

Monetary Times

Trade Review and Insurance Chronicle
of Canada

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BANK CAPITAL IN RELATION TO DEPOSITS

GREAT expansion in banking business during the past few years has not been accompanied by a corresponding increase in the paid-up capital or in the capital funds, which include reserves and undivided profits as well. These funds are the margin of security provided by the shareholders, and are in Canada supplemented by the double liability provision. Banking business is, therefore, now being conducted on a relatively smaller margin of shareholders' assets, a greater volume of business being swung by each dollar of capital funds. In August, 1914, the paid-up capital and surplus of the Canadian banks totalled about \$226,000,000, and the deposits were \$1,094,000,000, the ratio of the former to the latter being 20.8 per cent. The bank statement for August last shows the combined capital and surplus to be \$256,705,000, and the deposits were \$2,258,000,000, a ratio of only 11.4 per cent. These deposits do not include the balances owing to the Dominion and provincial governments. When these are considered as deposits the ratio is reduced to 10.5 per cent.

The provision of an ample margin of security in the form of capital funds is essential to sound banking. Several of the banks have during the past two years recognized the necessity for catching up to the changed conditions by issuing new stock. As the above figures show, however, there is still a need for more capital in the banking business, and the financial returns are such as to make new issues attractive and easily marketed. It must be kept in mind, however, that the present level of deposits will probably not be maintained, and to attempt to bring the ratio of capital funds to deposits up to the old figure is not necessary.

The decline in this ratio is, of course, not peculiar to Canada, but has been experienced in all countries, the great increase in the volume of money and credits in circulation swelling bank deposits to inflated levels. A study of this question in the United States by E. W. Kemmerer, professor of economics and finance in Princeton University, and published by the Bankers' Statistics Corporation, New York, shows that the ratio of capital funds to bank deposits in-

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creased during the first ten years of the national banking system in that country until it reached its maximum of 106 per cent. in 1874. From 1877 to 1881 it dropped from 101 per cent. to 61 per cent. From 1881 to 1895 the ratio fluctuated, with a slight downward tendency, reaching 56 per cent. in the latter year. Then came another pronounced drop in the ratio, this time from 58 per cent. in 1896 to 36 per cent. in 1899. In 1913 it had reached 34 per cent., and the war practically cut the figure in half, the ratio in November, 1919, being 18 per cent.

Just how far the downward movement of prices and the contraction of business now being experienced, coupled with a deflation of money and credit, will reduce bank deposits cannot now be estimated. It is certainly not expected that they will come down to the level of 1914, however, and should that extraordinary phenomenon take place, the fact still remains that Canada is a rapidly-growing country, and the increase in population is bound to increase the volume of banking business from year to year. The security market is not at the present time in a favorable condition for new issues, but just as soon as interest rates relax there is ample grounds for the issue of new bank stock.

GOVERNMENT ASSISTANCE IN FOREIGN TRADE

CANADIAN government policy in extending foreign trade has been marked by indecision. In establishing too many organizations the government has gone too far, while in the provision of effective help they have fallen short. The War Trade Board at Ottawa, the Canadian Trade Mission in London and the Canadian Trade Commission in Washington are three examples of the creation of bodies to do work which could better be carried on by the existing organization of the Department of Trade and Commerce. Some real assistance to prospective exporters can be given by the state. On the other hand, there must be no building up of a bureaucratic organization for the direction and control of commerce. Germany's organization of this kind produced results. Similar results may be obtained by other countries if they pursue the same methods, and there is a danger that