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EDWD. TROUT, MANAGER.

TORONTO, CAN., FRIDAY, JULY 4, 1884

THE LESSONS OF THE HOUR.

The collapse of the Federal Bank stock bubble had long been foreseen by all who had eyes to see. To the many the catastrophe was probably unexpected. The stock had been issued at three different times, and as something like two thirds of the whole is on the street, the wonder is how it came to be represented as nearly all paid up. It had long been notorious that all sorts of irregularities in connection with the stock took place. The late manager lent stocks for gambling purposes, and it was no secret that the bank, in persistent defiance of the law, lent money on its own stock, through a company organised for the purpose. Mr. Strathy revelled in speculation, and his operations do not appear to have been subjected to any wholesome check by his nominal superiors; we say nominal, for practically the bank was run by him. There is very little doubt that the last issue of stock had stock-jobbing as one of its chief motives, though the opinion has been expressed that it was a scheme to raise money, (so locked-up had the bank's funds become,) with which to pay old debts. When the old stock was selling at 165, a new issue of 140 seemed to offer a fair prospect of profit to the takers. But the public, learning what was going on, refused to buy.

By the arts of the stock gamblers, the old stock was at one time run up to about 173. The victims of the delusion suffered severe losses: their name is legion, and they are to be found every where. These were the first to suffer loss, now the turn of the lenders on the stock has come; and even if the stock could be got up to par, their losses would still be enormous. What we repeatedly pointed out as probable has come to pass. Loaning on stock has been found, in this case, to be a perilous operation. The bank itself must be a heavy loser by lending irregularly, illegally, and in a round-about way, on its own stock. There are numerous instances of banks being ruined by this practice, and any bank which loans heavily on its own stock, will sooner or later pay the penalty. The Girard Bank is perhaps the most notable example that could be cited. When Girard, the founder, died, he left the bank in a thoroughly sound condition—it is doubtful if it had an equal in the United States—and within four years the men who succeeded to the management brought it to in-

solvency. They issued a large amount of new stock, not without hopes of making money out of an operation in the shares. The legislature seems to have foreseen the game and tried to block it, by restricting to a few shares the amount of new stock which any director could take. But the enterprising directors were equal to the emergency. When the stock books were opened, they sent their own friends to put down their names, and they hired bullies to drive the general public back. A scene worse, if possible, than that which occurred when the Qu' Appell stock books were opened here. Much of the new stock was paid for by loans from the bank; and to that extent, the new capital was fictitious. The business of the bank was expanded, in proportion to its nominal capital, and the natural result followed: the bank which Girard the miser, millionaire and philanthropist—for strange as it may seem, he appears in history in this triple character—had founded on a rock of solid capital and built up by steady profits, was bankrupt. The Bank of the United States, with its twenty-four millions of capital, openly avowed that it made a practice of loaning on its own stock; and it, too, came to grief. The Metropolitan Bank of Montreal, lent to its officers, millions for the purpose of speculating in its own stock, and the Metropolitan is now but a name more than half forgotten. The operations proved, as they could not but prove, disastrous. This is the pre-destined end of all banks that persistently squeeze out their capital by loaning large amounts on their own stock.

In the last decade, the losses of Canadian banks have not been less than ten millions of dollars, and the fluctuations in the prices of the stock have been very great. A bank having lent on its own stock, finds itself in the period of the decline of prices; margins drop out and the bank becomes the owner of the stock. The bank is then in the same position as if the stock had never been issued—that is it is no stronger than it would have been if this stock had never been created—but if the stock goes further down, it suffers a loss with every successive fall.

To whatever extent the Federal Bank has made loans on its own stock, to that extent the issue of the new stock has not improved its position. That is the measure of the amount of the fictitious stock. But the new stock on which others have loaned is not fictitious; it is a source of strength, if it is also a source of weakness. An unwilling owner of the stock, is as much an owner as a willing one. Stock on which 90 per cent. was loaned becomes a source of weakness when the ten per cent. margin falls out; for the necessity of realizing knocks down the price. The collapse which has now taken place would have come last January or February, if some of the heavy lenders on the stock had not bought it in, with the vain hope of sustaining prices and getting out without loss. The question is asked how are these people going to get their money back? The answer is that they must take their chances with the other stockholders, and if they cannot sell, they must hold. If they must sell, they must take whatever the market price may be.

The stock on the street cannot be extinguished: there it is, and there, or somewhere else, it must remain. If the bank reduced its stock for the purpose of wiping out that part of it that is on the street, it would have to pay the value of it, whatever that might be determined to be; and the whole of its capital, not in this position, supposing it to be intact, would not suffice for the operation. Capital lost can be written off, by the stroke of a pen, when once an act of Parliament gives the authority; but stock held on margin cannot be similarly dealt with. If there be any lenders on this stock, who still have a margin standing between them and harm, they are probably safe enough.

What has happened in the Federal Bank matter will cause men to revise their notions about loans on margin. The amount of stock held in this way is variously estimated at from twelve to fifteen millions. A general decline in the price of stocks, causing a crumbling away of margins, would produce a state of things which would not be pleasant to contemplate.

That the officials of financial companies should not be allowed to speculate in the stocks is a rule which ought to be generally adopted and universally enforced. They can scarcely speculate in the stocks of the companies with which they are connected, without being morally guilty of a breach of trust. They know what profits are made and what losses are in prospect, before the shareholders can get the information. This knowledge comes to them through the fiduciary relation they sustain to the body of the shareholders. It is not theirs to use for private purposes; and it could seldom be used without detriment to their employers. Here is room to work a great and necessary reform; who will take the lead in practically bringing it about?

THE CROPS IN MANITOBA.

The sixth Crop Bulletin of Manitoba has been issued by the Government of that province, under date 17th June. Reports have been made by 53 meteorological stations, as to temperature, air pressure, wind, rain, etc. etc., and replies as to ploughing and condition of crop have been, up to June 1st received from 355 correspondents, as compared with 247 who answered the first circular in 1883. The province has this year been divided, says Mr. Burrows, the Deputy Minister, into three divisions—the Eastern, Western and Central.

The Eastern division comprises the counties of Manchester, Morris, Carillon, D'Iberville, Lorette, Selkirk, Lisgar and Gimli. The Central—the counties of Dufferin, Marquette, Portage La Prairie, Rock Lake, Norfolk, Beautiful Plains and Westbourne; and the Western—the counties of Russell, Shoal Lake, Minnedosa, Dennis, Brandon, Souris River and Turtle Mountain.

Compared with the Fall of 1882, the area of Fall plowing was in 1883 some 85 per cent. greater, 167,163 acres having been prepared for crop in the latter year. The acreage ploughed last spring for crop was 190,209 acres, the average date in the Eastern group of counties being 25th April and of the Central and Western 1st May. A great diversity of opinion prevails, it appears, as to the possibility of growing fall wheat