage, equipment, and terminal facilities. The disastrous car shortages prove that.

There are some very good reasons why Canada need not expect anything important in the way of a sympathetic reaction. The government and our great railroads are committed to heavy expenditures on new construction. The capital they require for this is assured, London is to supply it—so the want of funds will not force a curtailment. Moreover the monetary stringency here has not been severe. Interest rates have not been abnormal and mercantile borrowers have had their legitimate wants satisfactorily filled. Our currency system has undoubtedly had a great deal to do with our immunity from disturbance. Every banking capital increase of a million dollars made at par to provide for the wants of borrowers carries with it a prospective increase of a million to