State are compelled by the cold logic of facts to see that serious mistakes were made in the drastic treatment accorded the insurance companies by the Armstrong enactment of 1906. Governor Hughes has throughout acted somewhat like the proverbial—if maligned—surgeon, who talks of a "successful operation," without regard to the survivance or death of the patient.

SOME BANKING DEVELOPMENTS IN CANADA.

IV. Present Available Resources.

From mid-year 1907 to the close of 1908 the trend of current loans in Canada was steadily downwards. While this was to have been expected during months of lessened trade activity, the extent of the decline was apparently greater than business recession alone could account for. The explanation is, of course, that the proceeds of municipal and corporation flotations of securities abroad were in many instances used to liquidate previous banking advances. Soon after the beginning of 1908, the decrease in current loans was accompanied by a piling up of deposits; this trend, too, resulted partly from domestic trade conditions, but largely also from security flotations and the export at good prices of generally bountiful crops.

During the past month or so, there have been signs of a gradual movement of money back again into commercial channels, owing to continued trade quickening. While no sudden expansion is to be looked for—or desired—it cannot be doubted that Canadian business development during the next few years will be of far greater magnitude than ever in the past. So that, while the surplus resources of the Canadian banks are now unusually large, it is only a matter of time until they will be fully employed—so fully, in all likelihood, that the problem of getting Europe to assist more largely in "moving the crops" will become a practical rather than an academic question.

Just at present the resources of Canadian banks are over-large in relation to the immediate demands upon them—from the viewpoint of profit-earning. But there is a brighter side to this. Not only does the present banking position ensure preparedness for a steady onward movement, but it is attracting overseas attention to the banking strength of the country—an important consideration if capital from abroad is to continue to be largely employed in the development of Canada.

Relation between Loans and Deposits.

It is distinctly interesting to note just how loan reductions and deposit increases have resulted in the strengthening of the banks available reserves since mid-year 1907—when the decrease in loans began in earnest. Leaving out of consideration inter-bank accounts, and various lesser items, the following exhibit indicates the general banking trend for the twenty months between June 30, 1907, and February 28, 1909 (only going banks being included at either date.) The figures represent millions of dollars.

ASSETS.				LIABILITIES.		
Ttl. Cur. Loans (Inc. Govt. & Can. Call)	Securities held.	Overdue Dbts, Real Estate & M'gages.	Readily Available Reserves*	Deposits (Inc. Govt.)	Circulation.	Cap. & Rest.
642	70	18	134	650	73	161
595	80	29	226	717	67	167
— 47	+10	+ 11	+ 92	+ 67	— 6	+ 6
		+66			+67	

*These include specie, legals, net foreign bank balances and foreign call loans.

From the foregoing it is seen that the resultant of the changes in leading assets very nearly corresponds to the increase in deposits—the decrease in circulation and the increase in capital and rest practically offsetting each other on the liability side of the exhibit. Closer consideration is needed to reveal just how the combined changes in various assets come to approximately equal the increase in deposits. In the first place, certain relations between loans and deposits must be kept in mind.

According to the above exhibit, loans of all sorts (except foreign call loans, considered as part of reserves), decreased about 47 million dollars. In the ledgers of the banks collectively, there must have been some corresponding *withdrawal* of deposits. This is clear if the particular example be considered, of a bank cancelling a $10,000 note from a wholesale house, the amount having been met by payments obtained from retail debtors. This transaction as manifestly involves a withdrawal of bank deposits somewhere, as it does the contracting of the one bank's loan total. One side of the transaction may be outside of Canada, but still within the "banking circle" covered by the current loans abroad and foreign deposits included in the foregoing table. But not in all cases does the cancelling of a loan mean corresponding wiping out of deposits. This is seen where absolutely new funds are brought within the "banking circle" of Canadian institutions. Take the case of a municipality which had borrowed $100,000 from a bank, pending favourable disposal of $250,000 of bonds abroad. The proceeds of the flotation would, speaking generally, increase banking deposits of Canadian banks, abroad or at home, by $150,000, after liquidating the $100,000 bank loan. However, it must be recognized that the decrease of 47 millions in loans involved considerable cancelling of deposits. So that the increase of 67 millions in deposits is the more noteworthy. In reality, this increase was over and above any automatic withdrawals involved by loan contraction; the actual net accession of what might be considered new deposits during the twenty months since June, 1907,