Active Capital earns profit, Passive Capital earns interest. To make my meaning plainer, let us take a firm—Brown, Jones, and Robinson—in an equal partnership, with a capital of £30,000. Let them by industry and good luck have accumulated a second £30,000. Let us suppose their business does not allow of extension, so that need for further Working Capital does not exist. Then, like prudent men, they invest this second £30,000 in good securities, and hold these ready against an emergency. Let us say that their business is bringing them in a profit of 20 per cent. per annum on their £30,000, or £6,000 a year. What is the real position of each partner? He has £10,000 invested in his business, bringing him in £2,000 a year, and £10,000 in the reserve fund of his business, bringing him in, say, £500 a year. This is the correct way to look at the situation. To say that he has £20,000 invested in his business, bringing him in £2,500 a year, or 12½ per cent. on his capital, would be erroneous, because £10,000 of that money, although standing in his firm's name, is not used in his firm's business, and is simply invested in securities. If the securities for the £30,000 reserve fund were divided equally by the three partners so that each would have £10,000 in his own individual name, instead of as a partner in B., J., and R., the total profits of the firm would be diminished by £1,500 a year, and the three individual partners would each gain by £500 a year; but the earnings of the business on the actual capital employed in it would not be affected.

This is important to note, for in most businesses there is in regard to Working Capital a point which—to borrow a chemical term—is "saturation point"—that is, there is no room for the employment of further Working Capital in the business, and funds subscribed or profits undistributed can be employed only in investment outside the business. Such