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GOVERNMENT BONDS AS CASH RESERVES.

The Chronicle published an article two weeks ago dealing with the subject of purchases of Dominion Government bonds by the banks. It was explained how the banks might quite properly and with profit to themselves invest some part of their reserves in the new Government bonds about to be issued. It will be worth while to follow that subject a little and to investigate the character of the bank reserves as they now stand.

In the statement for 30th June last, the banks' liabilities are shown to amount to $781,075,593. Before proceeding to consider the reserves held against this amount it is advisable to discover something of the nature of the liabilities.

There are three items among the lot which are payable on demand, at the same time having a preferential right to redemption. The Bank Act says that its notes in circulation shall have the first claim on the assets of a failed bank, deposits of the Government of Canada shall have the second, deposits of provincial governments shall have the third, while holders of all other claims are to be considered as ordinary creditors.

Then, the amounts due to banks in Great Britain are on a special footing, as they are secured debts; probably some of the amounts due to banks elsewhere are also on this footing. Summarizing the liabilities the following is obtained:

Preferred and special liabilities	$ 109,254,000
Ordinary claims payable on demand	* 255,698,918
Ordinary claims payable after notice or on fixed date	436,122,596
	$ 781,075,514

* Deposits elsewhere than in Canada included here. They would be partly payable on demand, partly after notice.

Now the reserve held against these liabilities was made up as follows:

Specie	$ 24,101,603
Dominion notes	45,554,182
Notes of and cheques on other banks in Canada	29,516,911
Deposits in other banks in Canada	9,267,438
Due by banks in United Kingdom	10,300,165
Due by banks elsewhere	14,771,776
	$ 133,512,075

Carried forward	$133,512,075
Call loans elsewhere than in Canada	55,298,873
Call loans Canada	49,481,179
Dominion and Provincial Government securities	9,666,951
Canadian Municipal, etc., securities	21,674,369
Railway and other bonds	41,381,810
	$ 311,015,257

With regard to the specie the practice has been to increase it gradually and steadily. Only the subsidiary coins go into general circulation. So the bulk is stored in vaults as reserve money, or basis for loans. The amount of Dominion notes held, also increases steadily. The law provides that at least 40 p.c. of the cash held shall be in Dominion notes. As yet this law has not been a factor in determining the size of the holdings, as the banks find the large legals most convenient for settling and reserve purposes, and the increases made in their holdings are made voluntarily. The other three items in the first lot serve a double purpose. They form a part of the first line of reserves, and they are used also in the exchange operations of the banks, inland and foreign.

The second lot is composed of call loans and investments in securities.

The call loans in Canada have lately shown a steady decrease; call loans elsewhere decreased till the end of April, after which they show an increase.

It may be admitted that call loans in Montreal and Toronto are hardly to be compared with call loans in New York or London as available reserves. Large sums cannot be forcibly withdrawn from the markets here without creating a disturbance; and they can be so taken from the other markets. But for all that Canadian call loans have a high value as reserves when handled judiciously.

Coming now to the bond investments it is noteworthy how small the Dominion Government bonds bulk. The only form a part of the total of $9,666,951.

Evidently the banks are in good shape to increase their holdings. Some of the profitable uses to which these bonds can be put were mentioned in the previous article. Reference was made, for one thing, to the banks drawing bills of exchange against the bonds when deposited with London banks, and using the funds for making call loans at favourable rates. Though it does not appear so at present, it is quite possible that New York call loan rates may not be nearly so high in the course of a year or two. It is not so very long ago since 1 p.c. money was the rule there, practically for more than a year at a time. And, sooner or later, it will be so again. Under those circumstances Dominion Government bonds bearing 3 p.c. interest and lodged in a good London bank which would undertake to accept bills against them, would be, in many respects, better than New York