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CONDITION OF THE BANKS AS TO QUICK AND FIXED ASSETS.

In every era of great industrial activity and prosperity, as advancement is made towards the close, the tendency of floating or liquid capital to become "fixed" gets more and more noticeable. A greater and greater proportion of the general resources gets locked up in buildings, real estate, plants, railroads, etc., causing a relative diminution in the supply of capital available for short loans and discounts. At the present time a tremendous amount of money is going into railroad securities. The railroad companies have been spending hundreds of millions in providing improved terminals and roadways, more equipment and motive power. Though there is a broad regular market for the securities issued for these purposes, and though an investor does not consider that he is locking up his money when he buys a railroad bond, it is a fact nevertheless that money spent for railroad betterments represents a fixed or permanent investment. As the process goes on the scarcity of floating capital becomes more pronounced, and at certain periods of the year acute monetary stringencies occur. The phenomena is generally taken by wise experienced business men, as an indication that the credit machinery is under a severe strain and as a warning not to let their private indebtedness get out of hand.

So much for general financial conditions. In considering banking conditions it is necessary to particularize the attention, so to speak. Commercial banks, such as ours, are supposed to have pretty much all their funds invested in liquid securities, The big item in their assets, current loans and discounts, should consist mainly of loans to manufacturers and dealers against staple goods sold or shortly to be sold, advances on customers' notes or trade bills having a short currency, and on other instruments which can be reasonably expected to run off in the course of three or four months at the outside. Bank investments of this nature are entirely distinct from the class of permanent investments to which attention has been drawn above. The main function of the banks is to facilitate the production, manufacture, and distribution of the great staple articles of trade and commerce. When the process or chain by which these are delivered to the consumer and finally paid for is completed the banks have their money in hand again ready for fresh enterprise. This is quite different in effect from what happens when funds are supplied to build a house or factory, a new railroad or big terminals. Then the capital remains where it is put; the investment is said to be fixed.

But, though practically the entire assets of a commercial bank may be described as liquid, they are made up of different parts each one of which possesses a different degree of liquidity or availability. Theoretically, as we have seen, the current loans and discounts might be expected to liquidate themselves in the course of a few months. But every banker knows that in actual practice things would not work out so happily. If his bank is to continue a going concern it must continue to look after its customers. The bills on hand will run off, to be sure, but the customers will daily be presenting others for discount, so that the gross amount of "current loans" may not decrease at all. In that sense the banker looks upon his current discounts as more or less of a fixed investment. For emergencies he depends on what he calls his quick assets—specie, legals, call loans, balances in other banks, gilt edged stocks and bonds, etc. They are his floating capital; the current loans, premises, overdues, etc., his fixed capital. It will be worth while, then, to investigate the position of the Canadian banks to see what the tendency has been in this respect, say in the last three years. How have their cash reserves been running? This can best be shown by a comparative statement showing their position as at the end of each year.

In the statement given on the next page all the items usually claimed as "quick assets" are allowed. It has seemed proper to deduct the amount due to banks in Great Britain from the whole, since they probably constitute preferred claims against our banks or at any rate they are likely to be covered by securities. Therefore, it is necessary to deduct them from the liabilities as well. Of course, banking readers understand that all these items of quick assets do not possess a uniform value. Some are better than others. The table shows the position at the end of 1905 to have been slightly better than that at the end of 1903, but a little weaker than at the end of 1904. In 1906 quite a noticeable decline in the available strength took place the proportion falling from 44.51 to 41.42 p.c. That