

most rigid economies in everything not appertaining to the war. The increased taxation necessitated was cheerfully borne and £153,688 was voluntarily subscribed for the national defence. The report says that: "at the beginning of the war, the whole economic world was affected to some extent and prices rose slightly, but the entire Japanese nation, having in the meantime acquired thriftily habits, there was a large increase in deposits of all kinds and our successive victories having brought on activity in economic circles, a marked rise was noted in the amount of advances made by banks and in bills cleared and our foreign trade, has also advanced since the outbreak of the war." The Japs have taught the whole world some valuable lessons not only in military science but in patriotism and thrift.

#### Too Many Branch Banks.

Mr. E. S. Clouston, vice-president and general manager of the Bank of Montreal, who has just returned from a trip in Western Canada endorses the opinion expressed by Senator Forget that there are too many branch banks in that section of the country. He finds that the general commercial and financial conditions are sound and does not regard the prices of land as being in excess of their actual value, but thinks that "more than a legitimate speculative fever" has seized upon some of the western people. The "Monetary Times" shows that there are 1,505 branch banks in Canada in the present year as compared with 610 in the year 1900. There are, however, seven new banks which have been established since 1900, which have 192 branches. The Bank of Montreal which had 49 branches in that year has now 93, but it must be remembered that during that period the Bank of Montreal has absorbed several other banks. We believe that the branch bank "habit" is being overdone. We refer especially to the competitive phase, that is the establishment of two or three branch banks in small towns where one would be more than sufficient for the business.

#### FIRE LOSSES IN THE UNITED STATES AND CANADA FOR SEPTEMBER.

The losses by fire in the United States, and Canada, during the month of September, as compiled from the records of the "Journal of Commerce and Commercial Bulletin," aggregates \$10,852,550, or about \$3,000,000 below the record of the same month in 1905.

The losses for nine months of 1906 now reach the sum of \$400,587,750, a figure never before equalled in the history of the country.

#### THE PROFIT IN STRONG CASH RESERVES.

The "London Statist," in a recent issue had the following: "Although an increase of deposits increases the funds out of which a banker can lend and discount, his practical power to go on lending and discounting is diminished by the diminution of the proportion borne by his reserve to his liabilities. If he cannot increase his reserve, or fails to do so, his power to go on lending and discounting comes to an end at a certain point. It follows that to enable a bank to go on performing the function for which it is established it is necessary, in a country where trade is growing, that the bank should continuously increase its reserve.

A study of the monthly returns issued by the best Canadian banks shows that their policy has been directed in accordance with the principle enunciated by the "Statist." As their liabilities have increased their reserves have been strengthened. They have taken advantage of the growth in their deposits to increase their loans and discounts. But they have not employed all of the new deposits in that way; a certain part has been set aside to maintain the historic proportion of reserve to liability. It is to be observed that the reserve referred to is not the "reserve fund" which is always mentioned in connection with a bank's capital, but the cash reserve. Sometimes prominent newspapers quote the proportion of the "reserve fund" to deposits, but the pertinent question, when any bank's position is being studied, is what proportion of its liabilities does it hold in cash reserves? The other reserve, or rest, as it is often called, is composed of undivided profits, and of surplus resulting from stock issues at more than par. It is in reality, an addition to the stockholders' capital fund. But, though capital, the rate of dividend does not apply to it; neither does the double liability clause of the Bank Act. A bank with a capital and rest very large in proportion to its deposits, is always strong in one respect, viz.: that what it has put out, or invested, consists largely of its own funds which are not, like deposits, subject to sudden withdrawal at the whim of its creditors. Some ten years ago and more, the capital and rests of our banks were very much larger in proportion to the deposits than they are to-day. Their loans, discounts and investments then were made more largely out of their own funds. But they could not, in those days, show the big earnings they are now showing, or pay such big dividends. The higher rate of earnings on capital were made possible by the increase in their deposits. The rate they can now earn on their capital funds is probably less than was the case in the nineties, because the general mercantile interest rate has fallen since then, but the profits made on the new deposits, when added to the revenue earned by the proprietors' capital, make