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LETTERS
OF AN ECONOMIC FATHER

LETTERS
of an
ECONOMIC FATHER

by
W. S. HILL-REID

with an introduction by
BEVERLEY NICHOLS

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THE FALCON PRESS LIMITED

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To
ANTHONY'S MOTHER
for
years of co-operation

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FOREWORD

by

Beverley Nichols

LUNCHEON with one's bank manager had always seemed to me a sign of the greatest possible distinction; it suggested vast projects—deals that would stagger the City, overdrafts that blanch the cheek of the ordinary mortal. I am therefore proud to announce that the theme of this book was conceived at such a luncheon. The occasion, however, was neither one of triumph nor disaster; no great schemes were brewing and my overdraft was in its normal state of sullen calm, and as such was no subject for polite conversation. We merely happened to meet at one o'clock, to drift together in the same direction, to sit at the same table, and begin to talk. We have gone on talking ever since—to the great profit of at least one of the conversants.

On that occasion we talked of the daily drama that is played out in a bank manager's room, drama that varies from bleak tragedy to broad farce. I had often thought

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that here was a fine setting for a play, and if any dramatist should agree with me I hope that before getting pen to paper he will first consult Mr. Hill-Reid. He will then realise that a bank manager—if he is a good bank manager—bears small resemblance to the sordid accountant of popular tradition. He must be a shrewd psychologist (particularly when dealing with women), an optimist at one moment, a pessimist at another, a man of vision, not only in the immediate locale of his city but in the ramifications of international finance. Above all he must have faith in human nature—a faith which need be in no way weakened by a dash of cynicism, even though that may sound a contradiction in terms.

It was when he was telling me of the sort of financial follies committed by the young, and of the advice that he had usually given them, that I said: 'I wish you'd been my economic father.' At which moment this book was born. Neither of us would claim that it was a moment of great literary or historical significance, but I think we may both claim that a treatise such as this has long been overdue.

If I had read this book when I was nineteen I should be a comparatively rich man. I left school knowing absolutely nothing about finance. I had the usual wide-eyed belief that a pound was a pound, an asset with no strings attached, to be spent on first editions of Aldous Huxley, bottles of sherry at three shillings and sixpence, daffodils at tuppence a bunch, and an occasional breathless trip to Paris. It never entered my head that a pound was not only an asset but a liability—a promise to pay so many shillings,

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in an allotted time, to H.M. Inspector of Taxes. When this gentleman eventually loomed on my horizon, I regarded his appearance as a personal affront. What had I ever done to him, that he should come along with these regular and disturbing suggestions? Surely there must be some mistake? Had he not knocked at the wrong door? Alas—there was no mistake. It was my door all right. And I was to learn from bitter experience that—like the postman—the Income Tax man always knocks twice.

This failure to forecast and provide for the future burden of taxation is, of course, an elementary mistake which is probably made by most young men—and if they are sensible, and learn their lesson, not very much harm is done, either to the state of their souls or to the balance of the national budget. But there are other less obvious errors, both of omission and commission.

Consider the question of life-insurance. Most young men, if they think of it at all, associate it vaguely with being run over by a bus. Maybe it also suggests to them a charming young widow, laying bunches of gladioli on their tombs. Otherwise, they give it a miss. Life is too exciting to think about death. And if you tell them that they can take out a policy which matures at the age of fifty they will doubtless retort that they hope to be dead long before they descend to such a pit of doddering senility. Like Saki's 'Reginald', they feel that 'to have reached thirty is to have failed in life'.

However, the years do run on. Nature has ordained, in her boringly methodical way, that if you live ten years

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longer than thirty, you reach the age of forty. With equally tiresome insistence, she demands—after another decade—that you accept the age of fifty. It really can't be helped, unless you are Faust—and we all know what happened to *him*. Therefore any young man who does not acquaint himself with the unique advantages of life-insurance is a fool. To the artist it is particularly to be recommended. If a law comes to be passed compelling every young man to invest the sale of his first picture or his first poem in a modest insurance premium, a great many tragedies would be averted and—since I am not one of those who believe that starvation in an attic is the ideal background for artistic creation—the world might well be richer by many works that would otherwise have run to waste.

There are dozens of other subjects treated in this book; it gently conducts the young man from the moment when he draws his first cheque, through the occasion when he makes his first investment to the time when he writes his will. Indeed, it is a gay and scholarly compendium of almost all that a young man need know about money. Oddly enough, it is not a 'materialistic' book; it doesn't suggest that getting and gaining is the whole purpose of man's existence; it contains no hint that all of life's lessons are to be found inscribed, in shining letters, across the close-packed pages of one's pass-sheet. Time and again the author—whose prose is singularly telling and compact—allows himself an aside which shows him as a man of culture, of charm, and no small degree of poetry.

But he does insist—as all fathers should insist—that

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money should be put in its proper place. Not too high, not too low—not to be worshipped, not to be despised. For a man's conduct in his financial affairs is, by and large, a reflection of the conduct of his whole life—a fact that we should do well to remember, not only as individuals but as a nation, in these days of economic adventure.

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DEAR ANTHONY,

This term will be your last, as you know. You may, I think, look back upon your school career with reasonable satisfaction. It has not been outstandingly brilliant, but at least it has been unhampered by any major crisis, and your fifty against Harbury, and your distinctions in Greek and History, lead me to believe that the tightening of your father's financial belt during the long period of successive school bills has been justified.

It is not my intention in this letter to expand on the merits or short-comings of your particular form of education : there are many in this country and each has its own commendable characteristics. Neither as a parent do I place either you or myself in any particular social category. What I am going to say would equally apply to a boy leaving a Secondary or Elementary School, for in these enlightened days, all of us, whether we be members of a learned profession or the fellow who delivers the milk, have to contend with financial problems and to live a personal economic life.

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You will learn, when, to use a Victorian expression, you 'go out into the world', that your happiness and that of your family will depend considerably on the way you organise that section of your existence. You will hear cheerful irresponsibles say that money doesn't bring happiness, so why worry? If one were to analyse the logic of this observation, one would say that money doesn't bring happiness necessarily, but its absence does often bring untold misery. Perhaps one would go further and say that a quantity of money does not bring happiness but that there is an irreducible minimum beyond which life, even for the most carefree, becomes a burden not only for the person concerned but for the dependants also.

It has always astonished me that the school masters and mistresses pay so little heed to this side of social education. I have no doubt that before you leave your housemaster will invite you to breakfast. He will talk about games, about the theatre and will, possibly, just faintly touch on sex, but I bet my last bottom dollar (duly offered to H.M. Treasury) that he won't mention money, thinking it is no doubt a sordid subject and not worthy to be considered in deliberations carried on in an atmosphere of erudition. It is true that the use of money may be a sordid thing, but I think that St. Paul, if I may be allowed to criticise so esteemed a philosopher, went a little too far when he said that the love of it was the root of all evil. I think that his logic was inspired by an obvious syllogism. The love of money may often

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be the root of a considerable amount of good, for the great philanthropists of history held, doubtless, a very warm affection for it or they would not have accumulated sufficient to benefit mankind by their widespread charities.

But, my dear Anthony, I don't want you to think that I am writing to you with the object of inspiring you with the will to make a fortune. If you do make one, so much the better, providing you acquire it honestly and not at the expense of other people's happiness. The 'profit motive', so much discussed and abused by well-meaning but misguided altruists and ecclesiastical day-dreamers, is the very essence of effort, and I have no doubt that the scientists who invented the atomic bomb were not only impelled by patriotic fervour but were encouraged in their labours by the vista of monetary reward. No, what I will try to do is to give you some idea of the technique of personal finance, and of the pitfalls to be avoided.

The salaried man on £500 a year who lives within his income, and maintains a standard of living consistent with the position in which God has been pleased to place him, providing for the domestic crises that must inevitably occur from time to time, and covering his family against his sudden demise in so far as his limited income allows, is a far better citizen and financier than the company promoter who is able to demand ten times the annual income so long as Fortune holds his hand but who, through an insensibility to the technique of per-

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sonal finance, falls shuddering to the ground when she lets it go.

It is a happy mariner who can sail his ship on an even keel despite the winds that blow from any quarter. It is an unhappy one who cracks on so much sail in fine weather that in shortening it he leaves the ship strained at the timbers, and uncomfortable and unseaworthy during a hard blow. I give you this nautical simile—it is the strange vanity of the yachtsman—to emphasise the importance of so navigating your financial ship that she remains seaworthy in bad times as well as good. How often I hear during the course of my daily professional life the remark 'I must cut down expenses'. If the necessity has arisen through unforeseen circumstances, such a remark is a commendable one, for the speaker has become conscious of the change in his fortunes, and intends to trim his sails accordingly. But it may indicate that he has not made provision for such an event; that he has not left sufficient margin to meet adverse conditions without reducing his standard of living, and that his total outgoings have been excessive, although not necessarily beyond his income.

It would be high smuggerly to say that one could make provision to meet all contingencies. Economic forces are as strong as natural forces. They can overwhelm not only the individual but nations and empires. Nevertheless the impact of their waywardness can be softened and used to advantage if careful thought and logical reasonings are brought to bear.

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We are living in strange times. The recent war has not only devastated cities, destroyed family life, and caused hardship and misery almost throughout the entire world, but it has turned topsy-turvy the structure of economic existence. Many people of both sexes who are but little older than yourself have found themselves possessed of an income out of all proportion to peace-time standards; and you may remember that it became necessary during the War to increase your pocket money in order to allow you to purchase your requirements at the school shop, with the result that you, like most of us, have lost sense of relative values. It is piously hoped that commodity prices will drop with a gradual decline during the years of settling down that lie ahead. During this metamorphosis you will have to adjust your mind to the changing purchasing power of the £ sterling. You will have to become accustomed to look upon money as less plentiful, but possessing greater value. The time will come when you will have to appreciate that because an article appears 'cheap' it is not necessarily bad. You will be witnessing what the economists call 'Deflation' as opposed to 'Inflation' against which every country sets its face if it is to survive.

I remember so well your mother, soon after we were married and during the post-war period of World War No. 1, coming home with a pair of shoes that she had purchased. 'I gave three guineas for them,' she said, 'but I'd much rather have bought a pair I saw at thirty-five shillings.' 'Why didn't you?', I asked. If you could have seen her look of surprise and astonishment you would

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have laughed. 'My dear,' she said, 'they were much more attractive, but they *couldn't* be good at that price!' You see, the darling hadn't adjusted her mind to the change in relative purchasing power. She was at school during the period of hostilities when everything rose in price in the same way that it did during Act II. She had grown up, so to speak, with inflated values, and it was only by degrees that she began to realise the deflation that was taking place.

There is an art that should be exercised in spending. I do not suggest that every purchase could constitute a bargain, but a fair price should be paid and the article acquired should not bring with it a feeling of regret.

I hope in a subsequent letter to expand on the dangers of Credit, but it is sufficient to say, in this one, that at least in early life as little of this enticing commodity should be taken advantage of as possible. 'Cash on the nail' is not a bad axiom with which to start one's economic career; later in the turmoil and complications of a business or professional life you will have to avail yourself of it. But even then due care and consideration will be needed.

Before I close, I think I ought to mention the dangers of financial vanity. I mean, of course, the competitive urge that rises in some—and here I ought to say that the female is more prone to it than the male—to 'live up' to the standard of one's associates. It is a natural one, and not without its merits, for it might be an incentive to progress, but it leads to heartburnings and misery if a standard is established at the price of overdrafts and post-dated

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cheques. Of these matters I may write to you on some other occasion.

What about bringing John down for a few days' fishing? You may get a chance to slack for a week or two before joining up.

FATHER

P.S. Have had some good evening rises just recently.

Letter No. 1

BANKING BEHAVIOUR

AMERICA, that happy hunting-ground of the statistician, decided to discover, for no practical purpose so far as I can see, how the average weight of her citizens compared in relation to their various professional pursuits. To everyone's astonishment in this country, it was found that bank-managers topped the scales. *The Times*, in a frivolous mood, said that it was not surprising when one considered that their lives were spent in a comfortable chair, with the tips of their fingers placed together, and their general posture usually one of polite negation.

I have opened this letter with this piece of nonsense to introduce the subject of your future relations with your banker. He may be one who presides over the destinies of some small branch in Wurzle-in-the-Marsh, or he may be the manager of a branch in some large industrial town or in the West End of London : whether it be one or the other he represents the services and financial stability of the great institution which he serves, and you will find that in nearly every case he is a man who has been chosen for his ability to carry out the many duties assigned to him for the comfort of his customers.

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As soon as you leave school, I shall arrange for you to open a banking account. Broadly speaking there are two kinds: the current account and the deposit account. The former is one upon which you draw by way of a cheque: the latter is merely a kind of moneybox into which surplus funds are placed for safe-keeping and upon which a small interest is allowed providing the sums are left for a minimum period. I propose to give you a letter of introduction to old Carruthers, who has been my guide, philosopher and friend for a number of years. Don't mistake his ingenuous and disarming simplicity. Behind those pince-nez of his lies one of the shrewdest brains that I have had the privilege of encountering, and during the first interview he will be weighing you up and making up his mind whether you are going to give him trouble or not. He will not, of course, come to any definite decision then and there. The final assessment will come after some period of your dealings with him. Unfortunately, he is getting near to retiring age, but that should not affect you greatly as a young man, for his successor will have records placed before him that will give him a very clear picture of your credit-worthiness should you ever wish to overdraw, and the whole course of your banking account will be carefully studied should such an event occur. Your good behaviour, then, during the early part of your association with your manager will stand you in good stead for the rest of your life, and by good behaviour I mean the refraining from issuing cheques without proper provision to meet them, although the expression does go beyond this, for it might

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well include the general stability of your domestic and business life.

There may come a time when you will require facilities—as the bankers call it—of a loan. Indeed, during your business or professional career it is safe to say that this is almost a certainty. If you do, don't help yourself to the bank's funds. I can quite imagine your surprise at this statement, but in making it I don't suggest that you would ever consider a tip and run raid on the till. At the same time the issuing of cheques beyond the credit balance or specified debit balance allowed, unless it has been tacitly agreed upon beforehand, does in effect amount to this. Of course, the banker has every right to return a cheque, subject to certain legal considerations which need not be gone into here, if he thinks that by paying it he is running the risk of loss, but it is a course which he hesitates to pursue unless conditions are such that he feels bound to do so.

Following on this is the 'post-dated' cheque. You will have gathered by its name that it is one that has been dated ahead of the time of issue. Sometimes this instrument is perfectly legitimate and justified. It may be that the drawer, i.e. the person who signs it, does not wish the payee, i.e. the person receiving the value, to become possessed of the sum in question until certain conditions have been fulfilled. In that case it partially assumes the character of a bill of exchange, a document which is often acceptable between traders whereby payment is delayed until a specified period has elapsed. It may, however, assume an evil

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character and may have been given to ward off the legal remedies conferred on a creditor and with the knowledge that upon presentation on the due date, no funds will be available to meet it. If you ever receive one, it is useless to pay it into your bank until the proper time, for should the cashier accept it across the counter, the scrutineer at the paying bank will return it unpaid with the appropriate inscription duly written on the top left-hand corner.

It is incredible how some people regard a cheque-book. With almost rapturous abandon they fill in a cheque; broadcasting what is often a worthless document and becoming quite indignant when it comes back on them. Their indignation, however, must be just a faint echo compared with the indignation of the payee, and I have long wished to be present when the parties to these unpleasant transactions meet. In France and in other Continental countries the law condemns the issuing of cheques which become dishonoured and in consequence the life of the bank manager under such conditions is relieved of some of its terrors. In this country, however, the actual giving of a worthless cheque is not an indictable offence; it becomes only such when it is proved to be the means of obtaining money or goods under false pretences.

I remember Carruthers telling me how, once having lectured a spendthrift damsel on the pains and penalties of extravagance and warning her that he would dishonour any further cheques that might be presented, he received that afternoon a case of champagne with her compliments and paid for by a cheque drawn on his branch which he

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was bound to return in the same way as he did the Bollinger. Carruthers was never quite sure whether this sprightly female possessed a grim sense of humour or was merely putting a fast one over. In any case her chances of regaining her credit-worthiness went right down the drain then and there.

You will have gathered by the foregoing that the possession of credit-worthiness is as valuable as the ownership of acceptable security. The amounts lent by the great banks without the deposit of security runs into many millions each year. Often the sum required outweighs the right of the borrower to an unsecured advance and then specific security is demanded by the banker. Because, however, he wishes to be covered it does not necessarily mean that the customer is not to be trusted, or is not worthy to be granted a loan, except under suspicion.

The Joint Stock Banks are often criticised for a tendency to reluctance in lending unless cast-iron security is deposited. I will write about this later, but in the meantime I would say that the charge is a little unfair and unfounded, and you will find that, providing you have won their confidence, they are willing and anxious to assist in sound and legitimate enterprise.

Well, then, you will meet Carruthers before long. He will take a specimen of your signature and issue to you a cheque-book with which you will withdraw as and when required the sum I shall pay in for you.

The operation of filling in a cheque is a simple one, and because of this it is unfortunately often carelessly

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undertaken. In order to avoid fraud, the words and figures should be placed in such a way that they rest up against the extreme left of the second line and the £ sign respectively. If it is to be sent through the post or by some other way where theft might take place then two parallel lines should be drawn across the centre, if the cheques have not already been printed in this way. With this marking it becomes unencashable at a bank and has to be negotiated through a banking account, although not necessarily the payee's. In order to 'open' a crossed cheque (i.e. make it encashable by anyone) the words 'pay cash' with the drawer's signature beneath must be written between the lines: but should you wish to ensure that only the payee receives the value, the words 'Account payee only' must be written between the parallel lines in place of the words 'pay cash'. Sometimes a trader or other will require to cover himself still further and will write the words 'not negotiable'.

Forgive me if I burst for a few lines into legal language, but I think that, if I quote the Bills of Exchange Act 1882, Section 81, it may save a lot of explanation.

'Where a person takes a crossed cheque which bears on it the words "not negotiable" he shall not have and shall not be capable of giving a better title to the cheque than that which the person from whom he took it had.'

So you see that if a 'not negotiable' cheque had been stolen by a burglar who handed it to your cycle agent who in turn gave it to you in payment for a second-hand bicycle, you would be taking a document which carried a defective

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title and you would have no more right to it than the innocent cycle agent, or the wicked burglar.

I'm glad you found my last letter interesting. I will write you another when the spirit moves me.

Letter No. 2

CHEQUES: THEIR USE AND ABUSE

OF all the markings on a cheque, perhaps the one 'refer to drawer' is the most shattering to the nerves of everyone concerned. The words appear harmless enough, but they carry a very sinister meaning, for they are an indication that there are not sufficient funds to meet it and that the drawer is not sufficiently credit-worthy to be granted unsecured advances. In effect, to be quite blunt, it has been dishonoured! For the love of Mike, Anthony, don't ever issue a cheque which might 'bounce', for it is as important to go through life free from such an event as it is to keep clear of the black-balls of a club's committee. In my previous letter I went to some length on the subject of issuing cheques, because a cheque-book is a dangerous weapon in the hands of the wrong person. It is so easy to take out this sleek publication; it is so tempting to write one's signature upon it, and the psychological effect of not having to put one's hand in one's trousers pocket often tempts one to spend when one wouldn't do so if one had to pay hard cash. Used properly it is a useful article; indeed Commerce as we understand it to-day could not carry on without this medium of exchange. The use

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of cheques except in certain transactions demanding banker's drafts has almost supplanted the legal currency of this country.

Now about receiving as opposed to issuing cheques. This is not the least pleasant part of your banking transactions, but you must remember that, in paying one in, you have not necessarily received the sum involved. If it happens to be drawn on the same branch of the bank where your own account is domiciled, then a rapid book-keeping entry will transfer the money over almost immediately; if not, clearance will have to take place which will cause some delay. If you look at a cheque on any one of the clearing banks, you will find in the bottom left-hand corner one of the three following letters: T. M. C. These indicate in what clearing district the branch of the bank is situated, namely, Town, Metropolitan, or Country. In the case of a town cheque, about two days are required before it is cleared, i.e. before your bank has received the money from the 'paying' bank, and similarly in the case of a metropolitan cheque, but in the case of a country cheque this will take up to four days. During the period of clearance, several causes may bring about the return of the article, two of which I have already mentioned: the drawer may die in the meantime; the funds may not be there to meet it; it may be post-dated; it may be improperly endorsed; it may be out of date (ante-dated six months); the signature may differ owing to illness, old age or drunkenness; the words and figures may differ; it might be 'stopped' by the drawer, or it may be a forgery.

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Let us assume that you pay in a cheque for £100, and that this sum then represents the total of your credit balance. It is possible, unless you have built up sufficient credit-worthiness, that the bank would return any cheque that you may have issued and have presented during the period of clearance marked 'effects not cleared'. Such an action on their part would not constitute their dishonouring it; it would, however, convey to the person presenting it that you were not sufficiently strong for them to run the risk of the cheque that you paid in coming back and your being debited with the relative amount, leaving you a 'nil' balance to meet payment of the cheques that you had drawn. It is well, therefore, to find out from your bankers whether or not they are prepared to pay against 'uncleared' effects. In your case it is probable that they will be willing to do so, bearing in mind the unsullied reputation of your father, if he might on this occasion be allowed to blow his own trumpet within the hearing of his family.

The banks of this country are reasonably well equipped to withstand the onslaught of the crafty, but they do get caught out from time to time. I think you might be interested to hear of a parlour game conceived by a disreputable but imaginative customer who has since left behind a number of devoted followers and which has now become known in places where bankers forgather as 'cross-firing'. All that one requires for this amusing and dangerous pastime are two banking accounts, two cheque books and a staunch friend. Alf pays in £100 cheque for

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the credit of his account at Lloyds drawn by Bert on the Westminster. At the same time Bert pays into his account at the Westminster a £100 cheque drawn by Alf on Lloyds. Both have now a credit balance of £100. Both Alf and Bert then draw on their accounts before the cheques are cleared. (The bankers have overlooked their lack of credit-worthiness, you will note.) Both heroes now calculate the date on which the two cheques will arrive for presentation through the clearing house, for they realise that when this occurs there will be no funds to meet them unless something is done about it. They therefore proceed in the following manner :

Alf pays into Lloyds another £100 cheque drawn by Bert, but this time on Barclays, and Bert pays into the Westminster a cheque by Alf on the National Provincial. This happy thought has the effect of providing what appears to be funds to meet the first series of cross-firing. The second series will be met by reverting to the original transactions; with Alf and Bert drawing on Lloyds and the Westminster and paying into their accounts as shown in operation No. 1. This ridiculous ding-dong can continue uninterruptedly, so long as the banks involved are willing to pay against uncleared effects! However, it must not be overlooked that the original withdrawals were cash or payments to third parties so that one day two of the four banks will be left with the baby to the tune of £100 each.

Before I go further I ought briefly to touch on 'endorsements', sometimes written 'indorsements'. The word is

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derived from the Latin *in dorsum* and there is no need for me to tell you, with your classical education, that translated the words mean 'on the back'. The endorsement on the back of a cheque or bill of exchange is the signature of the holder, namely the person who has the right to its value, by which the instrument is transferred from one person to another. When I tell you that the text books cover dozens of pages on this subject you will appreciate that the action of endorsing a document should not be undertaken lightly. You may have read in some Victorian classic the sad story of the fellow who is ruined (he is usually the wayward son of an ancient family who has got into bad company) by backing a bill. This refers, of course, to a bill of exchange, where every 'backer', so to speak, becomes in turn responsible in the event of its not being met. There is no need for you to get wind up when endorsing the cheques which are payable to yourself, but in order that the bank will receive them for your credit, it is necessary to endorse them in a proper manner. If you are uncertain as to the correct procedure, the cashier will always assist you.

Let me give you just a few examples of correct and incorrect endorsements.

I only quote these to show that any old way of 'backing' a cheque isn't good enough, and in order to save trouble it is advisable to make sure that you have endorsed it in the prescribed way.

CHEQUES: THEIR USE AND ABUSE

<i>Payee</i>	<i>Correct</i>	<i>Incorrect</i>
Rev. Judas Iscariot	Judas Iscariot J. Iscariot	Rev. Judas Iscariot
Mr. Isaac Walton, Jr.	Isaac Walton, Junior	Isaac Walton Mr. Isaac Walton, Jr.
Messrs. Cherrybells	Cherrybells	Cherrybells & Co.
Misses Lipstick	Ruby Lipstick Primrose Lipstick	R. & P. Lipstick

Well, old man, I've given you an outline of a few of the many matters that will confront you when you have become possessed of a banking account. I may go even further in another letter and give you a rough history of banking in this country, telling you of their services and the best way to utilise them.

In your last letter you told me that John, having read my previous communication, said that he would like me to cover a fairly wide range of an ordinary citizen's economic life. I shall certainly try to do so, but before passing on to other aspects of domestic and business economy I shall write to you about the approach necessary when requiring to borrow. As I said before, it is almost certain that occasions will arise when you will need facilities from your bankers. I trust, however, that the reason for borrowing will not lie in the fact that you are hard up, but because you require extra finance to assist you in the progress of your business or professional life.

A doctor friend of mine told me that upon qualifying,

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the students of his year were given a pow-wow by a beloved and somewhat aged professor. 'Finally,' he said, 'put all your cards on the table when dealing with your lawyer, your doctor and your bank manager.' This is sound advice, but I would go further with regard to your banker. I would say, make a friend of him so that when trouble occurs, whether it be financial or otherwise, you may feel disposed to go to him and discuss the problem. He will, in all probability, give you sound advice or be able to tell you where to go to obtain it.

Old Carruthers has been a perfect brick to me on more than one occasion.

Remember me to John. I was sorry that he was passed over for the Canborough match. More evenings at the nets might help.

Letter No. 3

APPROACH

THE other evening your mother induced me by wiles and subterfuge to abandon my Boswell and a shady lawn and to go to the picture theatre. The play was not bad. The hero, a large raw-boned man, whose profession was the noble one of a war correspondent, was staying, while on leave, at a sumptuous hotel in New York where the heroine, a celebrated actress, resided in chromium-plated splendour. Quite fortuitously, he found himself in her sitting-room with the door closed and in sole company of this ravishing female. Naturally, she was most indignant; indeed she ordered him with charming but outraged dignity to leave immediately, for she was a pure woman despite her success on stage and screen, and, furthermore, she was under the mistaken impression that he was a burglar who intended without more ado to steal her valuable jewels.

But love had come to him at first sight!

You or I would have explained the mistake, excusing ourselves for the somewhat unorthodox manner of our arrival, while hesitatingly suggesting that, when the full explanation had been given and accepted, we might per-

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haps be permitted to ask her to tea. Such an approach would have been quite stupid and unsuccessful, but I'm a bit old-fashioned and you have not yet had sufficient experience in dealing with a situation such as this.

At any rate, he did nothing of the sort. He just made himself quite at home, treating the lady with casual indifference; so much so that before very long he had worked her up to a state of hysterical hatred for the man. Nor was that all, for he helped himself to her cigarettes; poured out a whisky so generously that to my mind it was not only ill-mannered but a greedy action; fixed himself up on a sofa for the night after barricading his door (up to then he had been a misogynist and hadn't quite recovered), and to my astonishment was discovered by the lady next morning calmly eating a hearty breakfast which he had cooked with commendable foresight and apparently consummate skill. The more she inveighed against his atrocious manners and incredible cheek, the more he treated her as if she were a person not worthy to be considered. But he knew his business and for one who had hitherto avoided the company of the opposite sex, showed an amazing knowledge of female psychology, for he won the damsel's heart and later married her amid the awful splendour of the hotel lounge, and, I assume, as there was nothing to the contrary to lead me to believe otherwise, lived happily ever after.

What, you may well ask, has all this to do with my economic life? Not much really, but it is intended to show that the 'approach' may have considerable influence upon

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the final issue: for this applies whether it be love, golf, or a business transaction.

Let us assume that our hero had tackled the situation in the way that I suggested. One was given to understand during the action of the play that it would have been a failure. The heroine, surfeited with adoration and molested daily by cringing sycophants, yearned for a man who would treat her in the manner already described. You see: his approach was the right one when wooing—if one may be permitted to use such a word in these hit and miss days—this particular lady. If he had adopted other tactics he would doubtless have failed and yet he would still be possessed of those raw-boned shoulders which she apparently admired, the same determined chin, the same wisp of hair falling with boyish carelessness over his forehead, the same romantic background of a war correspondent.

His success lay then in his particular approach, and although it took a rough and ready form, was at least sincere and an indication of his character. I mention 'sincere', because I haven't much use for the 'cunning' approach. The straightforward method where one business man confronts another, putting all his cards on the table as advised by the wise professor mentioned in my previous letter, is the one that is usually fundamentally successful. I do not mean by this that tact should be eliminated from the deliberations. I will go further and say that this virtue goes far towards a satisfactory outcome of a financial deal. Nevertheless, there is a far cry between tact and cunning, for the first may well be placed under

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the heading of diplomacy while the second should be relegated to the ash-can of shady dealings. Our rawboned hero used tact, admittedly of a curious kind, when wooing the affections of his lady-love, but never once did he resort to cunning. If he had, he would have lost the good-will of the audience, and the author was well aware of this fact when he wrote the script.

I opened my letter by telling you that I was taken from my Boswell. Strangely enough, I had chanced upon the part that described Boswell's first meeting with Johnson. You may recall how tactlessly the would-be biographer approached the great man with the object of becoming his associate; how he managed to hit upon two subjects that were like a red rag to a bull, namely, Scotsmen and the success of his former pupil, Garrick; and how the first interview ended in sending Boswell away with a flea in his ear. That Boswell was a man of learning and general intelligence must have been obvious to the Doctor, but the approach had raised hostility in his mind, and their first meeting, one that should have been conducted in an atmosphere of intellectual goodwill, broke up with Boswell feeling 'not a little embarrassed'.

You will have gathered from the foregoing that I look upon the method of approach as one seriously to be considered in one's dealings with one's fellow-creatures. It should comprise honesty, tact, and sincerity.

Letter No. 4

BORROWING

OVERDRAFT! I knew that sooner or later I should be writing to you on this subject, for in one of my previous letters I told you that some time during your life you would require help from the bank; and in anticipation of that event I feel disposed to give you an outline of the ways and means by which borrowing by this method is brought about.

An Overdraft as distinct from a Loan Account permits the bank's customer to overdraw his current account, usually by arrangement and up to any amount which is called the 'Limit'. From the customer's point of view it has this advantage: it allows the debt to be altered from day to day and the amount of interest charged is based on the day-to-day borrowing. Let us assume that your banker grants you a limit of £100. You may require only a part of this sum or you may draw to the full extent of the facilities given. At some future date you may wish to pay in £50. The debt will then be reduced by that amount and the remaining balance will be the one upon which the bank will levy its interest charges. In effect, you may vary the amount of the borrowing within the prescribed limit when-

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ever you like, either by reducing by way of a credit or increasing by way of a debit.

Before I go any further, I ought to tell you something about a loan account. When one is opened a specific sum is drawn up to the full amount of the limit and either transferred to the current account, to be available as and when required, or is withdrawn to pay a lump sum for, say, the purchase of a house. The loan account, therefore, constitutes a static debit balance only altered, as a rule, by credit entries placed upon it to reduce the debt, and therefore does not attract the privilege of the variations in the day-to-day borrowings.

I have already described to you that magic word 'credit-worthiness', pointing out the necessity of building up confidence and good-will, so that when the occasion arises you will be in a position to ask your banker for a loan. If it is to be one of some duration and dimensions he will ask you for security. There are many kinds that are acceptable, but I will only describe those which are most commonly employed.

Stock and Share Certificates.—These are easily mortgageable providing that they represent shares, debentures, or stock in a limited liability company or Government Stock with a free market on the Stock Exchange. The certificates are placed with the bank under a Memorandum of Deposit, i.e. a document that provides (*inter alia*) an undertaking to sell sufficient stock or shares should they require the debt to be repaid. The amount that can be borrowed in relation to the market value depends very

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largely on the type of company or the kind of Government Stock represented by the certificates. With good industrial stock or shares, and providing the borrower is considered to be a man of his word, it would be possible to borrow up to, say, 70 per cent; with British Government Stock up to, say, 90 per cent.

Deeds of Freehold or Leasehold Property.—These are not so easily or so cheaply mortgageable. Before the banker decides to lend the money he will require, in many cases, a professional valuation by a competent valuer. He will also insist that the title is investigated by the bank's solicitors. By this I mean that the solicitors will satisfy the bank that the customer has a good and unassailable title. When these two conditions have been fulfilled a Mortgage Deed will be signed by the borrower giving the mortgagee, i.e. the lender, certain rights and privileges, among others the right, after giving due notice of repayment, of selling the property by auction and bringing about 'satisfaction' by way of proceeds from the sale. The foregoing refers to the 'charging' of deeds by way of legal mortgage, but there is an instrument of charge known as an equitable mortgage, whereby the mortgagor places the deeds with the bank, and undertakes to execute a legal mortgage if required to do so by the lenders. This document only attracts Revenue Stamps at 2s. per cent, as against 5s. per cent for a legal charge, and as it only constitutes a sort of quasi-mortgage is not looked upon by the bankers with the same favour as the former.

Life Policies.—A life policy, after certain premiums

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have been paid, assumes what is known as a Surrender Value. This value is one which can be converted into cash, either by selling the Life Policy or surrendering it to the Insurance Company. It therefore can be treated as a mortgageable security and banks are very willing, as a rule, to lend a sum equivalent almost to its value. The advantage of borrowing against a Life Policy as opposed to selling or surrendering it lies in the fact that the Policy is kept on foot and can at any time upon repayment of the debt be re-assigned to the borrower who can carry on with his premiums with the relative advantages attaching thereto, and with all the benefits held intact.

Guarantees.—A banker will sometimes accept as security a signed document whereby one person guarantees, i.e. makes himself responsible for the debt of the borrower. Except in cases where the banker requires additional or 'collateral' security, as it is termed, in order to reinforce the primary security, or there exists consanguinity between the two parties, this type of borrowing is not very satisfactory. The Surety often enters into his responsibilities in a too light-hearted manner, and the guarantee which is the result of a cheery discussion over a cocktail upon a high stool, is a bad one from everyone's point of view.

Let me give you solemn warning, Anthony, that when you are approached by an acquaintance, or even a friend, to go surety for a debt, be very careful how you answer. I would not for a moment discourage you from helping somebody in need, but before you take on the liability incurred, do find out whether your friendship really justi-

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fies the burden. The psychological danger of the Guarantee can be found in its simplicity. Under the 6d. Revenue Stamp lies a perfect and easy opportunity to place oneself in financial bondage and often a long-standing and much-cherished friendship is broken when, either through irresponsibility or unforeseen circumstances, the Guarantor has to pay up. The perfecting of this type of security requires little effort on the part of the banker and the giving of it requires even less by the donor. Sometimes the banker will insist that the Surety deposits acceptable security with the borrower's bank. When this is so, the action of taking on the responsibility of another's debt is shorn of some of its light-heartedness, and in many banks the custom of reinforcement is becoming almost a rule; and a good thing too, for it does make the Guarantor hesitate and think again before he enters into what is frequently an unpleasant and unsatisfactory commitment.

I have described only four of the securities offered for a loan, but as I said, there are many others, among them Shipping documents, Produce, Reversionary Interests (I need not explain this somewhat complicated type here), Sub-Mortgages—the pledging by a Mortgagee of a mortgage in his favour—the Titles to ships, a Debenture over the Assets of a Limited Liability Company, etc., but you would have little success if you went to your banker and offered him diamond rings or Old Masters. The banks may be classed as moneylenders, for that is one of their primary qualifications, but they are not pawnbrokers, and the taking of a charge over a citizen's private chattels is

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abhorrent to them. The mortgageable assets of an individual are clearly defined by the banks, but Carruthers told me once that when a young manager and still possessing the fiery vehemence of youth, he did lend a sum of money on a pack of hounds. It must have been a thrilling experience when he viewed his security giving tongue and a moment of supreme satisfaction when, after a straight run, it achieved a kill. But security of that kind is not often considered, and only a man like Carruthers, with a twinkle in his eye, would consider it.

In another letter I will write to you about the Art of Lending, for I think that if you appreciate the banker's point of view and are sensitive to the workings of his mind when you place your proposition before him, it will help considerably. In the meantime I think that you should know that the purpose of a loan impinges upon the final decision of the bank. There is a morality in bank-lending which is not always recognised by the public.

Let us suppose that you requested facilities to purchase a greyhound for racing. You might offer acceptable security, but unless you were a professional owner of greyhounds and consequently your livelihood depended on possessing good dogs, the banker would probably refuse to accede to your wish. The money, he would say, could be lent to better purpose where its use would benefit not only the individual but the community as a whole. But if you went to him and wished to borrow in order to buy a good watchdog, to protect your house against the depredations of certain of the light-footed gentry, he would, I feel sure, not

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hesitate to assist you in purchasing this desirable animal. This is a simple example, but I think it describes the general attitude of a banker towards the customer when desiring to know the purpose for which the money is to be borrowed.

In law there exists what is known as Equity of Redemption. This gives the right of a borrower to repay the debt at will and to recover for his own the security that he has deposited. In borrowing from individuals notice is often required before repayment will be accepted. Usually six months is the period specified in the Deed, but it can vary in accordance with the wishes of the signatories; but with a bank loan no restrictions are imposed as against the borrower as to notice of repayment, except that there is an implied agreement, founded on custom, that 'accommodation', as it is sometimes called, is renewable every twelve months. It must, however, be borne in mind that a bank has the right at any time to call in the money, which privilege is founded on the principles of British banking; namely, that it must at all times possess liquidity of its assets, especially with regard to that part of them which is represented by loans. A bank does not lend its own money, but other people's, and is always very conscious of the fact that it must, when called upon to do so, pay back upon demand any sum that has been deposited, except in the case of certain deposit monies which require seven or fourteen days' notice before withdrawal.

I feel quite certain, unless you are made of sterner stuff than most, that you will at some time feel a little annoyed at

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the half-yearly item shown in your statement as 'Charges'. It is possible, but unlikely in the early part of your career, that you will keep sufficient credit balance to warrant their being waived. It is as well to appreciate how the amount is arrived at. When in credit the charges will represent 'Commission' based on the amount of the average balance maintained throughout the previous six months in relation to the number of entries passed through; when in debit they will represent Interest plus the Commission and can be specified should you require the banker to do so.

These items are not the result of careless or unwarranted reasoning. They are based on a mathematical formula which is governed by the value of money at that particular period; for one may readily appreciate that the only means by which the bank can repay itself for the privilege of holding your account is to lend your money to someone else, or levy a fee for services rendered in the same way as do the doctor and the lawyer.

Well, there you are, Anthony, I hope the foregoing will give you some idea of the circumstances surrounding an overdraft. Experience will tell you more than I can, but it's something to be going on with.

Letter No. 5

ART OF LENDING

LENDING is an Art rather than a Science. Certain types of lending may be described as scientific, such as the lien against Government Stocks where ample margin is not required and where the simple, straightforward machinery as laid down by law covers the Lender against loss or damage, but a banker if he is to exercise his art, will be prepared to lend on his judgment of the credit-worthiness of the borrower, and his skill will so assess the righteousness of the loan that his decision will prove beneficial both to himself and his customer.

What, we may ask ourselves, is the ideal loan? It is, surely, one whereby the sum required goes out of the bank, serves the purpose for which it was borrowed, and comes back again without pressure on the part of the banker and without inconvenience or hardship to the borrower. It has completed the circle and is ready to be sent out again on another mission. The banker experiences a glow of satisfaction when such an operation is before him. He feels as a surgeon may feel when his patient recovers his health and strength; that his skill and knowledge brought reward to all concerned.

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No better example of bad lending can be found than that of Shylock's. It was execrable in every way. He did not bother to find out whether repayment would come about without recourse to the security; he was not concerned as to what lengths it would be necessary to go in order to bring about satisfaction, and he landed himself in the Law Courts with a security form so weakly and loosely drafted that no provisions were made for the contingency that lost him his case.

When a proposal to borrow is placed before a banker he requires to know the reason for the request. He will satisfy himself that the money which he has been asked to lend is to be used in such a way as to bring proper comfort to the borrower. If it is required in a hurry, unless the case be one of exceptional circumstances, the banker is immediately placed on his guard, for in nine cases out of ten the customer is in a tight financial corner, with creditors pressing hard on his heels, and the possibility of repayment far divorced from ease and goodwill.

The banker, if he is fully versed in his art, will look down the avenue of time; he will see fairly clearly the road which the customer intends to pursue and if he is satisfied that the course is a straight one, not hedged about by unpleasant influences, he will grant the loan, providing the security offered is one acceptable to him and reasonably realisable at short notice; for it has for long been one of the basic principles of British banking to hold security which has the characteristics of immediate cover.

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In assessing the virtue of a loan the 'proper comfort of the borrower' should never be lost sight of, and should be taken into consideration both with regard to the customer and his surety, if there be one. The Guarantee, the easiest to establish by way of security and the most dangerous, is particularly susceptible to hardship and heartburnings. And yet strangely enough the liability of the Guarantor is often entered into with almost frolicsome light-heartedness. What strange working of the Guarantor's mind prompts him to take such action is often puzzling, and it behoves the banker to refuse to accept such security, unless he can be satisfied that satisfaction of the debt will come about without recourse to the surety, be he as rich as Midas himself.

If, however, there be consanguinity between the two parties other considerations may in many cases be set aside, for should demand be made upon the Guarantor, the banker is relieved of the uncomfortable feeling that he is causing hardship; he is conscious of the natural love and affection that should exist between those of the same blood, and further he will usually find that the Guarantor will pay up without hesitation or demur.

In the case of the Guarantee executed to act as collateral to security given by a business organisation the foregoing does not apply. Such an arrangement is a purely utility one, and the banker need not concern himself to the same extent should he have suspicions when granting the loan that he would have eventually to exercise his rights and privileges as contained in the document.

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It can be seen, then, that the Art of Lending goes further than merely looking to the safety of the bank. Let us take the case of the customer, usually a woman, who covets a house and is determined to possess it, regardless of her income. She may offer her banker security which allows for ample cover in all contingencies; she may be one of the highest integrity, but if the interest charges and other outgoings outweigh in relative value her net income then the loan will be refused, for were it granted the banker would not be assisting the proper comfort of the borrower, and trouble, lying ahead, would fall upon both as sure as night follows day.

There exists among certain townsmen the belief that farming is a profession which demands only common sense and a reasonable amount of liquid capital. So with dreams of bright spring mornings and acres of waving corn, the customer decides to sell the business which, because of his enterprise and specialised knowledge, is a marketable asset, and to 'go in' for agriculture. Such a course is commendable and indeed desirable if the customer has sufficient liquid assets to withstand the strain of little knowledge, of bad crops and adverse markets. But if he confronts his banker with a proposition of lending against the freehold deeds of the farm, and the banker knows that, apart from the security offered, his resources might, through the reasons mentioned, be strained to an uncomfortable extent, then he would be wise regretfully to decline the accommodation. He would be employing his art in weighing up, not the customer's integrity, nor his financial position

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(which might be quite strong), but the competence of his customer to endure in a very exact and difficult science about which he knows little or nothing.

The foregoing are a few of the many everyday propositions that are put before a bank manager in an average branch of a Joint Stock Bank and they are intended to show that the banker in this country under the present system, which has been built through trial and error over some centuries, takes into his deliberations when lending, not only the safety of his bank but the impact upon his customer of the facilities given. Whether they be loans granted within the limits of the manager's discretion or whether they be vast sums that are daily lent to the great industrial concerns of the country, the same doctrine and principles are applied.

The stability of British banking has been based on the cautious policy adopted by those who govern the destinies of the great banks. There are criticisms that the caution has been over-emphasised to the detriment of trade expansion, but such criticisms are without sound and logical foundations. Within their limitations the Joint Stock Banks are willing to lend to credit-worthy customers providing that they can be satisfied that the monies so placed at their disposal will be used wisely and for the benefit of the borrowers and that they can foresee repayment without hardship, unpleasantness or disaster.

There are many (and included in these are some who hold positions of authority and influence) who do not appreciate, apparently, that no Joint Stock Bank has an

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inexhaustible supply of credit, and, further, that they do not create this commodity but merely distribute it at their discretion and with a very high sense of their responsibilities. The amount of credit that they have at their disposal depends very largely on the Central Bank, i.e. the Bank of England. This august institution can, by open market operations, namely, by purchasing or selling securities, vary the amount which is available by the Commercial Banks. That it has great power cannot be denied, but can it be said that it has abused it or that it has not ever before it the doctrine of 'the proper comfort of the borrower'?

I hope, Anthony, that the foregoing will give you some idea of the 'other man's' point of view. So often the banker is confronted with a request which he feels bound to treat as one to which he must give an answer 'in a posture of polite negation'. If the customer had only realised the requirements to borrow before he placed his proposition before the bank, he would not only have saved himself trouble, but would have avoided the inevitable disappointment on hearing that the proposal was not an acceptable one.

Letter No. 6

GROWTH OF BANKING

THANK you for your letter in which you say that you would like to know something of the constitution of banking in this country. I quite appreciate that, in dealing with an institution, it is helpful and interesting to know something of its make-up and origin, although I don't mind much whether my fishmonger's business was founded in the present year of Grace or whether it has its roots in history. Providing it supplies me with fish that is fresh and that the queue outside is not too long, that is all that really matters. But I agree that there is something much more personal in my dealings with my bank. You will have gathered from my previous correspondence that it does form an integral part of my personal economic life, and that, providing that my association with it is pleasant (and that rests entirely with myself), it provides the oiled wheels of the machinery which carries out my financial transactions whenever I instruct it to do so.

I could not do better than recommend to your notice Bagehot's *Lombard Street*, for it is a fountain of knowledge, and, although written in 1870, since when certain aspects of banking have changed, the fundamental prin-

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ciples remain, and will continue to do so, no doubt, as long as Economic Man exists. Perhaps the most revolutionary change has been the recent nationalisation of the Bank of England, but even that startling metamorphosis lies more in the letter than the essence, for the Commercial Banks have for some long period acceded with good grace to the wishes of the Old Lady of Threadneedle Street. Of her, the old darling, I will write later, but first you would, I expect, like to know something of the origin of banking.

There is evidence that one thousand years before Christ the Babylonians carried on this profession. Presumably, in essence, it exemplified the bare bones of our present system, whereby, as Bagehot says, a very large number of persons agree to trust a very few. This Churchillian phrase is apposite, and we may take 'trust' as the operative word, for confidence in the banks of this country is undoubted and not ill-deserved and their integrity has gone far to place them in the forefront of institutions of the kind throughout the world. The early Babylonian bankers were, if we are to believe conjectural history, the custodians of other people's valuables just in the same way that the Goldsmiths, later, in Mediaeval England, offered their services for this purpose. But the Goldsmiths went further. They conceived the idea, not only of taking for safe-keeping the citizens' money, but of lending it to other citizens, charging a fee for the assistance given. There was, however, one overriding factor, and that was the ability to repay the depositor without hesitation or demur. They

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discovered, however, by experience, that there was always a surplus of unwithdrawn sums, and that it was most unlikely, so long as they held the confidence of the City, that all the depositors would want their money at the same time. With conditions such as these the Cheque and Bill system came into being, for the trader found it inconvenient to withdraw actual cash every time he wanted to pay a creditor, so he was permitted to write out an order upon his Goldsmith whereby the recipient could go along to this gentleman and demand and be paid in coin. On the other hand he could pass the document on to someone else in payment for value received with the same rights and privileges attaching thereto.

From these early beginnings, then, emerged the banker proper. Usually he was an individual who because of his position in the district, and the good name that he held, had built up a sense of trustworthiness among his neighbours. Often he was a local business man or a landowner, but whoever and whatever he was he relied on his integrity, and the townsmen were content to place their money in his hands. Compared with the gigantic figures now shown in the half-yearly bank statements, his resources were limited, but usually they were sufficient to meet the demands of his circumscribed clientele, although cases did occur more often than was pleasant to contemplate, when a bank crash caused havoc among his depositors. Such unhappy events were usually precipitated by panic; the consequence of rumour as to the bank's stability. The result was a 'run on the bank' with excited customers clamouring

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and yammering to withdraw their balances. Whether or not the old story of the inspired banker placing gold money-bags filled with coppers in his window to allay suspicion and to ease the situation generally is true does not matter, but it does go to show that the banks in those times were hard pressed periodically, and were not above resorting to measures the like of which to-day would be unthinkable.

Although the association between banker and customer was tinged by a certain lack of financial safety, it did embody an intimacy which was cherished by both parties. The banker whose whole business was domiciled in one office in the town where his customers either resided or lived in the surrounding country, knew each one, often by their christian names, but always sufficiently well to sum up their credit-worthiness without hesitation. To this day the bank-manager's private room is referred to in official plans as the 'parlour'; a legacy from the time when the banker utilised one of the downstairs rooms of his house as his office.

The times about which I am writing, the Georgian, Regency and Victorian, were leisurely. The pre-motor car, the pre-aeroplane and the pre-cocktail period held a charm in spite of bad plumbing and the highwayman. It was an era that allowed good work to be done without haste or the necessity of watching the clock for the 5.25. The consequence was that the book-keeping of these Private Banks was undertaken by men whose craft of penmanship was one in which they were proud to excel and the bank-books,

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many of which are preserved in the archives of our great institutions who have long since absorbed their lesser brethren and destroyed their identity, are classical examples of superb clerkship.

The spread of the banking system continued with ever-increasing speed throughout the nineteenth century and by the end of it every town of any reasonable size possessed at least one bank. Usually it was named after its proprietor, such as Gurneys, Lloyds, Goslings, etc., and many proved themselves to be worthy of the trust placed in them. They had, however, this disadvantage, they were limited in their resources. It is true that the Bank of England was inclined, if it considered the required help justified, to assist them over temporary difficulties, but it became more apparent as time went on that, in order to be in a position to give proper and secure service to their patrons, amalgamation was imperative. Gradually these amalgamations took place with the result that the great English banks of to-day can be counted on the fingers of the two hands.

The Bank of England, founded by William Paterson in 1691, not only looks after the accounts of the Government and manages the National Debt, but acts as the bankers' bank. All Joint Stock and some of the Private houses keep their accounts with it, and for some years now it has confined itself to these principal duties, refraining from competition with the Commercial Banks, but using its influence with them in framing financial policies. Until 1945 it was a privately owned concern, and divided its available profits among its stockholders. Now, as you know, it is owned

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by the State, and it remains to be seen what advantages, if any, will accrue from the change of ownership. Mind you, I don't think that its nationalisation represents anything particularly Socialistic, for the Bank of England was almost unique as a Central Bank, and in nearly every other country in the world such an institution is State-owned.

One can appreciate the stupendous rise in the monetary system in Great Britain when one contemplates, not without a smile, perhaps, that within three years of its establishment it found itself compelled to suspend payment. Just try to imagine the effect now, both on the world in general and the British Commonwealth in particular, if the Governor and Company of the Bank of England announced that it could no longer meet its obligations.

In 1720 it found itself perilously near to being involved in the South Sea Bubble, the consequences of which are well known to every Preparatory schoolboy, and in 1745, the public confidence somewhat shaken by the events leading up to that period, a run took place on the Bank when the Directors with Gilbertian foresight arranged that the employees should present notes for payment and that the 'Tellers' should pay out in sixpences. The faithful servants then doubled round to a side door and paid them in again. This cumbersome operation delayed events and held up the impatient depositors long enough for some improvisation to take place, and the day was won. But it weathered the intermittent financial blizzards, gaining as it went an increasing stability and good name, until now it enjoys a reputation second to none of its kind and under normal

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conditions attracts the surplus monies of all nationalities.

Among other privileges the bank has, to all intents and purposes, the sole right to issue notes in England. In 1844 there were two hundred and seven Private Banks and seventy-two Joint Stock Banks enjoying this privilege, but by 1921 the last of these issues had lapsed. You will notice that even the £1 and 10s. notes which represent the bulk of the currency in this England of ours are of this kind, although there was a period between the two wars when these instruments were drawn on the Treasury and known as 'Treasury Notes'.

The Court of the Bank of England decides the changes in 'Bank Rate'. This magic phrase, now less upon the lips of the people than in former days, expresses the advertised rate at which it will discount, i.e. lend against, bills of exchange. But the decision has far-reaching effects, for upon the Bank Rate depends the amount which the Commercial Banks are willing to give as Interest on Deposit accounts and to charge for Loans and Discounts.

In happier days the Bank Rate was news, and an eager City waited every Thursday at the steps of the Bank of England for the announcement marked on a board and held by two bedizened flunkeys, but for many years, except for a short period during the war, the Bank Rate has stood steadfast at the low figure of 2 per cent, and with an era of cheap money before us it looks like remaining so.

To return to the Joint Stock Banks. What are the services that they give?

Briefly, they are as follows, although there are others

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which in this letter need not be mentioned, for they will not affect you until you have grown large enough to take advantage of them. Firstly, then, they take care of your money, and on demand issue it to whomsoever you direct. They lend you other people's money under conditions which I have already described. Should you require to place personal valuables with them and providing they are not too cumbersome, they will hold them as 'gratuitous bailees' charging nothing for the service, as the words signify. They buy and sell Stock Exchange securities on your behalf and in doing so they will make themselves responsible for 'good delivery'. They undertake to make out your Income Tax Returns and will arrange to obtain any rebates that may be due to you. They pay your club subscriptions, school bills, rent or any other disbursement that you may so specify under 'Standing Orders'. They recommend you for a passport, if they think that you are justified in having one. They collect the interest on Bearer Bonds by cutting off coupons and presenting them to the relative authority, crediting your account with the amount due. When conditions are normal, they dispatch money to any country required either by Telegraphic or Mail Transfer and on doing so are prepared, if you so wish, to see that the person to whom you are sending the sum is advised that it is held at his disposal upon identification. They issue world Letters of Credit encashable in any large town throughout the world, and Travellers Cheques encashable at almost any important hotel if a bank be not handy. They act as Executor of

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a Will or Trustee for a Settlement and should it be necessary attend to the funeral rites, dropping a discreet tear in the churchyard without extra charge. As they are prepared to open a Savings Bank account for you as soon as you are born into this economic world, one might say, without undue exaggeration, that they are prepared to look after your financial interests from the cradle to the grave.

I have tried in my letters to emphasise the position that the banks hold in the economic structure of Great Britain and her Dominions overseas. It is a state the like of which compares favourably with the standing of banks in other countries, although I would not suggest for one moment that stability is not apparent in many of them. But ours are unique in this respect: they set their face against indulgence in interests outside the specific business of banking and its attendant affairs. Whether they be right or wrong the fact remains that the banks in America and other countries take an active part in the management of industrial concerns, and because of this it is conceivable that they do not hold quite the same respect of the public as do ours. The unqualified confidence that British banks enjoy has become so much to be taken for granted that it is sometimes overlooked.

Let me give you a simple but, I think, an apocalyptic example. Many years ago when Carruthers was a cashier, a large well-dressed man pushed his way through the little crowd who were waiting to be attended to at the counter, and threw a small paper parcel upon it with the words, 'Look after that till Monday, will you?' Neither

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Carruthers nor the man had ever set eyes on each other before, nor had this abrupt individual an account with the branch. Without further explanation he disappeared through the revolving doors. On the following Monday he called for his package, and fortunately Carruthers was at that period of the morning in attendance; for you will appreciate that the stranger had received no receipt or other document of title and the only satisfactory claim he could put forward was one of identification. Upon receiving the article he asked Carruthers whether his curiosity was sufficiently strong to wish to know what its contents were. On receiving an answer in the affirmative, he opened the package and displayed a quantity of loose diamonds, the value of which, it was stated, was £50,000! It would have added lustre and colour to the story if I could have told you that the visitor was a noted burglar who wished to place the sparklers in some secure place while he made a successful get-away until the hue and cry had calmed down. But I must be honest. The gentleman was nothing more than a Hatton Garden merchant who, following the habit of his kind, carried his stock-in-trade upon his person. Evidently he was about to go away for a week-end and finding himself far from his own safe, decided to put it in Carruthers'. Here was confidence shown, not only towards the bank but towards its humble official, for Carruthers, had he wished, could have denied any knowledge of the man or his precious possessions, and, further, he could have absconded with this pleasant little fortune and have set up house in some convenient place, say, on

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the Italian Riviera. And what is more, the diamond merchant would have had no recourse to the bank, for he took no receipt, nor gave his name in order that it could have been recorded in the books for safe custody.

To what other stranger would he have committed his worldly possessions? I have been trying to think, but can find no answer.

Well, I must end now, for I hear the dinner gong. With a complete absence of staff, punctuality is the very essence of domestic harmony!

Letter No. 7

DEBT

I COULDN'T help thinking after I had returned from a day's shopping with your mother, and had sufficiently recovered, with the help of what little remained in the old decanter, that, as I have already said, Economic forces are as strong and irresistible as Natural forces, and that the power of money, in its urge to fulfil its proper functions, is somewhat alarming. Here we are in this year of Our Lord 1948 confronted with the strange paradox of the country's purchasing power far transcending the amount of purchasable goods. Before the World War, the reverse was the case, and this applied not only to our own dear island, but to most other countries throughout the globe. There was, in fact, an overwhelming surplus of manufactured articles because production—the result of effort and a desire to achieve—had flooded the markets far beyond the capacity of the purses of the people. It is disconcerting to have things the other way round. At present there lies a vast pent-up force represented by uninvested money, trying to release itself from its confinement, and in spite of the efforts of Government is managing, to a limited extent, to be successful.

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The natural function of money is to serve as a medium of exchange for goods and services. But many of these, as we knew them prior to 1939, are now relegated to the limbo of forgotten things; and with what result? We find not only the shops that supply essential goods, but those that sell often quite useless articles, flourishing as green bay trees. We do not deplore this. It is good to see success around us, but we do not like to have to pay prices which are fantastically out of proportion to the real value of the goods sold, and yet, because of the importunity of money, we continue to buy them. We can go farther than this, and can note that this great dammed-up stream is overflowing its banks into such unproductive channels as the dog-racing track, the racecourse, and the theatre. It is true that some of the flood-water is directed into Government Stock investment, some into the industrial securities that are daily purchased on the Stock Exchange, but a considerable proportion flows into the banking accounts of those shop-keepers who are taking advantage (and can you blame them?) of the unique situation.

Of course, the remedy in so far as one's personal expenditure is affected lies in restraint. But the irresistible force is not coming up against an immovable object. Our desire to purchase is strong, and to change the metaphor, our money burns a hole in our pockets. It is permissible, and I must say extremely pleasant, to fritter, but the frittering should be kept in check, and on most occasions considerable thought and sound judgment need to be exercised in laying out our cash.

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All this leads to the unpleasant subject of getting into debt. The Debtor's prison is now only a Dickensian memory, but many of the penalties that attend the debtor remain. This tragic spectacle has been for generations a stand-by of the novelist and dramatist, for the subject can move the reader or the audience to tears with a facility equal to the tragedy of unrequited love. It is so easy to get into debt; it is so difficult to get out of it, and for this reason I ask you to be ever watchful in the matter of balancing your domestic budget.

What are the causes that lead to financial embarrassment? They are, unfortunately, legion. If we were to make an analysis, we would first find that the basis of all debt lies in Credit, for if it did not exist, every transaction would be subject to a cash payment, and only when we possessed the necessary cash would we be able to make the required purchase. But Credit exists, and indeed without it, it would be a sorry world, devoid of commercial confidence and trust, with everyone suspicious of his neighbour. It is wise not to take advantage of Credit unless you have first considered the possibility of meeting the obligation. As a reasonable-looking member of society, you will find Credit waiting round every corner bedecked as an alluring jade. Make love to her, if your conscience is clear, but shun her if you feel that by courting her you will one day bring unhappiness upon yourself and her relations. Credit then, being part of the economic fabric, the possibilities of getting into financial trouble are fairly obvious.

DEBT

In my first letter I referred to a desire to compete with one's associates in the matter of a standard of living. Unfortunately, a standard of living is not always correlated to a standard of income. The desire to keep up with those whose social existence is comparative to our own often leads to extravagance; for what is extravagance in A is not necessarily so in B. Such foolish vanity is indefensible and cannot be regarded by any sane person with equanimity. Only the weak-minded and those devoid of sound individuality succumb to it.

There are others whose self-indulgence overcomes with pathetic insistence their will to go without. They form that class of society that are incapable of looking in the shop windows and passing on with a resigned but perhaps disappointed shrug of the shoulders. Sometimes they gaze too long and intently at the enticing bottles that decorate the shelves behind the bar at the local, for strange as it may seem when one realises the gastronomic limitations of man, it is possible to drink away quite a goodly proportion of one's estate. It would be strange if I did not refer to fast women and slow horses, to which can now be added bad greyhounds, but these subjects, important as they are, do not really come within the range of this letter. They would the better be considered in one dealing with the design of living as viewed through the eyes of a Moral Philosopher. Nevertheless, the old tag, *Faber quisque . . .* is very true, for we *are* architects of our own fortunes although our edifices are sometimes overwhelmed by forces over which we have no control.

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For instance, we may derive our income from a company who, through adverse trading conditions or other causes, reduces its dividends without warning. We may have enjoyed a stable income therefrom for many years and have budgeted for our domestic expenditure accordingly, availing ourselves of the privilege of Credit in the knowledge that at the end of each half-year we should receive a hitherto specified sum. We might then find our expenditure exceeding the income by the amount of the diminution of the dividends and with consequent debts. Our fault would lie, of course, in our short-sightedness and stupidity in so assessing our available spending power that we made no due allowance for a crisis. The margin which I mentioned in my first letter would have been missing, and we would have been living right up to our income. Try and cut your coat according to your cloth, leaving over a surplus for repairs.

While I deplore the leather-purse man, by which I mean the individual who looks at every penny before he spends it, I do think it advisable to draw up some kind of budget as a guide to spending. As a bachelor this piece of elementary accountancy is fairly simple, but as a married man and a householder with a family the items become not only more numerous but more difficult to name. In the case of the latter, one finds that he is sometimes 'over-housed' with rent and taxes, rates and outgoings out of proportion to the rest of his liabilities. At a rough estimate the rent or interest on the capital necessary to purchase leasehold or freehold should not be more than 12 per cent of the

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gross income. I must qualify this by saying that such a figure depends on whether he has a family and at what stage they have arrived in the course of their education. A married man without children might go beyond the 12 per cent limit, but he would be ill-advised to do so if there existed any likelihood of his becoming a parent, and anticipated school bills in the future. Let us take the example of a married man with one child, where the gross earned income is £500 a year.

	£
Rent or interest on purchase price of house	60
Rates	20
Heat and Light	22
Insurances	5
House-keeping money (£2.10. 0. per week)	130
Holidays	25
Clothes (in couponless days) for three	35
Education (early stages)	30
Doctors' bills	15
Income Tax (Finance Act 1946)	
After due allowances	67
	409
Balance	91
	£500

A bit revealing, isn't it? Figures are like that; for it is only by accountancy that we are able to arrive at a proper and acceptable picture of a financial state of affairs. To go blundering on in the fond hope that it will all come out

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in the wash is just courting disaster; a pleasant attitude of mind, I admit, divorced from immediate worry and anxiety, but one that can only be compared to that of the proverbial ostrich who, in its stupidity, clings to the meta-physical doctrine of *cogito ergo sum*.

I referred to the penalties attaching to debt. Not the least sinister is the damaging effect the knowledge of it has upon a debtor's financial morality. There was once a man whose attitude to life was decent, honourable and kindly. As a member of a learned profession he was liked and esteemed by those with whom he came into contact. In his younger days he played excellent Rigger, enjoyed the confidence of his friends and, notwithstanding a certain reluctance to appear a good fellow, was open-handed and ready to assist those in need. One day he found himself, through circumstances outside his control, embarrassingly in debt. At first he made gallant but unsuccessful efforts to recover himself, using what ability he possessed to increase his income and to meet his creditors. But in this respect ill-luck dogged his footsteps and instead of his difficulties decreasing, they became progressively greater. Whether or not his friends in some measure came to his rescue, I don't know, but the fact remains that he changed from decency to disrepute, using underhand devices to obtain money, deceiving his creditors by lies and subterfuge, until overcome by his unhappy condition he ended his life. An unpleasant story, but not uncommon in character.

You will, I feel sure, forgive me if I appear to be

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endeavouring to lead you into a state of inspissated gloom, but I must give you a brief outline of another of the penalties attendant upon debt, and that is Bankruptcy. I do not anticipate for a moment that you will ever find yourself floundering in this Stygian creek, but it's just as well to know something about this morbid subject if for no other reason than to use the knowledge as a warning against debt.

The origin of the word Bankrupt is interesting. In the early days when banking possessed but a fraction of its present-day stability (you will remember my previous letter on the subject), bankers did periodically go bust. When this occurred their bench or banco at which they transacted business was broken by their irate customers. While such an action doubtless relieved the pent-up feelings of the victims it did little to assist the wretched money-lender to recover his equilibrium, and as a term implying a certain condition not divorced from opprobrium, the word Bankrupt came into the vocabulary of financial terms. (*Banco* : bench. *Ruptus* : broken.)

Bankruptcy arises when a person is unable to pay his debts, his creditors have proved their claim in court, and the debtor is adjudicated bankrupt. You may well ask : with what advantage do the creditors obtain this Order? The answer is that the wretched debtor cannot increase his indebtedness—thus weakening his financial position—nor can he any longer have any power over his assets, which by reason of the process of the law are vested in the Official Receiver, who, using discretion as to likely and

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profitable markets, realises them and divides the proceeds among the creditors at so many shillings in the pound, dependent on their value in relation to the amount owed.

Before one can become bankrupt one has to commit an 'act of bankruptcy', but as these are somewhat numerous and would involve the explanation of legal terms, unnecessary in this letter, I think it sufficient to say that they are eight in number and include the assigning of a debtor's goods for the benefit of his creditors generally; leaving or remaining out of the country, absconding from the usual place of business or abode or beginning to 'keep house' (i.e. shutting himself in and refusing to meet his creditors); and assigning his goods to a friend or relative with fraudulent intention of preserving them against acquisition by his creditors.

A bankrupt during the period of his undischARGE (for he can work his passage to become discharged) is disqualified from :

- (a) Sitting or voting in the House of Lords or the House of Commons
- (b) Acting as a Justice of the Peace
- (c) Holding the Office of Mayor, Alderman or Councillor, guardian of the poor, member of a sanitary authority, member of a school, highway, burial or vestry board
- (d) Incurring a debt of ten pounds or upwards without informing the person concerned that he is an undischarged bankrupt

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and (e) Trading in any name other than the one he was using when he was adjudicated bankrupt without disclosing to all concerned the name under which he was so adjudicated.

You see what a miserable existence the poor devil must lead. Not only is he debarred from sitting in the Houses of Lords and Commons, but is even debarred from the exhilarating public office of member of a burial board, or a sanitary authority. What I really wish to convey is that, in a sense, a bankrupt is an outcast. He may be the best fellow in the world; a plus-four golfer, a fine cricketer, the life and soul of a party, but apart from his most loyal and intimate friends, his existence is one divorced from the usual easy workings of ordinary intercourse, and until he obtains his discharge, his life is confined and limited by legal and social boundaries. As I said, he can work his passage. By application to his work and careful savings, or by a turn of his fortunes whereby he finds himself the beneficiary under a Will, he might be able to pay off, if not in full, at least the greater portion of the outstanding debts after the creditors have received their original dividend upon his adjudication.

Don't run away with the idea that because a man gets into debt he necessarily files a petition in bankruptcy. Debts can sometimes be got out of without that unhappy occurrence. The chief thing to bear in mind is: *Don't get into debt.*

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Letter No. 8

THE LIFE POLICY

THE very antithesis of over-spending is saving. Savings are represented by the surplus of income over expenditure. There are several ways of saving. A citizen may place the sums reserved into Government or Industrial securities; he may put them away on deposit in a bank or building society; he may purchase goods which are readily marketable; or he may 'take out' a Life Policy with an Insurance Company. I propose in this letter to deal with the latter, for I think that such a method is particularly acceptable and beneficial to anyone starting out in life, for the Premiums—the annual or monthly payments made—are very reasonable when the life assured is a young one; and, further, the rewards derived are such that in the event of death, providing it is not brought about by way of suicide, the dependants benefit immediately even should the terms of the policy be demanded the minute after the Company have issued the policy. I was scrounging round the other day to find out something of the early history of Insurance, and I discovered that the Romans, realising that life was but an allotted span, brought into being a class of mutual insurance which took the form of burial

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clubs. These provided sufficient funds to give the assured decent interment, for it would appear that the Romans in this respect did not differ materially from ourselves, and that the thought of a pauper's grave was as distasteful to them as to us, and they appreciated that this grim spectacle could be avoided by using foresight in making proper provision during life. From these immature beginnings developed the Life Policy with the application of an idea winding its way throughout the Continent of Europe until it reached the British Isles and from thence to all civilised parts of the globe.

There are two principal forms of Life Policy: the Whole Life and the Endowment. The first provides for the payment of a specific sum upon death, the other not only makes like provision but in the happy event of the assured living for a specified number of years provides for a payment upon his reaching that period of his existence. It is natural to suppose that the premiums are higher for an Endowment Policy than for a Whole Life, and indeed such is the case, but of the two the former is obviously more attractive. Let me give you a few examples quoted from a prospectus of one of the leading companies:

For every £100 payable to Assured

<i>Birthday Age Next</i>	<i>Whole Life Annual Premiums</i>	<i>Endowment 15 yearly Payments</i>
20	£ 1 10 6	£ 6 4 2
30	£ 1 18 4	£ 6 4 9
40	£ 2 11 9	£ 6 7 3
50	£ 3 14 10	£ 6 14 4

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You will see that in the case of a Whole Life the difference in premium between taking out a policy when one is rising 20 and when one is rising 50, is £2 4s. 4d., while in the case of an Endowment the difference is only 10s. 2d. I suppose the reason lies in the fact that the Insurance Company only carries as risk for a limited number of years in one, while in the other it is liable to pay up at any moment during the whole period of the citizen's existence from the time of establishing the policy to the time of his death, added to which the fact has to be faced that as one grows older the expectation of life becomes briefer.

During the course of the policy, except for the first two years, it assumes an increasing Surrender Value which brings it into the realms of saleable or mortgageable instruments. The amount of the surrender value, while dependent upon the amount of premiums paid, does not run concurrently until near the maturity date, for the Company deducts a sum deemed equitable in payment for the risk that they have taken against death occurring during the period of the assurance. Nevertheless, it is a consoling thought that our savings are liquid for the most part and that they can be withdrawn should a crisis occur, although a Life Policy should only be surrendered as a last resort.

A Life Policy has this additional value, it allows an Income Tax payer to have an easement assessed on the yearly premium paid, up to one-sixth of his total net income or up to 7 per cent of the sum assured. But the main virtue lies in the comfortable feeling that should one die, one's dependants, actual or potential, will have some provision

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made, and, moreover, in the case of an Endowment Policy one will enjoy a lump sum very possibly at a time when it is most needed.

Before a Company will accept you as a 'life case' they will require a medical certificate, either from their own doctor or yours. One cannot blame them for being curious as to what is your expectation of life, for you will readily appreciate that they are in a sense backing your ability to pay sufficient annual premiums to cover the amount that they will have to pay out to your executors.

This is an additional reason why it is advisable to take out a policy before the slings and arrows of outrageous fortune have begun to play Old Harry with your constitution; for once you have been accepted and you continue to pay your premiums, all the ills to which man is heir will not alter the conditions of the policy nor relieve the Company of its obligations as existing at the time of its issue. I have given you the two principal forms of Life Policy, but there are others which contain a variety of additional benefits. The particulars of these can always be obtained from the Insurance Companies, who are anxious to give every assistance possible in advising upon the most suitable to be considered.

As to other forms of insurance, such as Fire, Burglary, Motor, etc., these are so obviously necessary that I need not comment upon them. It is, however, poor policy to under-insure. Our comings and goings are fraught with dangerous influences and it is: as well to be safeguarded against financial loss when they impinge on our well-being.

Letter No. 9

THE STOCK EXCHANGE

THE following passage is culled from to-day's *Financial Times*:

'Gilts develop strength. Old Consols lead rise. Colonial Government Stocks remain very quiet but firm. Brazilians were dull on modest realisations. Motors were still in the doldrums. Industrials mainly firm. Brewery shares were moderately active. Rubber remained easy.'

What does all this jargon mean? In simple English it can be translated thus: Gilt-edged securities, such as British Government Stocks, while not enjoying any great rise on the market, were improving in an unspectacular manner in price, and that there was a steady flow of buyers throughout the country, among which the majority were those who favoured the old 2½ per cent Consols. Colonial Government stocks, however, were neither bought nor sold to any marked extent. Brazilian State Loans were sold in small amounts, and that there were no bidders about asking for prices. Motors, such as Austin, Morris, Standard, and Ford, were just being ignored by buyers—nobody was

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taking any interest in them—and the prices were therefore slightly easier. Industrials, by which is meant concerns such as Imperial Chemical Industries, Selfridges, Electric Supply Companies: indeed, most names which are familiar to you in connection with trade and industry, were holding their ground in price, consequent upon there not being a majority of sellers over buyers or buyers over sellers. On the other hand, as an exception, Brewery shares were in moderate demand. Rubber Company shares were slightly lower in price but not seriously enough to keep owners awake at night.

The Stock Exchange, as its name implies, is an institution on which the various members buy and sell specified stock and shares on behalf of their clients. The membership is divided into two classes: the Stockbrokers and the Jobbers; the former who act for the public on commission, and the latter who act as middlemen between Brokers who have stocks and shares to buy and others to sell. Its integrity and standing is comparable to the other great financial corporations, such as the Banks, the Insurance Companies, Lloyd's (a society of insurance syndicates) and the Building Societies. Indeed, I think it is a matter of some considerable satisfaction to all of us to know that we are the descendants of those great visionaries who, by careful attention to the ethics of good citizenship, have established these solid bodies in whom we can place our trust without equivocation or mental reservation.

Occasionally, however, but very occasionally, a firm of Stockbrokers are 'hammered'. By this I mean that they

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find themselves in the terrifying position of not being able to meet their obligations. But this event is so rare that it is not necessary to take it into your deliberations, and you may safely rely on the due execution of your orders with an ultimate delivery of either the stock or shares purchased, or the proceeds from the sale of those sold.

If you glance at the published list of stock and share values in the daily Press you will see the quotations marked either in shillings and pence or in pounds with possibly a fraction added. This price will not necessarily be the one which was charged or allowed you on the previous day's investment or sale. There is what is known as a 'middle price', for the Jobber has to live, and he therefore takes a 'turn' on the transaction, but this has nothing whatever to do with the 'commission' which the Broker will charge for his services and which will be shown, together with Government stamp duties, on the 'Contract Note' delivered to you on the day after your order has been carried out.

Prices fluctuate in a disconcerting way. The share that is worth £2 to-day may be valued a week later at only £1. But these fluctuations work both ways and an equal rise might take place, if news were received on the Exchange or outside that some turn in the fortunes of the company or Government hitherto undisclosed were suddenly brought to light. With Gilt-edged and Trustee Securities—those which the Trustee Act defines as being sound enough to form Trust Funds—little variation takes place unless it be over a long period of time when the wider influences

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of world affairs affect their value because the confidence placed in them has been shaken or enhanced. But the average Industrial share and certain of the Foreign Government stocks are temperamental things and are seriously affected by the winds of rumour and events.

The carefree way in which people place their money in companies or other concerns without knowing anything about their financial possibilities or standing has always amazed me. One would not purchase a house without first being assured that the drains and general structure were sound, and yet a citizen will blithely purchase shares in a company without the faintest idea as to what the company's assets are; whether they are sound; whether it is well-managed, and whether its directors are gentlemen of ability and financial integrity. A 'tip' is good enough. One might just as well back a horse by the simple method of drawing its name out of a hat! Except for this difference. A share has a second chance, whereas a horse, once it has run its course, has no come-back in that race. Nevertheless, the speculator in shares who has not carefully considered what he is buying differs little from the punter who backs a hopeful without first discovering something about its form.

There is a far cry between the speculator and the investor, for the former takes little heed as to the income to be derived from dividends, concerning himself only with the optimistic view that his shares will appreciate in value and the sooner the better; while the latter, devoutly hoping that the capital invested will increase, looks with high

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seriousness to an assured income, blow the winds from North, South, East, or West.

There was a time when the issue of shares in a new company provided one of the easiest but unpleasantest ways of making a fortune. Attractive and seductive prospectuses were printed; advertisements calling upon the public to subscribe were inserted in the daily newspapers, and the Mr. Tiggs of the early twentieth century were reaping rich rewards, and their houses in neo-Metro-Goldwyn style still disfigure the Surrey countryside; sad monuments to man's cupidity. But wise legislation has changed all that. To-day the disreputable company promotor is faced not only with the frustrations of the Companies Act, but also with shrewd legal advisers to the Issuing Houses. No bank or financial corporation will touch his ill-conceived schemes, and without their assistance he is unable to receive what is known as the 'Allotment monies'. His passing leaves me with a warm feeling of satisfaction, for I must say I'm all against crooked dealings, especially when they impinge, as is so often the case, upon the purses of the ignorant and the poor.

Let us suppose, just for fun, that you have £500 to invest.

How are you going to set about it?

Firstly, you will have to find someone who will introduce you to a Stockbroker, or be prepared to place the order with one on your behalf. Personally, I should pay a call on old Carruthers. He will carry out the transaction for you through the bank's brokers, or he will, if you

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wish, introduce you to them, when you could deal direct. I am not prepared to comment on the relative benefits of either, for you will no doubt decide yourself as to which method you prefer, but before spending your money it will be necessary to obtain advice. Carruthers will probably hesitate to give you this, beyond recommending Gilt-edged or Trustee securities, for it has long been the policy of bankers to refrain from this form of service. He will, however, obtain it and pass it on to you with his observations, and you will then decide on the type of investment that you wish to make.

It is possible that you will decide to put half of it into Gilt-edged or Trustee securities. Whatever the sum to be invested, it is always wise to have a foundation of stock and shares which, although yielding low rates of interest or dividends, do insure the maintenance of capital value. This portion of the investment does not require very much thought. The other half does. The old adage, 'Don't put all your eggs into one basket', is very apposite in this case, so that you may sub-divide the remaining £250 into two parts, selecting two good industrial shares.

The list before you, carefully prepared by the brokers, will contain, possibly, about half a dozen names, showing the nominal value (the value shown on the liabilities side of the company's balance-sheet under 'Issued Capital'), the market price and the yield in dividends at x per cent per annum based on the cost of purchase in relation to the presumed or fixed income derived from the distribution of the company's profits. It is usually safe to assume that

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the higher the yield the lower the likelihood of preserving capital.

Before deciding in which concern you will invest your money you will have to choose between three main categories :

- (a) Ordinary share
- (b) Preference Share
- (c) Debenture Stock

These are sub-divided as follows :

- (a) Preferred Ordinary
Deferred Ordinary
- (b) Cumulative
Non-Cumulative
- (c) Mortgage Debenture
Income Debenture

An Ordinary Share is one that benefits by way of dividend from the equity of the distributable profits of a company. In other words, the Ordinary shareholder gets what is over after Debenture Interest and the Preference fixed dividends have been provided for. Naturally a Preferred Ordinary shareholder ranks before a Deferred Ordinary shareholder, but both come after the privileged Preference Shareholder, who apart from the Debenture Stockholder has first claim upon the profits. Often the Preference shareholders are divided into two classes as shown above, with the Cumulative Preference shareholder enjoying the benefit of accrued back dividends (usually at a fixed standard of say 4 per cent or 5 per cent per annum)

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should the company find it not convenient in any one year to distribute its profits. The Non-Cumulative shareholder, however, cannot claim arrears, and should the company default in any specific year, well then, it's just too bad. Mortgage and Income Debenture-holders stand paramount and their interest must be paid first. They are not shareholders but lenders to a company and their security is represented by the assets of the concern against which they have lent their money. The only difference between a Mortgage and Income Debenture-holder is that the interest due to the latter can only be paid out of the profits, whereas the former may be paid by the company out of its liquid resources, should occasion arise.

So there are, then, three degrees of security. John, with his analytical mind, will be saying, 'Why on earth should anyone invest his money in anything but Debenture Stock?' The citizen who goes for safety first does not hesitate, for he has the satisfaction of knowing that, in the event of the company going into liquidation, he has first claim on the capital to be distributed, with the Preference shareholders following after, leaving the Ordinary shareholder again picking up the bits and pieces that remain. But there lies in many the desire to obtain a larger income, although attended by greater risk. The yield on a Preference share is higher than the yield on a Debenture in the same company, and the yield on an Ordinary share is often greater still. Furthermore, the Ordinary shareholder will benefit by an increased dividend, should the fortunes of his concern go that way, and sometimes the investor is prepared to

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accept, for the time being, a lower yield than either the Debenture Interest or the Preference dividend if he thinks that the company has good prospects of increasing its profits in the future. The division of capital of a company provides for the diversities of human nature. Some of us are more inclined to take a chance than others; some prefer to risk a capital drop in order to obtain a higher income; while others, more careful, and perhaps less courageous, think first and foremost of security.

I suggested that half your investment should be represented by Gilt-edged or Trustee stock. You would, therefore, be quite justified in putting the remainder into Ordinary shares, and I am going to presume that you have chosen Trouserless Tailors and Water Breweries. You can, if you like, place a 'limit' with your brokers, and by so doing you restrict the price which you are prepared to give to a specified amount. In any case, let us suppose that your order has been executed. From that day, until you sell, the shares are yours and you will participate in the fortunes of the company for good or until you dispose of them.

The following day you will receive by post a 'Contract Note' showing exactly how the sum that you will be required to pay is made up. The summary will include :

Number of shares at so much a share
Stamp and fee
Contract Stamp
Commission

This neat piece of paper is not really a document of

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title, although it does confirm the contract and no one could challenge your right to ownership upon its production.

Before 'Settlement' takes place you will be the recipient of a much more impressive instrument, namely, the 'Transfer Deed'. This is a document that conveys the ownership of the shares from the seller to you, and both he and you will be required to execute it and to have the signatures duly witnessed by someone other than your wives, if you happen to have any. Upon receiving it back, the broker will proceed to have your title registered with the company's Registrar, who will, when he has time and a sufficient staff at his disposal, issue a Share Certificate, beautifully inscribed in copper-plate handwriting, stating that you are duly registered as the owner of a specified number of shares. This pleasant document should be deposited in a safe place, for, although it would be useless to any other person, should it be lost or destroyed, expense and delay would be caused before the Registrar would issue a duplicate.

There are certain types of securities which are in 'Bearer' form. These do not require a Transfer Deed and merely pass by delivery in the same way as do diamond rings or packets of cigarettes. It is obvious that these should never be left unguarded where there exists any chance of their receiving the attentions of those with predatory instincts. The bank is the best place in which to place them, for not only would they be out of harm's way, but the Security Department would collect the dividends or interest as and

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when they fall due, and credit your account with the relative amounts. Unlike the Registered Share or Stock, Bearer Bonds have attached to them sheets of 'coupons' in appearance not unlike large postage stamps. These are numbered and usually dated ahead with the value of the interest or dividend printed upon them. The bank, guided by their records, will, from time to time, cut off the appropriate coupon and forward it to the 'Paying Agents' who, upon due scrutiny as to its validity, pay over to the bank the sum mentioned thereon. Sometimes these coupons have no date inscribed upon them, so that the collecting bank will have thrown upon them the responsibility of watching the advertisements calling upon bondholders to submit their coupons for payment. For all this the bank will make but a nominal charge, and the service that they give well justifies the small outlay.

So now you are the possessor of £125 worth of Trouserless Tailors shares and £125 worth of Water Breweries Stock, and you will await the arrival of the first dividends with a certain pleasurable anticipation. You may, if you like, arrange to have them credited direct to your banking account. Should this be so, you will sign Dividend Mandate forms, which will be submitted to the Registrars of the companies, who will carry out the instructions contained therein. Whether this method be adopted, or whether you receive the Dividend Warrants upon your breakfast table, the amount of the Income Tax ruling at the time will be deducted and will be shown on a separate form, attached to the dividend cheque and termed a 'Dividend Voucher'.

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This part will be retained by you to enable you to reclaim the sum in question should your total income be such that by allowing the deduction to remain you would be paying beyond the amount which the Finance Act requires.

I would not like to appear too didactic on the subject, but I think that a policy, based on wide principles, restricting your investments to concerns domiciled within the British Empire, is not a bad one. It has proved, at any rate during the last ten years, to be sound. You may be tempted to speculate in South American investments—to take an example—but unfortunately the countries comprising that part of the world do not enjoy the stablest of Governments, and who, without hesitation or a twinge of conscience, do, from time to time, exert their influence upon industry with anything but benefit to the shareholders concerned. But casting other considerations aside, there is a warm, comfortable feeling in the knowledge that one's money lies within one's family circle. Try to imagine the state of mind of those investors who, with the object of obtaining higher yields in dividends, placed their money in industrial shares or Government stock domiciled in Europe. It is true that they possessed, in spite of war, the script upon which their title was inscribed; but of what avail was that during the six years' conflagration?

Before I close, I ought to explain a few of the Stock Exchange terms which will come under your notice from time to time.

A *Bull* is a citizen who buys shares in the hope that they will rise before he decides to sell.

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A *Bear* is just the opposite. Do not think that he is a sort of financial pessimist, for he is nothing of the kind. Indeed, he hopes to make money by the fall in the price of the shares. He fervently prays that those that he has sold, but not yet acquired, will drop in value before he has to buy them or 'take them up' as it is known, on next settling day.

Ex dividend: On a certain day and at a prescribed period before a company pays its dividend, the books of the Registrar will be closed so that only those whose names are upon the register at that date will receive the dividend. It becomes obvious, therefore, that the purchaser, as the new proprietor, will not be inclined to pay as much for the shares as he would do if he could enjoy the accumulated dividend. The price of a Share or Stock drops when so marked; and in the case of British Government stock it is usually reduced by the amount of the interest due.

Cum dividend: This term denotes that the buyer of the shares purchases the dividend attaching.

Bonus Shares: Shares that are issued out of the profits of a company in place of dividend. These are not subject to Income Tax.

Capital: The sum of money subscribed to enable a company to have sufficient finance to commence business. It may be increased during the period of the Company's existence by the issue of shares up to the amount of its Authorised Capital. It is represented by shares at a nominal value. The Debenture issue, if there be one, does not come under this heading.

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Balance Sheet: A statement of a Company's affairs at a specified date. It shows the amount of its indebtedness against the amount of its possessions and the sums owed to it.*

Equities: Ordinary shares that participate in the surplus or equity of profits after the Debenture Interest has been paid and the Preference dividend satisfied.

Re-investment: The selling and buying of other shares simultaneously. A half-commission is sometimes saved on the purchase or sale (whichever commission is the smaller). This is, however, at the discretion of the broker and is not a Stock Exchange rule.

Rigging the Market: No, I don't think I'll tell you about this.

If there are any other matters about which you or John need information, do write and let me know. I notice Consols have dropped $1/8th$ on yesterday's selling.

Letter No. 10

THE MISERABLE MISER

THANK John for his message. His query is a good one. Does the making of a fortune bring happiness to the maker? It is always difficult to give a specific answer to a general question. Nevertheless I will do my best, but I do hope that, throughout our happy correspondence, I have not given you the impression that money should be considered of paramount importance in one's life. Never once did I wish to convey this evil doctrine to you, but, in writing on man's personal economic existence, and the various influences that bear upon it as he passes through this vale of tears, I find it quite impossible to keep away from the subject of money, in the same way that a general, lecturing on tactics, would not be able to avoid a reference to guns.

The Money-Grabber presents a sorry spectacle. His life, circumscribed by his financial outlook, misses much of the joy that can be found in other interests to which he is so often, alas! quite insensible; for the acquisition of wealth often becomes an obsession to the exclusion of all else. I suppose that there is a certain thrill about it all, and no one can gainsay that all of us are just faintly envious of

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the man who possesses it. But this insensate lust for money brings nobody happiness or contentment, and, what is more, the Money-Grabber himself rarely enjoys the rewards of his efforts. You must not, however, confuse this pathetic individual with the successful business or professional man. Many of these bring into their daily lives the zest which has been the foundation of their success, and their wealth not only benefits themselves and their families but many others who are in no way immediately related to them. What happiness the Carnegie Trust has brought to millions! And I have no doubt whatever that this shrewd benefactor enjoyed the excitement and skill that brought about the means by which he was able so generously to help mankind.

If you have read your Pepys, you will remember how, periodically at the end of a day, this successful and lovable character was wont to strike a little balance-sheet showing his assets and their progressive increase. I am sure that the pleasure that he derived therefrom lay in the fact that they constituted outward and tangible evidence of his skill and assiduity as a public servant. There was nothing of the Money-Grabber about him; nothing in his writings that gives one the impression that he was financially mean or sordid, but the profit-motive was apparent, although it took second place to his main purpose: the wish to build up a navy that could hold its own in strength and prestige with any other then riding the high seas. Had he been a Miser, counting his gold and lugubriously gloating over his gains, he would not have won the affection and esteem

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that he so deservedly holds in the hearts of the readers of the Diary. We forgive him his failings, not perhaps without a smile, such as we bestow on a naughty but likeable child, for they were those that so often run laterally with the frailties of man. Nevertheless, avarice and greed, had they formed part of his disarming confessions, would have alienated our sympathies, and for all his ability and zeal he would have come to us from the pages of Restoration history a subject for contempt and ridicule.

The Miser, as a despicable being, has played a great part in English literature: not because he was wealthy, but because he treated money less as a medium of exchange than as a god to be worshipped. Did one ever hear of a likeable miser? Could one imagine reading a sign outside the village inn with 'The Jolly Miser' painted upon it? But why not? Collectors of other interesting things can be and often are boisterously happy. I once knew a roaring, laughing, winedrinking Entomologist who possessed the most fascinating collection of butterflies that it has been my good fortune to gaze upon. Was he a kind of lepidopterous miser? Perhaps he was, but no one thought any the worse of him, because his acquisitive character did not lie in the direction of money but in something that possessed an aesthetic and scientific appeal and no one was in doubt as to the pleasure that he derived from collecting one by one these lovely specimens of nature's handicraft.

No, the money-miser holds no place in the social and economic world, but the wise producer of goods and services carrying with him his just monetary rewards not

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only wins our regard but fulfils an essential purpose in the mosaic of the financial structure. The wealth that he acquires is indispensable to the smooth run of the monetary flow. He acquires and distributes; he diverts his commodity into proper and useful channels and his riches, as I have said, often become the means of benefiting mankind as a whole. He sings as he weaves; he enjoys the fruits of his labours; he builds up a sound reserve for the comfort of his family and himself, but avoids with an ever-watchful eye any tendency to the weakness of allowing his better self to become submerged in the vortex of money-making.

I do not know whether I have answered John's question or not. I suppose the complete answer is: There is no reason why the making of a fortune should not bring happiness to the maker, providing he retains throughout his money-making life a proper sense of proportion. By this, I mean that while he should by all means keep the profit-motive before him, he should never allow his work to be looked upon only as a means of building a fortune. The economic laws of demand and supply should so operate that the labourer becomes worthy of his hire, and the index to his usefulness in the industry or profession in which he is engaged should be the upward curve of his balance at the bank, or the increasing size of his pay-packet on Friday nights.

Tell John I hope that one day he will be numbered among the Sur-Tax payers!

Letter No. 11

INCOME TAX!

THE man has yet to be filmed in glorious technicolour who can say with any honesty that he enjoys paying Income Tax. It is the white man's burden and the most optimistic cannot hope for any financial New Atlantis which could plan its national expenditure in such a way as to provide comfort and security for its peoples without recourse to their private incomes. There was a time in our island history when the National Revenue was satisfied by indirect taxation and borrowing, but gradually, as wider responsibilities devolved on the Government as a result of an enlightened sense of its social duties to the masses, it was found imperative to seek other sources of income, and in 1798 Pitt, whose Budget Speech will always be held as a model of Parliamentary rhetoric, introduced Income Tax to the consternation of many and the satisfaction of few. After a lapse of years this form of taxation was again introduced by Peel in 1842 with but an insignificant charge upon the people's purses. But in Gladstone's Budget the Finance Act empowered the collectors to demand no less than 10d. in the pound! and I have heard it stated that there was scarcely a dry eye to be seen for many a day in

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any of the more expensive Clubs of London, for, said the members, the country was going to the demnition bow-wows and only a miracle can save it from financial collapse. But one is almost persuaded to believe that human nature can stand anything, providing the impositions placed upon it are by a gradual crescendo. From a statutory rate of 10d. it has risen in 1946 to 9s., with the very wealthy paying as much as 19s. 6d. in the £, and quite unable to do anything about it. But in spite of a steady increase, reaching its climax of 10s. in the £ during the war years, the taxpayer is still able to bear his burden and to maintain a standard of living comparable with and even better than that of his Victorian forebears. Of course, it is not quite fair to compare the tenpence of that period with the nine shillings of to-day. Money has become cheaper with the result that there is greater abundance, higher incomes, larger bank balances and fatter pay-packets. Nevertheless, while allowing for the change in monetary values, we have to face the fact that the burden of Income Tax is out of all proportion to that imposed under the Gladstonian Budget, and the prayers of the people should ascend to High Heaven asking for some relief, if commerce is to hold its own in the jungle of International trade.

It is obvious, even to those who may have little or no economic sense, that the incidence of Income Tax impinges on the expenses incurred in running a State. The nations who indulge in the somewhat doubtful privilege of waging wars; who with more commendable resolve, decide to assist their peoples in their struggle against the difficulties

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and trials of their daily lives, and who regard security as an essential factor in their political deliberations, must incur financial liabilities far greater than the nations who do not. Such liabilities have to be met, and no one with any moral sense would wish it to be otherwise. It is wise when considering a nation's finances to treat them as those of an ordinary trading concern, and in doing so one may readily appreciate that a Profit and Loss Account that shows payment of debts out of income rather than by selling securities or borrowing is one which would commend itself to us. Unfortunately, Great Britain, as a result of the recent holocaust, has been forced to borrow in order to make up the difference between expenses and revenue (i.e. income), with the result that the National Debt has risen from 8,163 million pounds in 1939 to 25,459 million pounds in 1947, and the interest thereon has to be paid out of the Revenue. By degrees, and as things assume a more normal state, our expenses will diminish and the amount of income required by taxation should drop in comparison. The more income that is left over after taxation, the greater the spending power of the nation, and the greater the spending power of a nation, providing there are adequate goods to purchase, the more prosperous it becomes.

It has been the desire of succeeding Chancellors of the Exchequer to grade proportionately the amount paid by the taxpayer in accordance with the amount of income he enjoys. The underlying principle is not far to seek. Those with the greater incomes have more at stake in the

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country than those of their less fortunate brethren. In using the expression 'more at stake' I refer only, of course, to a financial condition. It would be a violation of ethical reasoning to say that one man has a greater stake in the country than another, except in that way. The wage-earner with his cottage home, his family and his patriotism needs protection, just as much as does the great industrialist or the landowner. But financially his interests are not so large, and therefore financially his burden is proportionately less with regard to contributing to the State's security and welfare.

There are some who explore every avenue which might lead them to some means of avoiding full payment of these onerous sums. The Finance Act provides for every contingency, and the Assessment, by which I mean the computation of the income and the relative tax, issued by the Commissioners of Inland Revenue, is usually correct in every detail. But in arriving at these figures the authorities have, to a great extent, to rely on the taxpayer's honesty when he makes his Return. This Return is a compilation of all income received and to be assessed during the Income-Tax year under review, and may fall under various Schedules in accordance with the character and source from which it is derived. The signing of this document is such that a declaration is made to the effect that the contents are true, and it should be remembered that the penalties for misrepresentation include imprisonment, if the amount involved is large and the evidence proves the malefactor to be just a twister rather than a fool.

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Ignorance or inadvertance are treated by H.M. Inspector of Taxes as human failings and he will, with chilly benevolence, assist in making the necessary corrections. The avoiding of full payment of the just amount due, apart from its immorality, is certain to lead to trouble sooner or later. H.M. Inspectors of Taxes are tough. By this I do not mean that they are not good fathers, considerate husbands or orchid-growers; but when it comes to tracking down the maker-out of false Returns, they display an indomitable will and singleness of purpose that might well be associated with the big game hunter. The wily tax-payer can congratulate himself on getting away with it, but he lives in a fool's paradise; for years after he may receive an uncomfortable communication asking the most awkward questions which require still more awkward answers.

How complex is the mind of man! I have known people who would be horrified if they were accused of slipping an Ace; and yet they will quietly boast to those nearest to them that they have 'done down the Income Tax people'. With quite illogical reasoning they console themselves with the thought that the Government is fair game and that their action is not only financially beneficial, but excitingly praiseworthy. They suffer from a kind of economic split-mind and ignore the fundamental fact that they are causing hardship to others; for it has been said, and I think rightly, that if everyone played the game the rate could be reduced by at least one shilling.

In looking at one's income in relation to one's domestic budget, it is wise to take into consideration the difference

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between the gross and the net amount. Many—but their numbers are now lessened because of P.A.Y.E., where Income Tax is deducted after allowances have been taken into consideration—are wont to spend their gross rather than their net income. This does not apply to the Rentier class, i.e. those who live on the dividends that they receive, because here again the tax is taken off at the source. But it does apply to those who enjoy an earned income and where P.A.Y.E. does not function because they are their own masters and therefore are not in receipt of salary or wages. Things go merrily until such time as the demand for payment arrives in January and July of each year. These sums can then only be met by selling securities or borrowing; in other words, by an encroachment into capital; and it needs no words from me to emphasise the weakness and crass stupidity of this type of personal finance.

The Finance Act varies in accordance with the varying terms of the Annual Budget. You have read the Chancellor's speech for some years now. It sets out (*inter alia*) the future rates of taxation and the various classes of society and commodities and services that are to be taxed during the following financial year April 5th to April 5th. Sometimes there is an increase in the burdens placed upon the citizens; sometimes—but not as often as we would wish—there is a lightening of the load. Whichever way it goes, the Standard rate is the one upon which the other rates and allowances are based, and argue and plead as we may, the bill has to be met with as good a grace as we can assume under the trying circumstances.

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There are allowances about which I will write to you later. There are claims whereby over-payments can be got back from the Revenue Authorities, for not all of us who enjoy incomes sufficient to warrant taxation are asked to pay the full statutory figure, although it will have been reckoned in when deduction at source has taken place on the receipt of dividends. For married men, for those with children still at school, for those who assist in the support of a relative not in receipt of an income of £50 per annum, to name only some, there is a gentle easing down of the demands made. Any citizen who is in receipt of £120 a year or more is subject to taxation, although he may be able to claim exemption, if for some reason or other he can prove his right to some allowance which, when set off against his income, brings it below the figure mentioned above.

I remember one of our bygone Premiers telling a gathering of eager listeners that the experts had agreed that beyond a Statutory Rate of 6s. in the £ the law of Diminishing Returns commenced to operate. This law—theory may be a better word—postulates that, after a certain maximum point, no more can be squeezed out of the public; that a too grasping Chancellor can destroy the source of his supply by lowering the purchasing power of the people, thereby reacting detrimentally upon the fortunes of industry who, because of lowered profits, would pay relatively lower Income Tax. Have subsequent events proved this not to be so? Not quite. A nation can withstand an Inland Revenue blitz only for a limited period;

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it could not continue to exist indefinitely if the burden of taxation remains as at present, a distressing hazard to the even flow of money.

You may feel inclined to say to John that the Old Man is commencing to thrust his political doctrines down our throats. Don't think that for a moment. All I'm endeavouring to do is to express my economic belief in this matter—for what it is worth—in the fond hope that it may give you a basis upon which to form your own.

The following are the Income Tax Rates and Allowances for the Government year 1945-46. It would be interesting to compare them with those that will be in operation when you are, say, my age. The whole Governmental fabric of Finance may then have changed beyond recognition, but I very much doubt it. We are a capitalist country by long tradition; deep-rooted in our bones lie the fundamental principles that have stood us in good stead and have enabled us to inherit the earth with reasonable success. Somehow, there soars above the emotional outbursts of iconoclasts an hereditary commonsense, and in spite of difficulties inherent in any system, the old methods, *mutatis mutandis*, will most probably survive. Whatever be the political doctrines of a party, there emerges a fervent desire to maintain and improve the standard of living of those who, by the machinery of Democracy, have placed their faith in their representatives. During the twenty years preceding the war such noble thoughts had oftentimes clouded our vision and warped our sense of relative values. The comfort of the

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community took first place; its security only second, and each Government hesitated to impose a rate of Income Tax sufficient to provide for both. It was poor finance, as events have so tragically proved, for, in order to continue comfort with security, it is necessary to levy upon the people a tax sufficient to meet the demands of the Exchequer, although not gravely at the expense of the nation's purchasing power. An ever-watchful eye is required by all to oppose with vigour any tendency to unjustifiable extravagance.

You will learn, as you grow older, that the incidence of Income Tax does impinge very seriously on your personal well-being. A drop of a shilling may mean a new car; a rise of a shilling the foregoing a holiday in Switzerland. It is no wonder then that we look forward with interest to the Chancellor's speech each year, for his utterances echo even beyond patriotism; they reach the very centre of our private economic lives.

Let's take a plunge into these figures :

Standard Rate 10s. in every £1. ¹

The first £165 of 'taxable income' 6s.6d. in every £1.

The remainder at the Standard Rate.

How do we arrive at 'taxable income'? It is the total income *less* the following allowances :

¹ 1945 Budget. Things have improved since then. Example given to show what human nature can stand when put to it.

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- (a) 1/10th of Earned Income (maximum allowance £150).
- (b) £80: Personal Allowance
- (c) £60: Wife living with husband
- (d) £50: Each child (until the termination of the educational period)
- (e) £50: Housekeeper. (This has to be satisfactorily defined.)
- (f) £50: Each Dependant
- (g) £25: Daughter kept at home to attend to infirm parent

Life Assurance Premiums are not deducted for calculating the Taxable Income but tax on them is allowed as a deduction from the tax payable. You will remember that in one of my previous letters I explained the working of this concession.

Post-War Credits—documents which are issued by the Government entitling taxpayers to recover certain allowances after hostilities—are issued. These allowances are based on the extra tax suffered in comparison with the 1941-42 Budget concessions and apply to Earned Income, Single Person, Married, Age and small income allowances. This does not concern the P.A.Y.E.ites, for the adjustment is made on the Coding Card. It assists in the understanding of these somewhat complex matters if one quotes an example.

Let us take the case of a citizen with an earned income of £500 a year, who enjoys the privilege of being a husband

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with two children under, say, sixteen years of age and, moreover, as a good son, supports an aged mother who has an income of less than £50 per annum. ¹

	<i>Income</i>		<i>Allowances</i>
	£500	1/10th of income	£50
		Personal Allowance	80
Less		Wife's do	60
Allowances	340	Two children @ £50 per child	100
		Dependant	50
	£160		£340

Tax to be paid would be on £160, as follows :

On the first £165 @ 6s.6d.	£52 0 0
On the remainder @ 10s. (nil)	- - -
	£52 0 0

You will gather from the above that there is a definite intention on the part of the Chancellor to ease the burden of those with domestic responsibilities. Compare the above with the carefree bachelor who earns the same amount and finds it not necessary to support an aged parent.

	<i>Income</i>		<i>Allowances</i>
	£500	1/10th of income	£50
Less		Personal Allowances	80
Allowances	130		
	£370		£130

¹ 1945 Budget.

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Tax would be paid on £370, as follows:

On the first £165 @ 6s.6d.	£53 12 6
On the remainder @ 10s.	
(i.e. £205)	102 10 0
	£156 2 6

Over and above Income Tax, the wealthy are privileged to pay a further sum previously known as Super-Tax but now, for some incomprehensible reason, designated Sur-Tax. This is chargeable upon all incomes exceeding £2,000 a year. Unless you prove to be a wizard at your job, it is unlikely that you will be called upon to pay this for some years. It does, however, fall to be paid in early life by some; for should a young citizen find himself the beneficiary under a will with the happy result that he benefits from the consequent income to the prescribed amount, he will have to meet this charge, for Sur-Tax applies to those with unearned as well as earned incomes. The additional burden amounts to 2s. in the £ on the first £500 above £2,000, increasing to 9s.6d. in the £ for those enjoying an income of £20,000 a year and upwards. These pathetic creatures are then paying no less than 19s. 6d. in every £! A little grim, don't you think?

The foregoing represents the mere skeleton of the vast and complicated machinery which gathers in the National Revenue from Income Tax, but it should be sufficient to give you some idea of its workings. Before the ink is scarcely dry on my nib, alterations are coming into being and will operate during the next financial year. I have

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purposely quoted figures as they stood in the last of the War Budgets, because I think that they represent the very peak to which any Chancellor can aspire, and therefore may be taken as a standard against which other, and I hope far gentler, burdens can be compared in the future.

Letter No. 12

FINANCE AND MARRIED HAPPINESS

I AGREE with you when you say that my last letter dealt with a matter, chilly and perhaps a little disturbing. Income Tax is just one of those things; but like the rain from heaven it falls on the just and the unjust, and if we can adjust our minds so that we can say 'kismet' without regret, we shall go some way toward facing up to its impact in a spirit of noble resignation.

Your query, 'What is the use of working beyond a certain degree of pressure if, in so doing, one merely hands over the reward to the Treasury?' is one that I quite expected, but all the wild horses of Arabia won't drag me into that discussion, the subject of which exercises the minds of many who, nurtured in the basic principles of economic doctrines, still grope in a state of monetary twilight for an answer.

Perhaps John will come across a suitable reply without aid or enlightenment from me. If he does, tell him to let me know, because I'm a seeker, too.

I feel far more disposed to write to you on a much warmer subject. One may reasonably suppose that some day in the future you will fall in love, and will enter the

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bonds of Holy Matrimony with all the pristine optimism usually associated with that excellent established custom of civilisation.

It is not my intention to advise you upon the necessary qualities that go to make a good wife, except to say that a considerable amount of your joint happiness depends on a harmonious co-operation in money matters, and that it has been my experience in dealing with mankind for many years to find that the two principal reasons for the breaking up of what might have proved to be romantic and lasting unions are infidelity and financial worries. The former rests with the parties concerned; the latter come often through circumstances over which neither party has any control. But not always so. Too often the anxieties and burdens, the squabbles and ruptures, could have been avoided if only both members of the partnership had worked for their common good, using restraint in spending and avoiding financial demands which were quite insupportable and bound to bring about embarrassments sooner or later.

I have advised you in past letters to cut your garment according to your cloth, but this excellent precept becomes ashes in the mouth if both parties are not perpetually conscious of its true meaning.

When I was a very young man I was invited to stay with a great industrialist. The manner of his living was in all respects magnificent. By this I do not mean that there was displayed unpleasant ostentation. On the contrary, the domestic atmosphere that existed was one of opulent com-

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fort and good taste. The butler moved majestically and with silent efficiency; the valet laid out my somewhat exiguous wardrobe with polite disregard for my youthful blushties; the library, not large, contained upon its shelves a collection of books that expressed the sensitive mind of its owner, and it is needless for me to add that the food and wines, although not fully appreciated by me then, for my palate had not yet developed the selective state that it has since, were exquisite; and I might mention that his wife, a graceful matured woman, controlled the household with such unobtrusive skill that she might well have been one of the guests rather than the hostess.

The home was, as you will have gathered, a very good example of one owned by a prosperous and wise businessman.

One evening, my host invited me into his private sanctum, and offering me a choice cigar, commenced to tell me something of his life. I do not know why he should have been moved to do so, but retrospection often gives comfort, if the avenue of the past through which the speaker is looking back contains the flowers of pleasant memories. His money, he told me, was made by manufacturing women's hats. On leaving school, at an age which you and I would consider incredibly young, he entered the counting house of a firm which was engaged in this industry. As time went on he rose to the position of a traveller, but ambition and enterprise soon caused stirrings within and, after consultation with his young wife, he decided to launch out on his own. But they were very poor. Would such a step be

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fair to her and the baby? Such doubts were overcome, however, by the enthusiasm shown by his better half, and it was not long before they put their new scheme into operation.

It was, and possibly still is, the custom to put out among the working-class families of the town in which he lived orders for the manufacture of his particular commodity. The necessary materials were supplied and the operatives built them up to the designs given them, after which, as finished goods, they were returned to the place of their employer for distribution and eventual sale by the retail shops. During the day my host would obtain orders, and in the evenings, after a brief interval for supper, he and his wife, in one of the back rooms of their modest dwelling, would pack them up for despatch the following day. Gradually their orders increased and it was found necessary to build a small factory, and from this humble beginning developed the great organisation that now employs over three thousand hands.

But this co-operation went farther than the mere manual labour required for the packing of the goods. As the business increased, more capital was required to finance it, and this was provided out of profits. When £500 was made, only £300 was spent for domestic purposes; when £1,000 was the profit £300 remained the figure, beyond which they would not go. For some years they pursued this commendable course, and it was only after they were satisfied that their finances stood on sure and unassailable grounds that they improved, by easy stages,

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their standard of living, until it reached the very satisfactory level which I have already described.

Let us suppose that my hostess had been economically non-co-operative; too eager and impatient to benefit from the imagination and enterprise of her husband. From whence would the necessary capital have come for enlarging the business? He might have sought it from outside, either by forming himself into a private limited liability company, with an issue of shares, by which others would have benefited, or he might have borrowed the sums, possibly on onerous terms, or he might have found himself compelled to close down because the imperative demand for capital was not able to be satisfied.

No wonder the old boy finished his narrative with the hackneyed phrase: 'I owe a great deal to my dear wife.'

You see, Anthony, what can be done by marital co-operation; how the harmonious working together brought into being this vast commercial enterprise. My friend's wife was useful, no doubt, as an assistant packer-up of hats, but without that part of her help we may reasonably suppose that her husband would still have succeeded. When he said that he owed a great deal to his wife, he was expressing his gratitude to her for her willingness to go without until the business was firmly established, and, moreover, for her persistence in continuing to deny herself and her family to enable it to expand still further.

It is one thing to co-operate to enhance one's financial position; it is another to co-operate in order to be denied the pains and penalties of debt. Both resolutions are com-

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mendable; the first because to succeed is pleasant; the second because to be unembarrassed financially is essential to happiness.

Sometimes there occurs an inequality of income. A citizen may marry a girl who possesses a considerable one in her own rights, far exceeding that either earned or inherited by her husband. On the other hand, the sweet thing may be penniless, with only her charms to offer in consideration for the contract. When this is the case it becomes advisable to make a specified allowance, proportionate to the husband's income, so that the wife is not forced perpetually to ask for money to meet her private spending. Not only is such a course wise economically, but it avoids any psychological distortion that might conceivably occur through the incidence of a pecuniary inferiority complex. This allowance should be calculated to provide sufficient for dress and personal disbursements and will, of course, be defined within the limits of the husband's income. As this increases, so the allowance should be stepped up, for the very obvious reason that her standard of living will run unilaterally with his.

Sometimes a man and maid will open a joint banking account, with a mandate that provides for either or both to sign cheques. If either may operate irrespective of the other there is a danger, if one should be inclined to monetary profligacy, that there comes into being an unpleasant disequilibrium leading to harsh words and general discomfort when the bank statement is produced. On the other hand no man, if he be worthy of the name, would

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care to cast any doubts on his young wife's integrity or stability; indeed he might feel that in opening a joint account for either to sign he was merely carrying out his intention of sharing, not only his bed, but his fortunes as well. Nevertheless, it is wise seriously to consider such a step in the early stages of married life, for I know of a case where after some years, and when the marriage ties were becoming somewhat loosened, the poor little woman, on enquiring as to the balance, found that her husband had withdrawn their life savings and waffled off quietly to foreign parts with another lady of his choice.

Unless one is very sure of his partner's commonsense in these matters, it is preferable to open a separate account for each with regular payments from one to the other, made by way of a standing order to the bankers.

Do I appear to be rushing you, not only into matrimony but into parenthood as well, when I write about the necessity of cultivating a sense of monetary values in the mind of a child? I must say I do seem to be stretching out a bit into the hazy future, but with old Horace ringing in my ears, I cry, *Eheu! Fugaces labuntur anni*, for it seems only the other day that I was handing you twopence to buy a Wall's.

I must say I do dislike the little miserly creature who thinks too much of his money-box. I remember so well an ink-stained junior member of our house who had inherited from his successful father a perfect craving for money. No greater joy could be bestowed upon the little brat than that given by the captain of the golf-club when

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with lordly condescension this impressive individual employed him to mow the greens at 3d. per time. I do not know whether or not these instincts carried him to some Olympian height in commerce, be that as it may, but I trust that he discovered true values in time to make him a pleasanter member of society in the world than we found him to be in the cloistered and intimate community of school.

While disliking miserliness in the child as much as I do in the man, I deplore the parent who is willing to encourage over-spending by his offspring. Monetary over-indulgence by Ma or Pa, and often by both, has ruined many an otherwise good citizen. The youthful mind then becomes accustomed to look upon money as a commodity only to be spent and the level of its worth inclines to become distorted if the pocket money and the Christmas-box are unseemly in their generous proportions. In imbuing the child with money-sense it is, I think, unwise to make it money-conscious, for here is a subtle distinction. A money-sense will help a child to appreciate its value; a money-consciousness may lead it to believe that no pleasures can be found without its aid.

Young Simon's just been over with his mother. He's eight next Sunday. He got a couple of half-crowns out of his uncle—the rascal!

Letter No. 13

BUYING THE HOME

FROM the time of Primordial Man the home has been the basis upon which the individual has built up his family life. Whether it be a rock-hewn cave, a cottage, a suburban villa or a moated grange, it exemplifies the centre around which his joys and sorrows revolve. I suppose the home is the outcome of the tribe spirit with the head of the family performing the functions of the Old Man. Whether he always justifies the position is a matter of some conjecture, but the fact remains that in establishing a family he assumes the rights and responsibilities of its head, and no law upon the Statute Book can deprive him of them, providing the marriage contract is not broken by divorce.

The home is the lode-star to which we are attracted at the end of a working day; it is the focal point of our thoughts when travel takes us beyond its immediate environment, and I am quite sure that, casting sentiment aside, you would be willing to admit that during the period of your school life the anticipation of returning home at the end of term was not often absent during your working hours.

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The building of a home, as apart from home life, re-

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quires considerable organisation. Indeed, under present conditions it demands far more. But by the time that you will require one, it is probable that the frustrations and disappointments, now so distressingly obvious, may have disappeared, at least to a marked degree, and you will be able to choose not only the type of house you like, but the district in which you wish to live as well.

Assuming this to be so, you will first of all decide in what proportion the charge on your income will be represented by rent, or interest on the purchase-money. I have already expressed my opinion that in normal times it should not exceed 12 per cent of the gross, but this can be varied slightly in accordance with your other commitments.

You will notice that I say 'slightly', for an overhoused householder is as unhappy a mortal as the over-horsed rider.

It is impossible to lay down any rules and regulations with regard to the aesthetic appeal of a house. Beauty lies in the eye of the beholder, and an edifice that might enchant one may quite likely cause distaste and even repulsion in another. But I give you this tip, Anthony: don't buy a house that does not, as far as humanly possible, satisfy your wife; for a home is a more intimate affair for the woman than for the man and she will in all probability spend far more of her life in it than will you.

The utility value of a house is of greater importance than its aesthetic virtues, although a combination of the two, if it can be found, is so much the better. A house that can be run easily, where the minimum amount of time and

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labour is demanded, and its lay-out provides adequate comfort with moderate expense is the one that should be chosen in preference to that with timbered gabling and roses round the door but lacking in good hot-water supply and other modern conveniences.

When the dwelling has been selected it is of paramount importance to find out whether subsequent building on adjacent land will in any way detract from its amenities. This knowledge can, to some extent, be acquired from a perusal of the local Town Planning Scheme, always available at the offices of the Local Authority. In it you will find scheduled the type of property that a builder is bound to erect. If it is discovered, for instance, that part of the surrounding district is scheduled as factory sites, then dismiss the proposition from your mind. I have seen many an enchanting dwelling standing as an island in a sea of horrible erections and have tried to visualise it as it was when its loveliness melted into the green fields and hedgerows now long forgotten.

When you are satisfied as to its freedom from spoliation it is wise to spend a few guineas on what is known as a 'professional valuation'. The surveyor who will carry this out should be one who is in no way connected with the sale. He will report on its structural condition, its marketability, and its present value, and should it be situated in a newly-made and private road, not yet taken over by the local Council, let you know what your liability will be of your share in the expense of making it up when the time comes for that body to acquire it.

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It may be that, like your father, you will take upon yourself the pleasures and heartbreaks of the amateur gardener. Don't be led away by the prospect of owning a garden beyond your physical and financial limitations. Sometimes quite a modest dwelling has attached to it a large one, beautifully maintained and generally enviable. But it will not remain so if its owner is not capable of giving it sustained attention, either by his own efforts or by the employment of somebody who is qualified to do so, for one season's neglect and the once beautiful prospect is transformed by the ravages of nature into a miserable and depressing wilderness. Mind you, I think that a garden compatible with one's income and taste is a very pleasant adjunct where possible, but the town dweller is often denied this, and it would be foolish to suppose that domestic happiness must necessarily be unfulfilled without this acquisition.

Between the two World Wars building activity, feverish but sometimes irresponsible, was apparent throughout the land. Whenever a fine country seat with its surrounding parklands was spotted by the Cycloptic eye of the speculative builder and was found to be not too far distant to the suburban railway station, it was doomed to development. Olde Worlde Villas grew in martial rows with indelicate haste. Queen Anne, Henry VIII, Anne Boleyn, among others of romantic history, shared in the honour of having their names emblazoned (sometimes with a suitable portrait executed in oils by the local sign-writer) upon large boards inviting the public to purchase these desirable

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residences by the deposit of a modest sum, and thereafter by monthly payments stretching far into the unknown and distant future. New satellite towns grew like mushrooms and the rural areas of Great Britain were pushed farther and farther away from the large cities, giving place to the homes of those with modest means, who preferred the orderly surroundings offered them to the squalid, smoke-begrimed dwellings of their childhood.

Many of us deplored the unwelcome metamorphosis and became indignant at the vast encroaches of the towns upon the countryside, but we must be fair in our assessments. These estate developments fulfilled a very necessary purpose, for they satisfied a demand, and enabled the masses to enjoy something that is not by any means aesthetically perfect, but is at least healthy, inexpensive and youthful, and few would deny that more of them would be very welcome now.

As you know, we live a distance of forty miles from my office. This necessitates my travelling for at least three hours out of my working day. In order to satisfy the love of the countryside, so strongly embedded in your mother and myself, I willingly sacrifice these hours of freedom. We would not exchange the nightingales for night-clubs, nor lose without a struggle the enchantment of glistening dews upon the morning lawns.

The place of residence does, however, depend on one's financial position and the influences of one's particular job. Furthermore, it may be that your wife will prefer a flat with its attendant conveniences, its proximity to good

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shops and its general sense of being in the midst of things. If not, I feel sure that you would not regret a decision to acquire a little dwelling where there still remains something of the charm that hangs about the unbuilt-up areas of this demi-paradise. These could be found, before the war, on the fringes of the outer suburbs, and I hope, with not undue optimism, that within a few years such residences will again be on the market.

Now there are three ways of acquiring a dwelling-house. It can be purchased either as a freehold or leasehold property, or it can be rented for a term of years. Let me describe the three methods in detail.

(a) *Freehold Property*.—Thomson in his *Dictionary of Banking* describes it as succinctly as anyone could wish. He says :

‘The owner of a freehold estate in fee simple is the possessor of the greatest interest that a person can have in land.’

When you have purchased freehold you have an unassailable title to the land and everything upon it, subject to any Restrictive Covenants that may be included in the Conveyance. By this I mean that sometimes a Vendor will sell the property but with restrictions upon it whereby the Purchaser is prevented from building additional houses upon the ground, or using his house for any purpose other than that of a private dwelling or other conditions of a like nature. But, as a Freeholder, there is nothing to prevent your razing the buildings to the ground, if you were

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so moved, or painting the house red white and blue if some quaint whim so possessed you, unless such an action ran counter to a Restrictive Covenant.

It is very obvious that a citizen who owns his house is often encouraged and prepared to make improvements in it, whereas one who is merely the tenant knows that he can only occupy within the term of years set out in the Lease or Agreement. Whether it is better to purchase a freehold or leasehold or to 'hire' a house (now almost an impossibility) depends on circumstances.

The machinery for purchase is reasonably simple to understand and to put into operation. More often than not a young man has not sufficient capital at his disposal to pay cash down. In these circumstances it becomes necessary for him to look round in order to borrow.

I have already described in a previous letter the method by which a bank may be approached, but sometimes the would-be owner finds that the margin between the sum to be lent and the purchase price or value is a little too high in relation to his liquid resources. A bank usually is prepared to lend two-thirds of the value, whereas a Building Society, if they are satisfied that the borrower is a man of integrity and conscious of his obligations as a householder, may go up to 90 per cent. A Building Society will, however, demand not only the monthly or quarterly interest payments, but a portion of capital repayment to run collaterally, whereas a bank will require payment by negotiation, and will lend from year to year reconsidering reductions in the light of the circumstances

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obtaining at the time of each renewal. Insurance Companies, too, have a scheme for house-purchase, but this involves a Life Policy; an estimable method of borrowing, for it covers the dependants in case of death, although this scheme may become a little burdensome if the income is not sufficiently large to meet the interest payments as well as the premiums.

When a house has been chosen and a decision has been made to buy it, it becomes necessary to consult a solicitor who will be instructed to act on your behalf. He will, in collaboration with the vendor's lawyers, prepare Contracts which provide for the proper undertakings to sell and purchase and are documents which are a preliminary to the vital deed known as the Conveyance. The deposit of 10 per cent of the purchase price will have been paid already, either to the solicitors for the vendors or to the house agent, who will act as a stakeholder pending the negotiations, and, until the Contracts have been exchanged and executed, either side may withdraw from the bargain, with the vendor returning the deposit money if he be the backerout, or the purchaser surrendering this sum if he changes his mind.¹

At some reasonable period after the execution of the Contracts, the Conveyance will be signed in which the Title to the freehold will be conveyed, as its name implies, to its new owner and the balance of the purchase-money

¹ If the deed is 'subject to contract' the deposit money is returned to the would-be purchaser.

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will be paid over on what is known in legal circles as 'Completion'.

Unfortunately, there are attendant costs attaching to the purchase of property. The buyer has to pay the Government Stamp Duty of £1 per cent¹ of the consideration money, added to which he has the lawyers' fees. It is as well to take this into account when working out the sum to be spent. Usually the solicitors (who are on the whole kindly creatures) will agree to charge an amount below their 'Scale fees' if they know that hardship might be caused by levying the maximum amount to which they are entitled by the rules of the Law Society.

(b) *Leasehold*. (Saxon: *leasum*—to enter lawfully).—This title is by way of a Lease from the Ground Landlord—in other words, the Freeholder—to the Leaseholder.

The Lease is granted for a term of years and during that time the Leaseholder is, to all intents and purposes, the owner of the property. He may, during the period of his occupation, make alterations and additions, advisedly with permission of the Ground Landlord, but he must, if the latter so desires, restore it to the condition in which it was standing at the time of the granting of the Lease, upon the expiration thereof.

Usually the term is for 99 years, during which time, if only by the efflux of time in relation to man's sojourn on this earth, the Lease will probably change hands by Assignment on more than one occasion.

¹ If consideration is more than £1500 then £2 per cent (Finance Act 1947).

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As it nears the end of its term of years, it becomes increasingly of less value, for the Lessor, i.e. the Ground Landlord, is possessed of the reversion, which means that at the expiration he once again becomes the owner in fee simple of the property as well as the land, and the Leaseholder at the tail not only loses his property but has to implement the terms of the lease with regard to leaving it in good and habitable repair. If you ever decide to buy property by this method, I would not advise your doing so unless the remaining period of expiration is at least fifty years.

The price of a Leasehold property is governed by two principal factors: the remaining term of the Lease and the amount of the ground rent to be paid annually; so it can be seen that the valuation can only be arrived at by one experienced in these matters, and in complete possession of the full facts.

(c) *Occupation Lease.*—In pre-war days this was a very common method of acquiring a dwelling-house in which to live. It has many advantages, in that the liability incurred is limited to certain repairs and the payment of rent. Usually the Lease provides for the periods of seven, fourteen and twenty-one years, and may be determined at the end of each period should the Tenant so desire. It will also state whether the Occupier should pay for outside and/or inside repairs, whether he should or should not be responsible for rates, and whether he can or cannot be allowed to use the house for his business as well as private affairs.

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In normal times (so often I have to refer to these, for we are living in quite abnormal conditions at present) the rent usually can be assessed at about 7 per cent of the capital value of the house. As a matter of fact, I suppose this valuation does still obtain, for under the Rent Restrictions Act a landlord is debarred from raising the rent for smaller houses, even should the old tenant evacuate and a new one be installed. But in nine cases out of ten the owner does not elect to re-let, for the obvious reason that he can now sell his property 'with vacant possession' at a fantastic figure and one that only a few years ago would have been considered nowhere outside a madhouse.

I wonder whether I ought to give you a further piece of advice, as it refers to a somewhat delicate subject? Unless one is sure of obtaining either a house or flat in which to instal one's wife and personal chattels, it is better to defer the nuptials until such time as one is found. I have known of happy marriages that have been brought to the brink of disaster, and sometimes beyond, because the young people have, in the eagerness to become one, extemporised by taking up their habitation with friends or relations. Sooner or later some domestic gremlin will commence to exercise his craft in order to bring about trouble and ill-feeling, for even those who possess the most equable of temperaments will not long resist the impact of the irritations that are bound to arise when two units, each with its own interests, are confined within the narrow limits of a single dwelling.

I wonder what dear old Carruthers would say about this.

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I think that he would agree that I was wise in mentioning this subject, for I well remember an interview I had with him when, as a young bridegroom, I told him of my domestic aims and ambitions. He listened to me with his cherubic countenance then still retaining some of the freshness of youth in middle age, but reminding me vaguely of Laurence Sterne's *Guidoesque monk*—'mild, penetrating but free from fat contended ignorance'. Gradually a smile developed and a merry twinkle shone through his pince-nez glasses.

'Did you ever know a bird, other than a cuckoo, that is willing to share a nest?' he asked.

Letter No. 14

THE WILL

HOWEVER insignificant may be the possessions, no one above the age of twenty-one years should treat the matter of a Will as something of little consequence, or the making of it a duty to be performed in the indefinite future. A poverty-stricken Testator—one who makes the Will—may on the very day that he executes it become possessed of a considerable fortune on the sudden demise of a wealthy uncle in Australia from whom he expected little and possibly deserved less, and ten minutes later, in a moment of absent-mindedness, walk in front of a bus and be whisked off this planet.

How fortunate he was that, just in the nick of time, he had specifically provided in the way he wished for those who were near and dear to him! If he had not done so, he would have died 'intestate' and the Probate Court would have required the taking out of Letters of Administration by a duly appointed person who could, by the laws governing these conditions, have proceeded to distribute his estate within the limitations laid down by Act of Parliament.

The innocent in these matters often labour under the

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impression that when a citizen dies leaving no Will, all his estate passes to his next-of-kin. This is not quite so, for the residuary estate of one dying intestate is divided up in accordance with the degree of kinship his relations can claim, and all the arguing in the world as to the justice thereof will not vary this, for the Administration of Estates Act 1925, Section 46, is like the law of the Medes and Persians—it altereth not.

The residuary estate is that part which is left after payment of debts and administrative expenses, and is distributed or held on trusts as follow :

(1) If the Intestate leaves a husband or wife, but no issue the survivor takes the personal chattels (goods, furniture, etc.) absolutely, with £1,000 (free of death duties and costs). The remainder is held upon Trust, the income thereon to be enjoyed by the survivor.

(2) If there be issue, two equal Trusts are formed with the remainder, with the surviving parent enjoying income for life from one, and the children in equal proportions enjoying the income from the other until they reach the age of 21 years or marry previously, when each in turn becomes possessed of the capital. Upon the death of the remaining parent, the capital of the first-named Trust is then equally divided among the offspring.

(3) When an Intestate dies without issue or husband or wife the Estate passes absolutely in equal proportions to the father and mother (or either solely if one be dead).

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(4) When, however, the Intestate dies leaving neither issue nor father nor mother nor husband nor wife, the Estate passes to the following persons absolutely, if they be living at the time of death of the Intestate, in the following precedence :

- (a) Brothers and sisters of the whole blood of the Intestate
- (b) Brothers and sisters of half-blood
- (c) Grandparents
- (d) Uncles and Aunts (whole blood)
- (e) Uncles and Aunts (half-blood) •

If a husband or wife dies leaving no relations named above but their married partner, then the whole of the estate passes to the survivor absolutely.

You will have gathered from these interesting facts that the citizen who dies 'Will-less' leaves his property to relations without any regard to their respective needs and deserts. By a fortuitous chain of events the life savings and the fortune perhaps built up by tears, blood and sweat, might conceivably pass to a dissolute uncle who may possess in his veins only half the blood of the deceased, but with a thirst that only wealth can assuage!

You may be tempted, in order to save immediate expense, to buy a Will form, which unfortunately is easily procurable at a stationer's shop, to draft this document with your own fair hand. This is poor economy indeed. Of course occasions do arise in the rough and tumble of life when the making of a Will without delay becomes

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imperative and when no solicitor is within hailing distance. In such an event the Chancery or Probate Court will do all that is possible to read into the intention of the Testator and will often grant Probate even should the instrument be improperly drawn and not in legal language. A good example of this is the 'Soldier's Will', occasionally written upon the most incredible scraps of paper and often not even witnessed. But should a solicitor be available, he is the only person, equipped as he is with the necessary legal knowledge, to advise upon and prepare the document, and the cost, usually quite insignificant, will amply repay your Executors and the Beneficiaries when the time comes to carry out the directions contained therein.

I know that in writing to you it is not necessary to warn you against expressions of vindictiveness in a Will, but it is interesting, purely as a psychological study, to note that there does exist a type of individual who relishes the pain that will be inflicted upon those against whom he owed a grievance, when after his death they find themselves the victims of his venom. No conscientious lawyer would be party to such an action in our days, but men can be found in legal circles who are prepared to embody in the draughtsmanship these barbed arrows, sometimes taking the form of forthright expressions of hatred; at other times more subtly wounding by leaving a legacy so outrageously paltry that no legacy at all would have been a comparative kindness. In any event, the Court usually orders such improper matter to be excluded from the Grant.

Sometimes a Testator will desire to leave part of his

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property to individuals absolutely while retaining the remainder on Trust with the income deriving therefrom benefiting certain 'Life Tenants'. In this case the Executors, if they are willing to act, will after the winding up of the Estate become Trustees of a Will Trust, and will see that the capital is maintained intact as far as possible and that during their lives the beneficiaries will receive the income as and when received.

Now this leads to the contemplation of the appointment of Trustees, and the decision as to who shall act should not be taken lightly. A grave responsibility rests upon their shoulders, even allowing for their limited powers as defined by law. In certain Trust instruments, however, fairly wide discretion is given to them, and consequently their judgment and care is relatively increased. In either case a Trustee, as the name implies, should be one who can be implicitly trusted, and the one chosen (should he be a private individual and not a Corporation) will be one who during life had some close connection with the welfare and destinies of the departed.

There are advantages and disadvantages in appointing what is known as a Corporate Trustee, such as the Public Trustee, a Bank or Insurance Company. The advantages lie in continuity, for these institutions do not die, nor do they toy with the idea of absconding with the Trust Funds, but there does exist (although the Corporate Trustee is usually most helpful and sympathetic as becomes his profession) a certain lack of personal relationship as compared with that of the old family friend. Nevertheless the

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Corporate Trustee has many advantages when there are long dated Trusts and where infants are concerned and the fund is of fairly large dimensions.

When a married person decides to create a Trust in favour of his children, it is usually advisable to leave the widow a legacy of about a year's income from the fund to give her the wherewithal to live on for the first twelve months, and the richer the Testator, the more necessary it is to observe this doctrine.

Before deciding on legacies it is wise to calculate the total value of the Estate, leaving a liberal margin for possible depreciation. If this counsel be not observed a condition may occur whereby there is nothing left to the disappointed and I'm sure angry residuary legatees. These beneficiaries are those who participate in the 'Residue' of the Estate, and by this I mean that portion of it that is left over after all expenses and specific legacies have been satisfied. Your solicitor will advise you as to how much to allow for Estate Duty; an onerous charge on the value of a person's property, but one, like Income Tax, that has to be paid to the Commissioners of Inland Revenue. It is assessed pro rata to the amount left behind by the dear departed, and is based on a rising scale in relation to the sum involved, commencing at 1 per cent and finishing at 75 per cent of the value of the estate.

Do not think that, having made a Will, it can then be deposited in the bank and forgotten. Conditions change. The loved one of to-day may, through the vicissitudes of life, become the arch-enemy of to-morrow. It is a sad

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thought, but in dealing with the cold facts of our monetary affairs, these unpleasant realities have to be taken into our deliberations. I knew a wealthy woman who in the first flush of married love bequeathed her vast fortune to her husband. As time went on he developed a tendency to cast his eyes in directions not approved of by his devoted spouse. So much did his mind wander towards pastures new that he left her, never to return. You may know that it has been established that Hell hath no fury like a woman scorned. From the gentle, loving wife, this discarded female developed into a perfect example of the poet's imaginings, expressing her hatred in terms that were far from under-statements and brooding on her wrongs until death claimed her at a ripe old age. Her Will still lay in the vaults of her bankers, sealed and dust-covered. When it was perused, it was found to be unaltered in any way and the object of her scorn and hatred, a man many years younger than herself, became, after a long stretch of poverty, a wealthy person.

You may say, and justifiably, that this poor woman was unusually stupid. That may be so, but I have no doubt whatever that from time to time she quite intended to execute a Codicil (i.e. an amendment to a Will by way of an addition or separate document attached), but found life so absorbing—in spite of her disappointment—that she continued to put off this important duty until it was, alas! too late.

A Will has to be signed (or executed, as the lawyers say) before two witnesses, and if the document be of such

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a length that more than one page is required, each must be signed and witnessed.

It is one of the few legal instruments that does not attract ad valorem stamp duty. Perhaps the Commissioners of Inland Revenue consider that the amount of Estate and Legacy Duty that will be paid to them before the Grant of Probate is hardship enough. Be that as it may, no stamp whatever is required, nor any registration made at Somerset House, until after death.

At present, and until you have attained your majority, it would be useless for you to make and sign a Will, for it would not be valid unless you are a soldier, sailor or airman on Active Service, as laid down in the Wills (Soldiers and Sailors) Act of 1918. Nor would a Will made before marriage, unless it be in contemplation of such, be valid afterwards. But I thought that some idea of the subject would be useful, for knowledge, whether it be applicable to a specified period or not, is never superfluous: some time, when it can be applied, it may prove to be of considerable worth.

ENDING

DEAR ANTHONY,

You will be coming home next week; and thus ends the second period of your life. Shakespeare's seven stages of man come to my mind, and while you have four more to mount, I have but one—the lean and slippered pantaloons. It came to me once (curiously enough) when I was sitting under Mortimer's Oak and watching the First play some hated rival, that life must be very hard and uninteresting for the middle-aged, for they had reached that stage which neither enjoys the lovely things of youth nor accepts with resignation the comforts of old age. Now that I can place myself under the category of the middle-aged, I realise how my then immature mind had overlooked this essential factor; that every stage of an individual's life holds its charms and compensations, providing that he allows the necessary metamorphosis to move along its natural lines, unhampered by strivings both of mind and body to hold on to youth. If he but look at himself objectively, and act accordingly, Time, that cruel thing, need hold no terrors.

Mind you, I don't wish to suggest that those of us who

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have traversed a considerable part of the road do not at times glance shyly back with some regret as we count the milestones that we shall never see again. I don't hesitate to admit that if I were given the chance, I would welcome the opportunity of reliving my economic and social life, armed as I am now with sweet and bitter experiences. That is why I have pursued this pleasant correspondence, knowing as I do that happiness so much depends on learning, for, to use a much employed phrase, to be forewarned is to be forearmed.

These letters have not covered every one of the many facets of a man's economic life, but they have, I think, dealt with the major problems. Perhaps they may be considered only as pegs upon which to hang your economic hat.

If you will take it down and occasionally brush it, I shall not think that my efforts have been in vain.

Your loving

FATHER

