

LITTLE DIFFICULTY IN FINANCING CANADA'S CROP MOVEMENT

Canadian Banks Have the Situation in Hand—Assistance of British Capital—How the Crop is Financed

Two London banks have agreed each to advance £500,000 in connection with this year's Canadian crop movement. As one London writer points out, that amount would not be even a noticeable extent of assistance. As a matter of fact, certain Scotch banks have for some time past made advances against grain shipments, and have done well by them, and it may be that others are about to follow suit, but such participation bears a small proportion to the work to be done.

British Banks Have Helped.

The demand of Canada for heavy funds during crop movement time is a natural one. It is the period when financial facilities are strained to the utmost, and help from any good quarter is acceptable. As "Canada" recalls, for some years past financial arrangements have been entered into between the Canadian and some British banks to assist in financing the movement of grain, and London bankers have found it such a satisfactory and remunerative business that they are only too glad to guarantee advances if necessary in a larger measure than before. The security is undeniably sound, and London bankers are enabled in many cases to earn quite substantial commissions merely by a guarantee without the emission of actual cash.

An English View.

Commenting on the proposed advances of the two London banks, the London Financial Times says:—

"It is particularly significant, however, that the offer was volunteered by the institutions in question, and this renders their services all the more acceptable. It is quite possible that the knowledge of such an important degree of financial support being available will render it unnecessary for the Canadian interests to take up the loan, and in this connection a great deal will depend upon the course of events during the next two or three months. It may be taken, however, that the severe stringency which was expected this year in connection with the crop movement all over the world will prove to have been exaggerated, and, while there may be a little scarcity of money in the height of the crop-moving season, it is not likely to be either severe or prolonged. In the event of the loan now offered being required, it will be carried out by means of ninety-day bills of exchange, renewable if necessary.

It is, of course, difficult to estimate the amount of the Canadian grain crop this year, but it will certainly be much larger than ever before, owing to the greater area under cultivation, while there is also the possibility of an increased yield per acre. It is, therefore, all the more desirable that the financial side of the situation should be arranged for well in advance. In Canadian circles particular importance is attached to the fact that the offer now made will very probably be repeated hereafter under similar conditions, thereby greatly relieving the anxiety which has been felt for some time past in regard to the rapid increase which is taking place in the amount of money required each year for the shipment of the Canadian harvest."

Banking System Can Handle Movement.

The anxiety in Canada regarding the amount of money required for the Canadian crop movement is not, we think, as great as our London contemporary indicates. The banks have the facilities provided by the emergency circulation for the movement. The establishment of central gold reserves, under the new Bank Act, also gives greater elasticity in this connection. The crop movement invariably creates a strain on the Dominion's financial machinery, but one of the admirable points of the Canadian banking system is its efficiency in handling the yearly harvest. A brief description of how the western wheat crop—the most important part of the harvest—is financed will give an idea of the working of the system. The operation is described, as seen from the inside of a bank, in Eckardt's (fourth edition) Manual of Canadian Banking, just published by *The Monetary Times*.

Moving the Western Wheat Crop.

During the summer, the banks prepare for the crop-moving by ordering large supplies of new bank notes from the bank note companies. Big parcels of these come in at more or less frequent intervals. At the head office, and perhaps at several depot branches, clerks are set to work countersigning them. Every year between August and the end of November, the amount of bank notes in circulation increases some \$15,000,000. This increase is chiefly in fives and tens. Then there may be anywhere from \$10,000,000 to \$15,000,000 of notes withdrawn as worn out or disabled each year. To replace those withdrawn and to provide the fresh

notes needed when the maximum circulation of one year exceeds the maximum of the preceding year, \$20,000,000 might be required. If this \$20,000,000 were half fives and half tens, three million notes would have to be got ready.

Credits of the Grain Firms.

Preparation for the crop is also made in another way. The grain firms arrange their lines of credits, and their respective banks undertake to advance the moneys needed for buying the grain. The manager of the Manitoba branch office is expected to keep himself informed as to the exact date on which grain deliveries will commence at his town. We may suppose that he has as his customer a grain-buying firm, with elevators at four or five points in the neighborhood, and which has arranged for a line of credit of \$50,000. A few days previous to the expected beginning of deliveries the manager will arrange to have a supply of the bank's notes sent to the branch to augment his stock in hand. These are mere printed promises to pay, and represent no actual cash whatever.

The deliveries commence. The day before, the grain firm will come in with cheques for \$6,000 or so, and will ask for cash to send to the points at which it is buying. Then, perhaps every day, the firm will require some cash—taking it in the bank's notes. It will begin by using its own capital, but that will soon be exhausted; then it begins to borrow under the terms of its line of credit.

Into the Elevators.

As fast as the grain is bought it is put through the elevators and loaded on cars for Fort William, Port Arthur, or Duluth, the terminal points on Lake Superior. As soon as a car is loaded, the railroad station agent gives the shipper the railroad bill of lading, made out for a round number of bushels—the capacity of the car. So the grain firm is receiving, day by day, the bills of lading for cars loaded from its elevators at its buying points. These bills of lading constitute the security it is to give the bank. It turns them in as cover for the loans. Day by day the loan gets bigger, day by day the bank's notes are rushing out. Every few days fresh parcels of notes are received from the depot branch that is supplying. In the meantime the cars are proceeding to the lake ports. The grain firm will, perhaps, sell from time to time to Winnipeg exporters, or to the big milling companies. For each sale it draws its draft on demand, or at sight, upon the purchaser, and instructs the bank to attach certain bills of lading to the draft. The bank applies the amount of the draft upon the firm's indebtedness, forwards the draft to Winnipeg, and instructs its branch there to "deliver documents attached on payment only." When the draft is paid in Winnipeg, the security is given up. So the account will run. The drafts covering sales of wheat are being applied on the debt; the purchases of grain are increasing it. The maximum of the credit, \$50,000, may be reached, or it may not. As the deliveries begin to fall off, the demand for the bank's notes will slacken; and by-and-by the grain firm's indebtedness will begin to come down. After lake navigation closes, it may allow its elevators to fill up with grain to hold through the winter, to avoid shipping to the seaports, via all-rail route, which is expensive, and to save the storage charges levied by the terminal elevators at the lake ports. In that case a dead loan of some thousands of dollars may be asked for through the winter. In the spring the advance runs off.

Agents of Milling Companies.

Besides this grain dealing firm there will probably be several Winnipeg firms buying in the market at this point, as well as the agents of the two big milling companies, Lake of the Woods and Ogilvie's. The operations of these would be financed in much the same way, but in Winnipeg banks.

After the process has been going on for some time, the bank's notes begin to come in again. They are brought in by the farmers, who deposit them, by the traders and merchants of the locality, and by the other bank or banks in town. Eventually, the receipts of notes exceed the payments, and the circulation is said to be contracting. In redeeming them the bank gives credit on its books, or, in the case of other banks, its supplement draft is on a settling centre.

Grain Accounts in Winnipeg.

To follow the process to the cities. There it is a case of the big exporting and milling firms sending out large amounts of cash to many points at which they have elevators, of their taking over or paying the drafts from country dealers and farmers—their indebtedness to the banks meanwhile