

the bank against abnormal depreciation in security prices. If this policy had been in force for twelve or fifteen years a large bank might easily accumulate a fund of say, \$600,000 for this purpose.

Next there is the matter of the appropriations for bad and doubtful debts. There is scarcely any limit to the proportions, which a fund of this description might assume. It is the plain duty of every good manager to value his loans pessimistically. The personal equation figures largely in the loans and discounts granted by the Canadian banks. And it is desirable that it should continue to figure largely. It would be a great handicap for young men in Canada if the banks here were to lean more strongly to the English method of exacting specific security for loans and discounts. Under our system, there must necessarily be a considerable element of doubt attaching to the majority of the liability accounts carried. The only way to meet this doubt is through the accumulation of a large reserve. As the appropriations for bad and doubtful debts are much heavier than appropriations for forming a security reserve, so this second fund should grow more quickly and it should reach larger figures. If the bank allowed over-appropriations to remain in the fund the accumulation might pass the million dollar mark in 12 or 15 years.

The accumulation next referred to occurs as the result of the adoption of a passive attitude. The bank merely does not write up its securities to the market value when the quotations advance. Several hundred thousand dollars of a reserve may in time be thus created. So, taking these various secret reserves and adding the reserve created through writing down premises account year after year, there may be a total of perhaps \$2,500,000 or more, of which the balance sheet gives little or no indication. The stock of this bank may be selling at the same level as the stock of another institution which has, say, only four or five hundred thousand dollars of such reserves. Or it may not be materially higher than the stock of a bank which has no secret reserves at all.

Perhaps it would be impracticable for the banks to publish these reserves in the annual reports. But if they could see their way to doing so, it would enable investors to discriminate more nicely among the several stocks. The purposes for which the reserves were accumulated need not necessarily be stated. For example there would appear the capital and the rest and the profit and loss balance. Then might follow "Reserve No. 1," "Reserve No. 2," etc.—it being made clear that these funds were the property of the stockholders. Of course if this were done the general public would be able to detect extraordinary appropriations for losses in any particular year by means of the diminution in the balances shown in the auxiliary reserves.

WORKMEN'S COMPENSATION BY THE STATE IN PRACTICE.

Hitherto, the German system of state insurance and workmen's compensation has been so widely regarded as a model of what such organizations should be, that it comes as something of a surprise to find it fiercely assailed by one who has for many years been among its prominent permanent officials. The attack launched against the system by Herr Friedensburg was briefly referred to in our issue of October 20. But in view of the astonishing facts disclosed, and of the general tendency, both in Europe and on this side of the Atlantic, to hail workmen's compensation by the state, as the solution of all the difficulties—social difficulties as well as purely professional problems of insurance—which surround this subject, it will be worth while going into the matter a little further.

The source of the evidence is unimpeachable. Herr Friedensburg is a distinguished official of the German system, his retirement from the presidency of the Senate of the Imperial Insurance Office having taken place a short time ago, after a service of twenty years. A translation of part of his pamphlet of criticism recently appeared in the London Spectator. Writing with the authority of his position, this critic concludes that the whole German insurance system is a *circulus vitiosus*. Charity, pauperism, and fraud are the segments of the circle; and "to those who do not see in their countrymen a mere mass it is a deeply painful experience that the insurance has directly led to a general alienation and demoralization."

Apparently, the root of the evils which are thus vigorously summed up, lies in the fact that the various German state insurance systems have been administered in a spirit of charity which is flatly opposed to the intent of the original projectors of the system. At the inception of the workmen's compensation scheme, the conception of beneficence was explicitly excluded. The insured working man was given specific rights, which he could enforce in the courts, but he could not claim more. If he did make such a claim the pension arbitrators and judges could no more allow it out of a spirit of indulgence than a judge in an ordinary civil court could decide against the evidence merely because the party in the wrong appealed to him for sympathy.

TRIFLING ACCIDENTS; ENDLESS LITIGATION.

But that theory, says Herr Friedensburg, has been altogether ignored in practice. Charity crept in—workmen were treated not as litigants but "as ill-reared, fractious children who could easiest be reformed through kindness"—and in the rear of charity came endless litigation, the arrangement of "accidents" for the express purpose of obtaining compensation, and other frauds on