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HOW NATIONS FINANCE

These are days for observing closely the signs of the times. Of the important ones, are Canada's loan and trade figures. How significant are exchange operations was indicated by Sir Edward Holden in a recent speech. His illustrations were Canada and other leading countries. Explaining how exports pay for imports and taking as an example wheat shipped from Canada to England, Sir Edward pointed out how the firm in Canada who purchases and ships the wheat on account of the buyer in England, having received the bill of lading for the wheat, draws a bill of exchange on the buyer, which he sells. In technical terms, this is selling exchange, and the shipper of the wheat in Canada is the seller of exchange. Thus, when a bill is drawn against an export and sold to a banker, he uses the proceeds by drawing bills on London, which he sells to the importers. In this way, the bills drawn against exports provide the means through the banker for paying for imports.

The total imports of merchandise into Canada last year amounted in round figures to $650,000,000, and the total exports to $350,000,000. To the extent, therefore, of $350,000,000 her imports were paid for by her exports, leaving a balance of $300,000,000 to be paid in some other way. In addition to this import balance, Canada has to pay a large sum every year amounting at the present time to about $75,000,000 in respect to interest on money borrowed. The total amount, therefore, to be paid otherwise than by means of exports was $375,000,000. How is this done? By borrowing in London through the issue of stock, Canada creates credit balances there against which she sells exchange to importers, thus settling the before-mentioned balance of $375,000,000.

The imports and exports of the United Kingdom ten years ago amounted to about $4,400,000,000. Its imports and exports last year amounted to about $6,725,000,000, being an increase of about $2,325,000,000. As these imports and exports are financed by means of bills of exchange, an enormous increase has taken place in these bills in the last ten years. Sir Edward explained how a foreign bill of exchange does its work. Take as an example jute shipped from India. The jute is carried from India to London on the money which the merchant in India has obtained on a bill of exchange from the banker in India. In other words, the jute is carried on borrowed money. When the jute arrives in London it is sold and the proceeds of the sale are used to pay the holder of the bill. This explains how the bill is used in respect to the export of jute from India. On the other hand, cloth, say, is shipped from Manchester to India, for which the Indian importer pays in rupees.

How does the Manchester merchant receive the proceeds of this cloth? He receives back in sterling the amount of the bill which he drew on India, less commissions, postages and stamps. The first of these two bills brings the jute from India to Manchester and the second carries the cloth from Manchester to India.

When Sir Edward Holden gave a lecture to Liverpool bankers some years ago, he showed in the simplest way what a bank really is, making use of the illustration of an isosceles triangle. Consider for a moment that the right side of this triangle represents debit balances; then consider that the left side of the triangle represents credit balances. So long as confidence exists a banker might increase his loans ad libitum, which means that the right side of the triangle might be elongated indefinitely. If, therefore, trade became brisk, loans would be increased and credit balances would be increased. If, on the other hand, trade contracted we should expect loans to be contracted, and, consequently, credit balances would be contracted. If, therefore, the loan or right side of the triangle is elongated, the credit or left side of the triangle