

ARE WE EXPANDING CREDIT UNDULY?

Effects of Excessive Capitalization Shown—Borrowing Must Stop Some Time and the Debts Paid

"Nothing casts a darker shadow toward our future than the misuse of credit," is a remark of a prominent figure in the railway world to be remembered, and one which Canadians might inscribe over their desks. Mr. J. J. Hill, himself Canadian-born, says further, no cause has been more prolific of misfortune in the past.

Outside of small retail transactions and the settlement of balances, actual cash is little used. Instruments of credit, in the manifold forms created by business, for its convenience, carry on from 95 to 98 per cent. of all business transactions. The entire amount of money of all kinds in the United States last year was less than the volume of our foreign trade alone. Compare the money stock, amounting to \$3,671,000,000, with the aggregate banking resources of the country, aggregating \$25,000,000,000. When it comes to doing the world's work, cash and credit are related about as the fire shovel is to the steam shovel.

The total estimated wealth of the United States is about \$193,000,000,000. The total bank clearings in 1912 were \$175,000,000,000. Nothing could illustrate more clearly the function and place of credit than to set these figures side by side. Instruments of credit cleared through the banks and trust companies in one year's transactions almost equal the total of property values of every kind in the United States. Contract or expand credit unduly or improperly and the effects may be incomparably worse than those of the wildest experiments in the currency tinkering that the world has ever seen.

Issues of Cheap Money.

A credit man employed by any firm knows that it can be brought to ruin in a very short time, no matter how sound it might formerly have been, by a reckless and indiscriminate extension of the credit privilege. The same is true of communities and nations.

The commonest form of the abuse of credit in the past has been the issue by governments of cheap money. Possibly the world has grown too wise to fall again into the trap of this delusion. But it is doing, or permitting, practically the same thing in other forms. The improper expansion of credit within the last generation exceeds by far in its volume and in its evil effects all the currency inflation of the last hundred years all over the world. The excessive capitalization of trusts and of some less spectacular enterprises has much the same effect as an issue of cheap money. Stocks and bonds are put out which represent little or nothing in the shape of actual values. A concern which, fifteen or twenty years ago, would have thought it plunging to enlarge its capital stock to half a million dollars will incorporate to-day for ten millions. The purpose is to get out sheaves of securities and sell them for cash, regardless of their actual value or probable return. Once in the hands of the public such stocks and bonds are more or less used as collateral for bank loans. To the extent to which they are so accepted they enlarge the volume of credit and of the actual circulating medium of the country. So long as we have no effective laws compelling all stocks and bonds to be paid for at their full face value either in cash, property or service at a fair valuation, so long will this evil continue.

Lithographed Paper Sellers.

In the year 1912 bonds, stocks and notes were issued to a total of \$2,253,587,300 by private corporations. In the last five years over \$8,600,000,000 of such paper, good, bad or indifferent, came into being. Assume that these new securities are convertible into credit by taking them to banks and trust companies for only 60 per cent., on the average, of their face value. This total does not include a large volume of securities issued by small local concerns. Yet it accounts for an expansion of the credit medium in only five years equal to nearly 50 per cent. more than the entire amount of money in the country. If congress had authorized the issue of \$5,000,000,000 in greenbacks there would have been a revolution. Much the same thing has happened, so far as prices and industry are concerned, by the inflation of the credit basis; yet wiseacres are still

arguing about the causes of the rise in prices and the high cost of living.

Neither do the performances of combinations, syndicates and corporations organized to sell bits of lithographed paper tell the whole story. The same effect is produced by the increase of public indebtedness everywhere. The issue of a state, city or county bond affects credit volume more powerfully and produces more directly all the effects of an increase in money volume, because it is acceptable as collateral for nearly or quite its face value in credit issues.

Borrowing Will End.

The whole American public is wild with spending. Public economy is a lost art. A bill that carries or requires an appropriation needs little else to commend it to any legislative body. All bonds of municipalities are now refunded instead of being paid when due. The excuse for a bond issue is always that "posterity" ought to bear part of the cost of public improvements. But when we, as posterity, come along, we not only repudiate the contract, but add new burdens to the old and shove both of them on to the future, in the shape of new and refunding bond issues. It is, perhaps, the meanest form of stealing ever invented, because it adds to the criminality of breach of trust the baseness of embezzling the future resources of our own children, who, since there must come an end of borrowing some time, will have these debts to pay.

The total revenues of all the states in 1901-1902 were \$190,000,000; in 1911-1912 they were \$461,000,000. In spite of an increase of 150 per cent. in ten years, the study of every state to-day is to find new sources of possible revenue, not to stop leaks. What ought to be considered current running expenses are met by borrowing. Now, not only has the consequent total tax burden on the people of this country risen to about \$38.50 per capita, or nearly \$200 per annum for each family of five persons, but most of these bond issues are at once used to expand the credit total. The bonds of public corporations are considered good security, because repudiation still has an ugly name in this country, however rapidly we may be running toward it. Credit accounts of one sort or another are established against them. Just so much more is added in the form of instruments of credit, to the actual circulating medium.

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