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THEORY AND PRACTICE

OF

Commerce & Business Organization

A COMPLETE TEXT BOOK

1966-67

BY

J. C. MITRA, F.S.S. (LONDON), F.R.E.S.

FORMERLY PROFESSOR OF ECONOMICS AND COMMERCE, VIDYASAGAR COLLEGE, CALCUTTA, SENIOR PROFESSOR OF ECONOMICS AND COMMERCE AND THEN PRINCIPAL OF THE CALCUTTA COLLEGE OF COMMERCE, AUTHOR OF "THEORY AND PRACTICE OF LIFE ASSURANCE," "JIBAN BIMA TATWA," "A STATE BANK FOR INDIA," "CIVICS FOR INDIAN STUDENTS," "GUIDE TO LIFE ASSURANCE" AND "GUIDE TO MARINE, FIRE AND ACCIDENT INSURANCE," &C.

WITH A FOREWORD

BY

SIR R. N. MOOKERJEE, K.C.I.E., K.C.V.O. D.SC., F.A.S.B., M.I.E. (IND.).

SIXTH EDITION.

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Foreword

BY

SIR R. N. MOOKERJEE, K.C.I.E., K.C.V.O. D.SC., F.A.S.B., M.I.E. (IND.).

In glancing through the pages of Professor Mitra's omnibus work, I have been forcibly struck by the comprehensive nature of the ambitious task he has set out to perform. Admittedly a text book for students, the author felt it necessary to dwell at great length on the numerous sundry details of commercial mechanism which would appear superfluous to ordinary readers. But as a teacher of considerable experience, he knows his student audience and for their purpose his book should provide a lucid discourse on the subject.

It is a sign of the times that commercial subjects are receiving increased recognition from the Universities as fit subjects for study and research. Indeed, a man would hardly be called well-read now-a-days unless he is versed in the fundamentals of present economic tendencies. With a growing demand for knowledge the responsibility of the teacher has increased. He has not only to describe the practice but has also to explain the significance of the theory behind the practice in order that his students take to independent ways of thinking. Though the principles underlying commerce and business apply everywhere, the influence of local customs, climate, physical characteristics, habits and traits of the people account for a wide diver-

Besides being useful to regular students studying the subject for their Bachelor's Degree examination for whom this book is primarily intended, it will be greatly helpful to candidates for higher examinations and to those preparing for other public examinations on the subject. It will also be serviceable to the practical business man and busy lawyer seeking brief information on the topics which always claim their attention in the course of their affairs.

An index which we have tried to make as exhaustive as possible has been added to the book to facilitate reference. A glossary of commercial terms and a list of abbreviations in use for commercial words and phrases have been given in the Appendix. Headings in bold types have been given for almost every section of the topics discussed in the book. This arrangement is expected to help the readers, specially those consulting the book for any practical purpose, in more than one way.

We regret that in the preparation of this work we had to depend mainly on our own experience as a business man and a teacher of the subject, so far as Indian usages and methods are concerned, very few standard works on them being available for consultation and guidance. We therefore welcome criticism of the book and shall be thankful to those who point out any mistake that might have crept in through inadvertence or otherwise, for its correction in the next edition.

We have however obtained much help from the valuable books of Stephenson, Grebby & Scrivener, Davar, Hanney, Thomas and some other authors and writers whose treatment of certain subjects we have advantageously followed and from whom we have received many useful information on many subjects. Our heartfelt gratitude is due to these authors and writers to whom we acknowledge our debt.

Mr. B. K. Mitra, B.A. of the Vidyasagar College rendered much help to us by allowing us to draw on his experience and knowledge while revising the manuscript of this book. We are much thankful to him for his labour and the useful suggestions made by him on many intricate points dealt with in this book.

We have nothing to add except heartily thanking, and expressing sincere gratitude to Sir R. N. Mookerjee for his kind-

ness in making time amidst his multifarious duties to write a Foreword for the book. A merchant-prince, educationist and public man of great reputation, his opinion is highly valued not only by the author, but also by the general public, and the Foreword he contributes lends an importance to the attempt of the author to place before the students of Commerce and Business a text book on the subjects.

Lastly, if the book be of some use to those for whom it is intended, we shall think our labour for its production, amply compensated.

Calcutta, October 1932. J. C. MITRA.

PREFACE TO THE SECOND EDITION.

That a second edition of the book became necessary within two years of its first publication shows some public appreciation for the work. In this edition the size of the book has considerably increased on account of addition of matters which are considered necessary to bring the book up-to-date to make it suitable for students for the purpose of their Bachelor's and Master's Degree examinations and for the general public to know the latest developments in commercial theories and practices. But though the book is now revised and improved and its size enlarged, its price has not been increased. A new feature introduced in this edition is the inclusion of important question of almost all the Indian Universities in the test questions at the ends of the chapters. In other respects there is nothing to add to what was said in the preface to the previous edition.

In the first edition of the book it was not mentioned through inadvertence that we had received some help, in the preparation of one or two chapters of the text, from some contributions to the *Statesman* and in that of another chapter from Mr. S. N. Lala's book—*Inland And Foreign Trade*. We now take this opportunity to acknowledge our indebtedness to the *Statesman* and its contributors and to Mr. Lala for the help thus received from them. Mr. Satyananda Bose, M.A., B.L., read a chapter of the book in proof sheets and made some useful

suggestions, and Mr. P. C. Nag, M.A. rendered much help in the preparation of the index. We are much thankful to them for their assistance.

Calcutta April 1935. J. C. MITRA.

PREFACE TO THE THIRD EDITION.

It is a matter of some satisfaction to the author that though mainly finding its readers amongst the Indian people noted for their apathy to Commerce and Industry, this book reached its third edition within about four years.

As is to be expected, various additions and alternations have been made in the book in this edition on account of many recent changes in statutory provisions about Commerce and Industry and developments in methods and machinery of business. Some chapters of the book have therefore been thoroughly revised and in others many changes have been made, though the previous arrangement about the subject matters of the book has not been much disturbed.

It is the duty of the author to mention here in this connection that Messrs. N. K. Mazumdar, M.A., R.A., Register of Joint Stock Companies, Bengal, and K. C. Roy Choudhuri, M.L.C., Bengal, helped him in revising the chapters on Joint Stock Companies and Labour Legislation of the respectively. His former student and present colleague, Prof. H. P. Khandelwal, B.COM. (Calcutta), B.COM. (London), A.C.A., R.A., Chartered Accountant, supplied him some materials on which he drew in making some additions to the chapter on Stock Exchange. Mr. H. M. Bose, B.S.A. (Toronto, Canada), B.SC. (Chicago, U. S. A.) ungrudingly helped him in proof-reading and made various suggestions about some points, specially in the matter of Stock Exchange. He is very much indebted to all the above gentlemen for their help.

This Edition of the book had to be hurried through the press for pressing demands from some quarters, and it may not therefore be altogether free from typographical mistakes. Other mistakes also might have crept in. The author will be grateful

to any one pointing out such mistakes, if any, or any other defect. He has spared no pains to make the book useful to all classes of readers, specially the students of higher commerce, and he will consider his labour amply rewarded if the book can, like its previous editions, secure a good reception by the public. Though the size of the book is now enlarged, its price remains unchanged.

Calcutta, January 1938. THE AUTHOR.

PREFACE TO THE FOURTH EDITION.

That another edition of the book has been necessary in spite of the continuance of a most devastating war, bespeaks of the wide recognition of the present volume as a standard book of reference on the subject. Despite numerous handicaps due to the incidence of abnormal conditions the volume has been thoroughly revised and up-to-date facts and figures have been incorporated. Any suggestions to enlarge the scope of the book will be most thankfully received.

Calcutta, September 1942. THE PUBLSHERS.

PREFACE TO THE FIFTH EDITION.

We regret that there has been an inordinate delay in publishing the present Edition due to scarcity of paper. The previous edition had long been fully exhausted much to the inconvenience of the student and mercantile community who regard this as a standard book of reference on commerce and business organization. It is to be deplored that due to high cost of paper and printing we have been forced to enhance the price of the volume. The size of the volume has however been maintained in full. Any suggestions for improvement of the book from the readers will be welcome.

15th January, 1945. THE PUBLSHERS.

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INTRODUCTION.

COMMERCE is a science which is an offshoot of Economics and generally speaking forms part of it. It is closely connected with many other subjects and those who are willing to gain a thorough knowledge in commerce are required to study such topics as Commercial Correspondence, Accountancy, Commercial Law, Economic History, Commercial Geography and other allied subjects. A specialised study of commerce can only be undertaken by having a regular grounding in these subjects. Let us definitely understand the scope of these subjects in their relation to commerce.

Commercial Correspondence.

This is one of the most important branches of commerce and it is sometimes the case that a good commercial correspondent is a very successful man in an office. Knowledge in the language used in the office and knowledge in shorthand and typewriting, etc., may be taken to form parts of commercial correspondence. The subject comprises the whole art of letter-writing from the simple letters in answer to advertisements to the various types of letters written in connection with retail and wholesale business, settlement of accounts, opening up business connections, establishing agencies, banking, bill of exchange, contracts, etc., etc. It is through the medium of this correspondence that practically the whole sphere of commerce is dealt with. Its importance in commercial study cannot be too much exaggerated.

Accountancy and Book-keeping.

This is another very important subject in commercial study. Arithmetic is closely connected with these subjects and it is with the help of Arithmetic that these commercial

subjects can be properly mastered. The preparation of all sorts of commercial accounts, including Balance Sheets, Income Tax Returns, Profit and Loss Accounts, Partnership Accounts, etc., etc., is included in this branch of the subject. Accountancy and Book-keeping are now included in the curricula of almost all the institutions for imparting commercial education.

Commercial Law.

It is necessary for a commercial student to learn this subject which embraces a proper understanding of the rights and obligations connected with commercial transactions. The subject includes the Companies Law, Law of Contract, Partnership Law and Law relating to Sale of Goods, Insurance and Banking Laws and various other branches of Law relating to commercial practices and transactions. Without a proper knowledge in this subject a businessman will always find himself handicapped and will be under the necessity of running to a lawyer for advice on minor law points.

Economic History.

A grounding in this subject for commercial students is necessary because they are required to know how and in what circumstances in the course of time the Commerce and Industries of various countries successfully grew or miserably failed and what conditions had a beneficial influence on them. It is by a study of this subject that a student can judge for himself the lines to be followed by him when he himself becomes a businessman, as his knowledge in it gives him the most reliable data as to the course to be taken by him in the pursuit of his career.

Commercial Geography.

It is necessary for a commercial student to make himself acquainted with the location of various raw materials available for the purpose of Commerce and Industry and also with the principal roads, canals, railways and other

ways of transport. The physical features of the world and the climatic conditions determining the industrial abilities of mankind should also be known to him. This knowledge can be acquired by the student by a study of Commercial Geography, a knowledge which will place a businessman in a very favourable position when called upon to decide any question respecting the above matters.

Foreign Languages.

The last though not the least are some foreign languages over which a businessman should have a command. Trade now-a-days is not localised to a particular province or country but is always extended to other provinces and countries using different languages. A mutual knowledge in these languages is therefore a great asset to the businessman. Besides English, French and German are the most extensively used foreign languages at present, and at least a working knowledge of these is necessary for a student of commerce. In India many languages are spoken, but Hindi is claimed to be her *Lingua Franca* and a working knowledge in this language ought to be possessed by everybody having any thing to do with inter-provincial commerce. Besides, some Asiatic languages like the Chinese and the Japanese are also widely used in international trade specially in this continent. Hence they cannot be neglected by a businessman.

To the study of which of the above languages a student of commerce should devote his attention is a matter of individual necessity, convenience, capacity and taste. Any institution worth the name teaching commerce includes in its curriculum one or more of the above languages and the student is given an option to choose from them.

General.

Besides the above, a knowledge of the various commodities of trade is necessary for a commercial student. He should know their sources and places for marketing them

as well as the various qualities in which they are found in different places.

Attempts have however been made in the next few chapters to give a concise description of those subjects only which practically appertain to a pure business training, together with a brief exposition of law relating to them, to help the students in their pursuit of knowledge in methods and organization of business.

THEORY AND PRACTICE

of

Commerce & Business Organization.

CHAPTER I.

HISTORY AND DEVELOPMENT OF BUSINESS.

Beginnings of Commerce and Business.

BUSINESS which for practical purposes comprises all industries and commerce is at present conducted with the help of a vast and complex organization which has evolved from an insignificant beginning at the time when mankind began to exchange their productions. Before this time the families of the human society were self-contained with their own productions and there was no system or necessity for exchange. Hence anything like business was not in existence at that time. So it was with the introduction of exchange which came into being with the division of labour, however crude, that commerce and business began to develop spreading in different branches throughout the length and breadth of the whole world.

Industry and Commerce of Ancient Nations.

Commerce and Industry which spontaneously sprang from division of labour and exchange of the commodities produced by the labour, seem to have grown in the ancient world in different directions in which geographical and climatic factors played an important part. Manufacturing and farming industries flourished in Egypt, the land of the

country being very fertile, while the Phoenicians made much progress in trade and commerce, their land on the coast of the Mediterranean not being fit for agricultural pursuits. The geographical position of Greece gave her a great opportunity to develop her trade with both Europe and Asia, and the ultimate supremacy of the Romans—who became a great maritime nation—over many foreign lands enabled them to establish a world-wide foreign trade including that with India, to organise depots for merchandise in north Africa and open up trade routes to south European countries. China also grew to be a manufacturing country and exchanged her products with those of India which had become rich in her fine arts as well as agricultural products, her people being enterprising and imaginative and her soil fertile.

After the fall of the Roman Empire, European commerce got a great set-back on account of the unsettled condition of the country for political reasons. This state of things continued until the seventh century when the Mohammedans built up a great Empire extending over countries from India in the east to Spain in the west. They established trade not only in the countries under their sovereignty but also in far-off countries, including north Europe and east Asia.

Progress in the Middle Ages.

By the end of the eleventh century there came the wars of the Crusade by which all organized forms of Trade and commerce were put into a melting pot, giving them a changed character. With the ascendancy of the Pope, Christianity again firmly established itself in Europe and discouraged the practice of making profits by business. The Church forbade trade with infidels and there was therefore a set-back to trade and commerce at this time though on account of the more frequent intercourse between the East and the West due to the Crusade, interchange of goods found a wider scope giving a stimulus to trade and industry. Usury was discouraged by both Christianity and Moham-

mechanism and extension of business was difficult without borrowed money, which in the present condition of Commerce and Industry, supplies a considerable portion of the capital for them through the banking system.

The Crusade however established a bond among the Christian nations, the economic effect of which was the establishment of various Commercial centres in Europe. With the growth of the large and prosperous Commercial Cities, many protective leagues, mainly for defence of trade routes against robbery and piracy in land and sea, came into being in various countries, specially in Germany. All these gave a great impetus to business and consequent prosperity followed, which is now known as the *Renaissance* of Europe.

Business in Europe during the middle ages was however beset with many difficulties which have been overcome at present to a great extent. Transport facilities were absent; monetary arrangement was bad, there being no banking system and no uniformity of money in existence; there was great prejudice against businessmen who were commonly looked down upon; and corruption in various directions was rampant. Industries were in a very backward condition retarding development of business. All governments at the time unnecessarily and unduly interfered with Commerce and Industry, thus restricting their free growth. Many governments found a very good source of revenue in regulating Commerce and Industry by prescribing the nature of the cargo, the selling price of goods, the trade routes to be used, the quality and quantity of output, the places and conditions of various industries and such other matters, a free scope for which was vital for the expansion of business of all sorts.

Merchant Guilds and Craft Guilds.

This restriction on business however had a beneficial effect on it in an indirect way. With the increase of trade with the advance of civilization, businessmen began to unite themselves in industrial guilds known as *merchant guilds*,

not only against outside interference but also against unhealthy competition and for improvement of production. These guilds also helped their members in distress and in obtaining various facilities in the peaceful pursuit of their crafts. As members of different trades inhabited particular places advantageous for the exercise of their callings, the guilds were formed in those places fostering the growth of towns which became prosperous and thus capable of purchasing "charters" from the authorities. These "charters" gave the towns rights of self-government to some extent and the regulation of trade and industry came into the hands of the towns-people. As a result wealth began to accumulate in these towns which gave a stimulus to business—internal and external—in the middle ages.

The affairs of these merchant guilds gradually became cumbersome with the increase in the number of their members. Conflicting interests also manifested themselves in the guilds. So the craftsmen began to dissociate themselves from the merchants and to combine in different groups according to the nature of their particular occupations. This brought about the establishment of *craft guilds* which to some extent resembled the modern trade unions and "benefit" societies, not only controlling trade practices but giving succour to their members during sickness and unemployment or to their families after their death. The accession of the towns to wealth and prosperity which these guilds were instrumental in securing for them not to a small measure by their fostering commerce and industry, gave a great stimulus to various fine arts for which the middle age is now considered to be unrivalled.

Modern Business.

Modern business with a great increase in the volume of commerce and industry may be said to have begun with the discovery of America and the Cape route to India which opened up commerce and trade of Europe with two vast continents. Products—specially agricultural products—hitherto unknown to Europe began to be shipped from these

places in exchange of manufactured goods produced there. Sovereigns of Europe began to grant charters to various trading companies formed in their respective countries to trade in newly found America and easily accessible Asia and Africa. Leagues for protection of different business and improvement of trade were formed in the Continent and England at this time. Amongst these the *Hanseatic League* of Germany and *Merchants of the Staple* of England became very powerful. In 1407 the *merchant Adventurers* of England got their charter. These Leagues became very powerful commanding monopoly in different business.

After the Leagues, came the trading companies in the sixteenth century amongst which the East India Company, the Levant Company and the Hudson Bay Company of England and some other Continental rival companies became very prosperous and powerful giving a stimulus to commerce of the world.

Mercantile Theory.

By the end of the fifteenth century the mercantile theory, as it is called, took its hold on the nations having considerable volume of foreign trade. In the next century the system was almost universally adopted and it became a recognised factor in foreign trade policy. The doctrine of the theory was to increase national wealth, which was understood to be synonymous with money at that time, by effecting a favourable balance of trade in national commercial dealings with other countries. For this end, it was believed that a strong navy was necessary to maintain and extend foreign trade, even at the cost of home trade. The ultimate aim was to retain as much gold and silver in the country as was possible in the circumstances by giving protection to the home industries and thus obstructing other nations to trade in the country.

The object was national greatness mistakenly at the expense of the neighbours. It was not properly understood at the time that commerce to be successfully carried on

must be beneficent to both the contracting parties. The use of precious metal in commerce was also imperfectly understood and attempts were always made to keep the "Balance of Trade" favourable to the country by keeping as much bullion as possible within the country for emergencies. National power, the politicians thought, depended on three things, viz.,

(*a*) The accumulation of treasure as a fund in case of emergencies.

(*b*) The development of shipping as necessary for the navy.

(*c*) The maintenance of an effective population both for commercial and military purposes.

Various legislative measures were passed for the above objects in view, and commerce, manufacture and agriculture were all regulated by the State, whether for good or evil it is very difficult to understand now. It seems the nations are again becoming followers of the doctrine in adopting what we now call economic nationalism. The system however did much in the growth of commerce and brought about a great development in national power.

In England the Government took various steps by regulations to maintain her shipping in a highly efficient condition, a step considered to be indispensable for an Island State. The mercantile marine of the country at this time was given protection and encouragement by passing of *Navigation Acts*. The course adopted by England caused much hardship to her colonies and ruined the Dutch mercantile marine which was at that time foremost in carrying the trade of Europe.

The exploitation of the colonies by laws passed which were inimical to their vital interests gave rise to much discontent. At first an act was passed making it compulsory for the colonies to carry on their trade exclusively in British or Colonial ships. Another Act made it obligatory for them not to export directly to any foreign country some specified articles—the most important in the colonies known as "enumerated articles"—but to unload them upon the

British shore at first, before forwarding them to their ultimate destination. It was further enacted that no goods should be imported into British Colonies unless they were first laden at some British port, so that all commercial transactions of the colonies, export and import, had first to go through British hands. Thus all imports of the colonies from any other countries were practically forbidden. These regulations went further and discouraged any manufacture in the colonies. The exportation of gold and silver was also prohibited and a favourable balance of trade, payable in gold was maintained by the adoption of various expedients. The national hoardings of England greatly increased at this time and the trade and commerce of the nation received a great push forward.

The Industrial Revolution.

Industrial revolution, as it is called, has revolutionised the whole business outlook of the world by the far-reaching changes effected by it in the method of production. It is a conspicuous phenomenon of the modern world. It has been due to a series of inventions and discoveries which have facilitated production and have resulted in the almost total replacement of the manual by the mechanical work. The thing, however, may be better described by the name evolution rather than by revolution, for the latter always implies an element of violence. As Seligman says, " If by revolution, however, we mean a sudden and complete overturning of the old, the name is ill chosen, for the process was a gradual one. It took several decades for the transition in the English textile industries, to be consummated, and in the other occupations the implanting of the domestic by the factory system proceeded step by step during the 19th century. Outside of England, the movement came later and more slowly while even in England there are few trades, like those of glass workers, the cutters and the chain makers, in which the factory system has made only slight inroads." If this is true of England, it is true in a far greater degree of an industrially backward country like

India where the factory system has only begun its career, though in some of her industries appreciable progress has been made.

How It Effected the Great Change.

The industrial revolution followed the advent of the machinery to replace the hand power. Power of the machinery was substituted for hand power at first in the cotton industry and then in silk and wool industries. A good many labour saving devices were invented during the last three quarters of the eighteenth century and they revolutionised the process of manufacture giving a great push to trade and commerce. The following inventions may be said to be instrumental in effecting the great change in the textile industries—

(*a*) The Spinning Jenny of Hargreaves patented in 1770 by which many threads could be spun at a time—the spindles being fed by machinery.

(*b*) Arkwright's "water Frame" spinning machine—an improvement on the former, patented in 1771.

(*c*) Samuel Crompton's spinning machine—the "Mule" invented in 1777.

(*d*) Dr. Edward Cartwright's "Power Loom" for weaving, invented in 1785.

(*e*) Steam Engine for power patented by James Watt in 1769, but used in the manufacture of textiles for the first time in 1785.

When steam engine was invented during this period its use rapidly replaced other driving powers of the machinery. It resulted in increased economies in working the power-driven plants and caused a tremendously improved situation in industry which resulted in a great increase in the volume of business of the world.

General Results of the Revolution.

On account of the discovery of steam power and the invention of machinery driven by it, a good many new industries like coal mining, etc., became possible. Large

scale industries were established, old industries were re-organised on a new basis, and division of labour was introduced effecting specialisation. It caused decay of the domestic system of production and capitalism grew apace ushering in the factory system of production. Population tended to concentrate in places where large industries were established and new towns came into existence in industrial areas with their squalor, dust and insanitary condition in general. Business however went up with the growth of capitalism and the expansion of commerce and industry during and after the industrial revolution with its phenomenal change of outlook.

Transport and Agriculture.

During this period Canals, Roads and Railways were built in England and in other countries on rather an extensive scale which facilitated the removal of goods produced under the factory system and this helped the commerce and industry of the world to a great extent. Steamships were introduced and ocean transport became safer and easier, encouraging and facilitating commerce across the seas and making international commerce easy and profitable. In 1837 the Needle Telegraph was patented and a company of Electric Telegraphy was formed in 1846. In 1840 penny postage was introduced and in 1869 the Suez Canal shortened the distance between the East and the West. Telephone and Wireless telegraphy have extended the power of rapid intercourse. The size of the merchant vessels has enormously increased swelling the volume of trade. Motor transport has made it possible to accelerate the speed of goods and passenger traffic in places which were inaccessible by Railway or Steamer, and Aviation has opened the possibility of finding a new highway through the air. All these have helped the development of not only the British trade but also of the trade of the world.

The Enclosure system introduced at this time and its gradual substitution for the method of undivided agricultural land was instrumental to causing prosperity to agri-

culture which gave increased purchasing power to a large section of the general consumers and its effect was visible on business concerns of all classes which could dispose of their commodities with a good margin of profit.

Above all, the principle of Free Trade adopted by England gave a tremendous impetus to the commerce of the world in a way and brought about an unexampled prosperity to that country. The principle was introduced by her in countries under her influence and they were all benefited by such introduction. Though the principle of free trade now seems to be discarded by almost all advanced nations of the world, it was this free trade which at one time revolutionised the trade and commerce of the nations and heralded the prosperity of the modern business throughout the world. This is not the place to give the arguments advanced for and against it but students of business should do well to learn the salient features of the policy of free trade which once moved the world tremendously.

QUESTIONS BEARING ON CHAPTER I.

1. What is the origin of business ? Explain its connection with production and exchange.

2. Describe the reasons of growth of commerce and industry in different forms amongst different ancient nations.

3. Trade and commerce were retarded by the ascendancy of the Christianity and Mohammedanism giving them at the same time an impetus. Explain how and when.

4. What were the principal retarding factors in business during the middle ages ?

5. Describe how the Merchants Guilds and the Craft Guilds came into existence and what were their utility.

6. Give a short history of the beginning of the modern trade and industry and explain the circumstances under which they grew.

7. Write what you know of the Commercial Leagues of Europe formed during the Fifteenth century.

8. Explain Mercantile Theory and the effect of its adoption in England.

9. What do you understand by Industrial Revolution ? Give a summary of its effects on business of the world.

10. Explain the Enclosure system and its effect on agriculture.

11. Mention in brief the effects of the Free Trade policy followed by England in her trade and commerce during the last century.

CHAPTER II.

ECONOMIC BASIS OF COMMERCE AND INDUSTRY.

Relation of Economics with Business.

IN the subsequent chapters we have discussed about the mechanism of business together with its theory. This theory is always based on economic principles which form the background of all classes of business. Economics and business are co-related in such a way that they cannot be considered to be separable in any way. A student of business should therefore have an idea of the general principles of Economics, so closely connected with Commerce and Industry, and their relation to them as manifested in their practical workings. Business is allied to Economics in such close relationship that some authorities have defined the latter as "the Science of business" and some as "Science of wealth." Organization of commerce and industry may therefore be regarded as practical application of the science of Economics to our every-day transactions in them.

Economics as a science of wealth, however, concerns itself with its production and distribution from a national point of view, but Commerce or Business Economics, as it is called, confines itself to the consideration of the same subject from the view point of the businessman.

Economics deals with the theories of production, exchange, distribution and consumption of wealth which, as we shall see, find their practical application in business. It is therefore necessary for a student of business to properly understand these theories which form the basis of the practices actually followed in its transaction.

Wealth—What It is.

Man is an animal with ever-increasing wants and he has an instinctive hankering after getting these wants satisfied.

With a view to this he puts in exertion which when successful leads to fulfilment of its object, viz., production of wealth. Question of production is therefore vitally connected with wealth the nature of which is to be understood.

In common parlance, a rich man is said to be a wealthy man and a poor man is regarded to be as devoid of wealth. But in economic sense both the rich man and the poor man have wealth, the difference between the two being one of degree and not of kind. The former has much of wealth and the latter has only a little of it. In the economic sense, that is regarded as wealth which has the power to satisfy a want and which is the result of an effort. The gifts of nature which man can freely obtain, such as pure air, water and the like, do not come under the category of wealth, because, to get them no effort is needed. They have no exchange value. The writers on Economics again differ in their views of wealth, some taking only the tangible commodities obtained by effort to be wealth, others holding that not only material goods but also immaterial goods, such as the services of sailors, actors and doctors, etc., are to be included under the term. This comprehensive definition of wealth is now generally accepted by the students of Economics.

There is a difference of opinion as to if documents like bills of lading, etc., and media of exchange may be regarded as wealth. It is argued that they merely represent wealth and are not strictly speaking themselves wealth. In the light of the accepted definition of wealth this argument seems to be untenable in as much as they fulfil all the conditions necessary to bring them within the category of wealth, for they cannot be obtained without human efforts and are not without exchange value.

Rights and privileges involving obligations may also be regarded as wealth, for they have the exchange value and they cannot be obtained without human efforts; but their extinction does not involve any diminution of the wealth of the community and hence they may be termed as *negative wealth*.

Direct and Indirect Goods.

The word goods requires elaboration. All goods (including services) may be divided into two classes—*direct* and *indirect* goods.

Direct goods are those which are wanted for themselves yielding utility directly, *i.e.*, from which the consumer derives immediate and first-hand enjoyment. The articles of daily consumption, such as rice, bread, butter and milk, are examples of direct goods. There are goods, however, which are not wanted for themselves, yielding utility only indirectly, *i.e.*,which do not yield immediate enjoyment, their use being derivative. They are used as instruments of production which yields immediate enjoyment. These are called *indirect* or *instrumental* goods. All the raw materials of industry, cooking utensils, machinery, etc., come under this head. Indirect goods derive their utility from the utility of the direct goods which the former help in producing. Thus it is the utility of the food which gives utility to the cooking utensils.

Goods may be *free* when they are available for nothing, and *economic* when they have value. River water, sunshine, etc., are free goods, and bread, furniture, doctors' services, etc., are economic goods. Goods may also be *material* such as books, houses, foods, etc., and *non-material*, such as goodwill, singing, ministration, etc.

Production.

Production has been defined as the application of the effort to the satisfaction of wants. This is the form of activity which results in wealth. Production of wealth does not mean "the creation of that which satisfies the want but the creation of additional utility for satisfying wants. To the savage the meat had more utility than the wild animal, to the carpenter the table had more utility than the wood—what each has produced is the difference between the utility before and the utility after the effort in question was made." The savage in question could not eat the wild animal as he hunted in the forest. He had to

cut the dead body into pieces, prepare and cook the meat and then eat it. Nor could the wood found in the forest be of use unless it was made into a table by the carpenter, after a laborious process. Nature supplies man with raw materials which he by his own efforts transforms into things that supply his wants. His efforts lead to the creation of additional utilities. So what man produces is not any brand new thing, but he creates utilities.

It is not only the actual process, however, of this alteration of one thing into another which constitutes production, but the transportation of the prepared goods from place to place for consumption which adds *utility of place* to them is also to be included in this process. Hence not only the manufacturers, but the traders, the transporters and the clerks and typists, etc., employed by them are all producers of goods in a more or less degree.

Factors of Production.

Former economists used to be content with assigning production to three agents, viz., Land, which in Economics means not only land but also resources of nature of every description, Labour and Capital. In other words, man's productive effort, in their opinion, principally required these things :—(i) Natural gifts—land included. (ii) Personal effort—man's energy and skill as well as labour. (iii) Artificial aids—including capital and machinery. But this opinion requires revision now, in the present condition of our economic life. The three factors—land, labour and capital—would have been sufficient in an early stage of industrial development when industrial effort was meagre. This is not the case now, when industrial undertakings are to be the result of co-operation between several individuals and mainly the works of collective bodies called companies or associations. Hence the introduction of new factor called Business Organization. At a still more advanced stage, another factor has been introduced, viz., Risk taking or Enterprise. "When the market instead of being purely local and certain, becomes world-wide and uncertain, when

instead of supplying the wants of a few people in his own neighbourhood, the producer seeks to supply the wants of peolpe in many and distant lands, business becomes, to a greater or less extent, speculative, and risk taking or enterprise becomes another requirement of industrial efforts."

Briefly speaking then, the modern man or rather man in modern conditions, for the satisfaction of his wants by production, requires the aid of the following factors :—

1. Labour. 2. Organization. 3. Enterprise. 4. Gifts of nature. 5. Capital.

In all industrial undertakings, all these factors must enter more or less in co-operation. It is not that all the factors are equally important in all undertakings. In agriculture, for instance, land and labour are the principal requirements. In manufacture, capital and labour as well as risk taking or enterprise are to play predominant parts, and so forth.

The success or failure of the productive efforts of man depends on the efficiency of each and all of the above factors. To start with, a man cannot successfully carry on agricultural or industrial operation, unless he is supplied abundantly with the gift of nature, such as land, mineral wealth, good climatic condition and favourable general atmosphere. Men living on a poor soil of the earth cannot be expected to attain success in agriculture, nor can they carry on their industries efficiently, if their soil does not yield iron, coal and other requisites. Nor again can men be successful, if the climate they live in, proves harmful and injurious to their health. What is true of the gifts of nature, is true of the other factors of production. If capital is lacking, the instinct of risk taking is wanting, or if the men in charge of a business lack the capacity for business organization, failure is sure to follow. A glance at the industrial condition of the world to-day convinces us of the above truth. The Europeans and the Americans are more successful than other nations because they have the requisite capital, capacity for business and spirit of enterprise, which their competitors have not, in the same degree. The

inhabitants of the tropical countries are not so successful in business because they are generally lethargic and idle.

Different Systems of Production.

There have been various systems of production of wealth which have appeared in course of time. At the early stage of civilization when man ceased to think in terms of individuality, *i.e.*, to produce and consume for himself alone, he began to do so in association. There have been three forms of productive efforts :

(1) The combined productive effort of many groups.
(2) The productive effort of a particular group.
(3) The productive effort of an individual worker.

In each of these efforts the complex operation of a number of individuals is involved.

Different Stages of Production.

As there are different systems of production, so there are different stages through which it has passed. The first stage is extremely individualistic, namely, that of the primitive worker, when man used to satisfy his wants directly. Every man used to produce the things wanted by him and there was no room for division of labour.

The next stage is that of indirect effort, when a man, instead of producing every thing for himself, used to produce one thing in excess and get the necessaries of life by exchanging his products with those of others who used to work similarly.

The third stage is that of an industrial group, when a set of persons produced one sort of things to other sets. This is the complex stage of industrial operation through which we have been passing at present—a stage of economic operation with a complex system of exchange and barter, involving banking, bills of exchange and other instruments of credit.

The total of the utilities in goods and services capable of satisfying want, produced by a nation is termed *National Income* or *National Dividend*. It consists of

wages, interests, rents and profits, respectively, earned by labour, capital, land and enterprise.

Exchange.

In the very primitive stage of civilization, when men have few wants, they are easily and directly satisfied. The primitive man wants food and clothing, and he fishes for himself, hunts for himself and weaves for himself. This is the first stage of economic life.

In the next stage of human civilization when life of man becomes a little more complicated and his wants are more varied, it is not found convenient to have his wants satisfied directly. Indirect satisfaction then is found not only convenient, but indispensable. A man or a set of men goes on building canoes; another set catches fishes; and a third weaves clothes. They cannot themselves use all the canoes or the fishes or clothes which are thus superfluous. The canoe-builder or fisher or the weaver exchanges superfluous products with the superfluous products of people similarly engaged with other work, say the potter or the boot-maker, or the cotton-grower, who wants canoes, fishes or clothes. So the canoe-builder or the fisher or the weaver satisfies all his wants not directly by producing all things necessary for himself but by producing a single thing in excess of his wants and exchanging it for others. Thus at the second stage of economic life, the division of labour, as well as the principle of barter and exchange, come into being.

At the third stage, when life becomes still more complex, it is found convenient to carry the division of labour still further. Men, instead of working individually, work in combinations and in groups. This facilitates work as well as makes production easier, cheaper and swifter, but the method of exchange becomes complex. If a house is to be built, one set of man fells the trees, another set prepares the wood, another set works at the roof-covering made of corrugated iron, and so forth.

There is still another and a more advanced stage of economic life represented by the modern one, when the products of our labour are exchanged, not by means of barter, but through the help of a common medium—money. This process brings in its train many complex institutions like the banks, the insurance companies and the co-operative societies, etc., described in detail in the subsequent chapters.

So the first form of exchange began with barter when man used to exchange the thing or things he had in excess for things he had not, but required. This, as society advanced, was found to be extremely inconvenient and the necessity of a common medium was keenly felt. "Almost as early as the division of labour, a medium for exchanging various products came into use. Barter—the direct exchange of products—may be carried on under a very simple division of labour; yet even then it is inconvenient and as soon as the first stage of savagery has been passed, some use of a medium of exchange appears."

It will appear from the above discussion that in the history of industrial evolution, exchange by barter has been followed by exchange by sale and purchase. This is the stage of industrial development which we have been passing through.

As will be explained hereafter exchange takes place primarily through commerce which is a human device, to effect this interchange of goods in the world.

Distribution.

The total product or national dividend referred to above is distributed amongst the various factors producing it and in this sense the word distribution, as used in Economics, has a little different meaning from what is generally understood by it, as transference of goods to different places.

Primitive society had no problem to face in the matter of distribution of wealth, as the necessity of distribution scarcely arose, for each individual family then used to pro-

duce its own necessaries and did not co-operate with others in such production. The problem which is now so complex was not at all such before the Industrial Revolution, for even up to that time, production was more individualistic than joint. With the growth of industrialism the factors of capital and labour came into close antagonistic contact and the distributive machinery became a complicated one.

Various factors play their parts to the making of wealth. They are, as stated before, land, labour, capital, organization and enterprise. At the present stage of economic development, all these factors enter more or less into production. They cannot operate in isolation, they must operate in combination. The production to-day is a joint one, the income is a joint one and consequently it has to be distributed among the factors of production. Technically the share of the income that goes to land is known as *rent*, that which goes to labour is known as *wage*, that which is given to capital borrowed is known as *interest*, that which is given to organization is known as *salary* and the share of enterprise is known as *profit*. This technical distinction, whether very logical or not, is very convenient for the purpose of study and is justified by practice.

To make the thing clear still, let us start with a concrete example. Let us take the case of The Calcutta Tramways Company, Ltd. It was started in England by a number of enterprising people with whom the idea of supplying the premier city of India with an easy means of locomotion originated. They started the Company and began to advertise its shares when it was incorporated. It might lose or gain—whether it might lose or gain was a great risk which was undertaken by the enterprisers. They subscribed the capital, started work, appointed managers, hired an army of labourers and worked with the result that now the Company derives a good income every year. Of this a large share goes to the initiators of the Company, namely, the share holders—the men of enterprise. It is the profit. The directors, the managers, the superintendents whose work involves an exercise of brain and who are

responsible for the management of the Company, get the remuneration of their labour, known as salaries. The menials whose labour is of physical nature get their wages. The Calcutta Corporation whose roads are used by the Company, gets its share of the profit, viz., rent, and the capitalists from whom the Company borrows money from time to time in order to carry on its work get interest. This is merely a hypothetical case having substantially a realistic basis, and it may serve as a typical example of millions of concerns.

There is another aspect of the question of distribution which further complicates the matter. It is about the share of the several individuals taking part in the production. "The claim to share in the income resulting from any particular business undertaking," says Prof. Penson, "is based on services rendered, *i.e.*, on the part taken by the individual in the industrial effort as a whole. These services are not all of the same importance, and hence are not equally rewarded. Dissatisfaction therefore easily arises. Some will think that their own particular services are undervalued and the other people are receiving more than their proper share of the joint income. This is the cause of the great conflict between Labour and Capital and of the feeling of injustice which is at the bottom of what is called labour unrest. The members of the employed class as a whole think that the services of the capitalists are too highly rewarded and their own incomes are in consequence smaller than they ought to be." Here a question of Ethics is mixed with a question of Economics and a final answer is practically impossible. There are points in both the labour and capitalistic contentions and a settlement between labour and capital has still to be made.

Shares of Agents of Production.

In enquiring into the shares of the agents of production of joint income, the following questions generally arise :—

(a) What exactly is there to distribute, (b) who are entitled to share, (c) what determines the amount of each

individual's share of income. The answer to the first question is, that the amount which can be distributed as income among those who have taken part in any act of production, is the *net* product of that act. The distinction between gross and net products is to be understood here. An example is given in its entirely from Prof. Penson's book. " A factory turned out goods in the course of a year which is sold for £50,000. The raw material fuel, etc., used in the process of manufacture cost £10,000 and had to be replaced. Tools and machines were partly worn out, and most of them, it was well known, would have to be replaced in a few year's time, because, even if not worn out by then, they would be old-fashioned and would have to be discarded. A sum had therefore to be set aside at the end of the year for depreciation, which in the present example, amounted to say, £5,000. Thus £10,000 was needed to replace the circulating capital and £5,000 had to be set aside towards replacing the fixed capital. There remained a sum of £35,000 which was available for distribution among those who had contributed to the manufacture of the goods. In this case, £40,000 is said to be the gross profit and £35,000 the net profit."

The answer to the second question has already been given, viz., that there are five agents of production which are entitled to a share in the joint income. As to their shares, there is much dispute which brings us to our answer to the third question. In all undertakings, the shares of the factors of production mentioned above are not equal. In some, the contribution of capital predominates over other factors, in others, that of labour and in others, that of enterprise predominate, and so on. In the matter of distribution, two facts are to be clearly noticed,—(i) " the distribution is based on estimated product, *i.e.*, on what the results of efforts are expected to be, (ii) the incomes according to the terms of the contracts are paid in instalments and are not effected by what the net product actually proves to be at the end of the year. For one service only, was no contract made, viz., the service of enterprise. If the net

product proves to have been greater than the sums paid out in rent, wages, salaries and interest, a surplus remains, which is the reward of enterprise; if on the other hand the net product proves to have been less, then the loss falls on those who would have received the surplus if such had existed." The truth of this remark will be very clear if the reader keeps before his mind's eye the concrete example we have cited above.

Consumption.

By consumption the needs are satisfied and the utilities are destroyed, slowly as in the case of coins or furniture, or rapidly as in the case of food or cartridges. Sometimes one commodity is consumed to produce another. This is *productive consumption.* When any commodity or service is directly consumed to satisfy a want without producing any commodity, it is *unproductive* consumption.

As we have already seen, man produces to satisfy his human desire. The production is divided by exchange to be consumed. So the consumption is nothing but a part of the economic chain connecting the several factors in the economic life of man. As a matter of fact all these factors are inter-related, each reacting on the other. Want of efficiency in one therefore prejudicially affects the other. "An inefficient system of production and irrational method of consumption are all alike detrimental to the best interest of the community." There can not be a fixed standard of consumption for all. It differs with different classes in different countries and is largely controlled by such factors as natural, social and economic environments.

As in other concerns of life, a tendency to preventing harmful consumption is apparent throughout the world. The movement towards control of production of opium and restriction in liquor traffic are cases in point.

It should be noticed here that conservation of capital for production by a nation greatly depends on its economy of consumption; as, if the whole of the national income is consumed, no capital is saved. It should not, however, be

concluded from this fact that the standard of living in a country is to be kept very low for the purpose of saving, as this is often detrimental to the development of the full earning capacity of the nation. Waste in consumption is harmful and economy is beneficial, and while the former which means too high a standard of living cannot be commended, too much of the latter is also prejudicial to the best interests of the nation.

Engel's Law.

Consumption, like other economic factors in human affairs, is generally regulated in a methodical way, often not consciously, by the consumers. A law seems to pervade the population in determining the proportion of consumption of various kinds of human necessities. This is called Engel's law, on account of its being the result of investigations by a gentleman of that name into the family budgets of a large number of different classes of people. It lays down—

(a) The proportion of the income spent by a family on food, increases with the decrease of income, that is, the less the income, the greater the proportion spent on food.
(b) The proportion of the income spent on clothing, rent, light, and fuel remains almost unaltered, with the change of income.
(c) The proportion of income spent on education, health and luxury increases with the increase of income, that is, the greater the income, the higher the proportion spent on these heads.

The investigations leading to the above results were made in the West and they are approximately correct so far as the social, climatic and other conditions prevalent in the countries are concerned. Economic environment plays an important part in this respect, and this economic environment is largely determined by various internal and external factors.

SOME FUNDAMENTAL ECONOMIC NOTIONS.

In connection with the production, exchange, distribution and consumption forming the basis of commerce and industry, some conceptions about the fundamental economic laws are necessary for the reader to form a clear idea about them. Under the following heads may be given in brief the information that may be of use to the man of business for guidance in his calling in the light of the economic laws on which his operations are based :—

Utility.

This word is often used both in common parlance and in serious literary composition in a loose sense, being confounded with usefulness, and an accurate knowledge of its technical meaning as used in Economics is therefore necessary. Prof. Seligman speaks of Utility thus: "The capacity of any thing to satisfy a human desire is called its utility. When we speak of the utility of a thing, however, we do not pass any judgment upon its moral qualities. Whisky and opium may be injurious, yet so far as they satisfy existing wants they possess utility. They are called goods because they are good for the satisfaction of some want, no matter how reprehensible that want may be. In order for anything to constitute wealth, the first requisite is that it should possess utility, *i.e.*, the capacity to satisfy some desire."

Now the utility of a thing depends on its supply or abundance as also does its value. The more of a thing we have, the less we want it. The example of any commodity will suffice. In a community which has never seen a rose, the appearance of the first rose will be a notable event; it is likely to have its worth weighed in gold. One hundred roses will also be at a high price, but when the supply begins to pour in thousands, its utility will diminish and its value will fall, till nobody will care for roses at all.

This decline of the demand of a thing with the increase of supply is technically known as the law of *Diminishing Utility.*

Total Utility and Marginal Utility.

The consideration of the law of diminishing utility brings us to the consideration of *total utility* and *marginal utility*, the distinction between which, too, should be clearly understood, as it is of fundamental and primary importance. One concrete example will serve this purpose. Let us take the case of a mango. It is delightful and sweet to a hungry man, but with every additional mango his appetite will be more appeased until, let us say, with the tenth mango, he will reach the point where he will be on the margin of doubt whether to consume any more. The usefulness of each succeeding mango, i.e., its capacity to satisfy his desire has gone on diminishing, the tenth mango in the series being the least useful at the moment. The utility of this tenth mango is the final or marginal, because it is the final mango in the margin of desire. What is true of the mango is true of any other fruit, of any other material or anything else in the universe. The marginal utility of any commodity depends on the quantity at one's disposal. The more a man has of a thing, the less keenly will he feel the want of it. "If (in the above case) he had five mangoes the utility of the fifth, *i.e.*, the marginal utility, would be considerable because his last want satisfied would still be urgent. The degree of marginal utility depends on the strength of the one last satisfied or, it might be said on the need we have of more."

Value in Exchange and Value in Use.

From the above, it will be easily understood that marginal utility alone is of economic importance in deciding the *value in exchange* of a thing. The value of a thing is nothing more or less than simply the expression of the marginal utility and our estimate of this utility of a thing is always expressed in the terms of money, *i.e.*, the price we are ready to pay for it. The *value in exchange* or "the price" as Taussing observes, "measures the marginal utility, or *final utility*, of the supply to an individual," while the *value in use* represents the total utility in a sense.

Total utility in brief means all the utility that can be obtained from a thing and the marginal utility means the addition made by the last increment of the thing to the utility previously obtained.

Law of Substitution.

In connection with marginal utility, another important economic law is involved. It is the *law of substitution* or the *equimarginal returns* as it is sometimes called. It means substitution of more profitable use of money for less profitable use. For example, if one finds that he gets more utility by spending another rupee a week on tea than he loses by spending a rupee a week less on cocoa. This process will go on until the marginal utility of a rupee-worth of tea equals the marginal utility of a rupee-worth of cocoa. Similarly a produced when spending for different agents of production will be guided by the same principle and he will continue to buy more of one thing and less of another until their marginal utility becomes the same. This law may, therefore, be economically explained as each person will tend to buy different things in such relative quantities that their marginal utilities are made the same, taking the different things in units of equal cost.

We may not find the strict application of this law when buying things of insignificant price, but the law always enforces itself effectively when we find that we can save an appreciable amount by limiting our expenditure on a thing when it is comparatively expensive.

Demand and Supply.

Demand implies three factors—

1. Desire to have a thing.
2. Means of purchasing it.
3. Willingness to employ these means for the purpose of purchasing the thing desired.

In simple language it means the offer of money for things and express the prices which will be paid for those things. When we speak of the market demand, we mean the sum of the demands of all individuals buying in the

market. As Penson says, "there is no such thing as demand apart from price. If we say there is a great demand for motor cars, we mean that at the prices asked for various types of cars, people are buying freely, or at some particular time it might be said that straw-berries are at a great demand and that means that large number of people are willing to pay the price that is being asked for the fruit."

Elastic and Inelastic Demand.

There is an intimate relation between the price of a thing and the demand for it. It is an invariable rule that the quantity demanded increases as the price falls and diminishes as the price rises. The reason is simply this that when the price of a thing is low, a large number of people can afford to buy it, but when the price is very high, *i.e.*, beyond their means, they cannot. As a general rule, when the demand of a large number of things is thus affected by changes in price, it is said to be *elastic*. When it is not much affected, it is called *inelastic*. Whatever may be the price, high or low, people cannot go without bread, pulses and salt; they must purchase these things at any cost whether high or low. But this cannot be said of luxuries of life like meat and valuable clothes and the like. The demand for these is therefore elastic. Elasticity of demand is great or small according as the quantity demanded increases much or little for a given decrease of price and decreases much or little for a given increase of price.

This being the case, the price of a thing is governed by demand and supply in the long run is adjusted to it. If the producers produce things in excess, *i.e.*, more than wanted in the market, they will find themselves losers and will under compulsion adjust their supply to the demand. Like demand, supply is also governed by and is affected by price, and that higher the price the greater will be the supply and *vice-versa*.

Equilibrium of Demand and Supply.

Thus we find that the price of things will be determined by an interaction of demand price on the one hand and

supply price, which is the *marginal* cost of production, that is, the highest cost below which it cannot be produced by some firms, called the *marginal firms*, on the other. How this interaction takes place will be clear from the following illustrative numerical table in which the supposed demand and supply prices for different number of steel trunks, for example, are given :—

Number of trunks. per month.	Demand Prices. Rs. As. P.	Supply Prices. Rs. As. P.
5,000	5 8 0	5 4 0
6,000	5 7 0	5 3 0
7,000	5 4 0	5 2 0
8,000	5 2 0	5 1 0
9,000	5 1 0	5 0 0
10,000	4 11 0	4 11 0
11,000	4 8 0	4 10 0
12,000	4 7 0	4 9 0
13,000	4 5 0	4 8 0
14,000	4 3 0	4 6 0

It will appear, that in the case represented by this table, the equilibrium of demand and supply is found at the point where the number of trunks produced reaches 10,000. Only 10,000 trunks will, therefore, be produced monthly and the price will be Rs. 4-11. For, if 11,000 trunks be produced, it will be at a supply price of Rs. 4-10 (including adequate remuneration for the manufacturers) with a demand price of Rs. 4-8; so there will be a loss in the business causing a contraction in it until the number comes down to 10,000. But if 9,000 trunks be produced, then it will be at a supply price of Rs. 5 (including adequate remuneration for the manufacturers) with a demand price of Rs. 5-1; so there will be an unusually good profit in the business causing an increase in the number of trunks produced, by the expansion of the business, until the number goes up to 10,000. The nice adjustment, of course, does not take place immediately with the change in the above factors, but the law asserts itself in the long run, technically called *long period*.

Buyer's Maximum, Seller's Minimum and Consumer's Surplus.

A knowledge of the relation between demand and supply will remain incomplete without a correct idea of the above terms with their full significance.

The producer of a thing always makes it a point to sell his things at the highest possible price to his buyer; this is his maximum. There is no limit to it, but the producer has his minimum too, below which he cannot sell; this must be at least equivalent to the cost of production, involving necessarily his remuneration, the price of the materials, the wages of the labourers, interest on the capital employed, the cost of advertising, etc. As the seller wants to obtain the highest possible price for his product, so the buyer on his part wants to purchase a thing at the lowest possible price, and the lower the price is, the better it is for him. There is no limit to his minimum. Now there is a higgling between the seller's minimum and the buyer's maximum which ultimately decides the price of a thing in the market. The consumer's surplus is simply the difference between the actual price which a buyer pays and the price he would have paid for a thing rather than going without it. For instance, a man who pays one anna for a *seer* of salt, would have paid four annas rather than going without it. In this case the difference between the price which he pays, viz., one anna, and the price he would have paid, viz., four annas, is the consumer's surplus; so here it is three annas.

Marginal Cost of Production.

In this connection we may explain what is understood by marginal cost of production and what is its relation with marginal utility. The first is important for the producer and the second is important for the consumer. The marginal utility for a thing which we have fully explained in its proper place, is measured by the price which a man is just willing to pay; he can under no circumstances pay a higher price, preferring rather to go without it. If an amount of five thousand rupees is the price which a man

is just willing to pay for a motor car, this sum represents the marginal utility for him. In the same way, for a motor car seller, if an amount of five thousand rupees is exactly the price below which he cannot sell, because that sum just covers his cost of production and the minimum profit for which he can sell it, then this five thousand represents for him the marginal cost of production. The marginal cost is therefore the cost for producing a supply just paying the producer to put it on the market. Where there is free competition, normal price approximates to the cost of production and the producer who is producing under this condition keeping his head above water is termed the *marginal producer*. There is always an adjustment between the marginal cost of production and the marginal utility of a thing, which settles the price.

The Law of Varying Returns.

In connection with the productive capacity of land, one of its very important features should be noticed here. Application of capital and labour contributes to its fertility, *i.e.*, its productive efficiency to a great extent. But this has its limit. After a certain number of times the land has been placed under cultivation and after a certain extent of its yielding more than abundant returns for the labour and capital employed, it ceases to yield proportional returns. In technical language this fact of invariable occurrence is known as the *law of Diminishing Returns*. The law may be stated thus,—if additional amounts of capital and labour were applied to any given piece of land, a point would be reached beyond which any fresh application of capital and labour would result in less than a proportional return; that is to say, returns would be diminishing. Another way of stating the law is to say, that as enlarged supplies of natural products are raised, the cost of the additional supplies increases; for example, extra crops may be obtained either by spending more on the land under cultivation or by cultivating virgin soil. In the former case it will be found after some time that the extra supplies are being obtained at a disproportionately higher cost, and in the latter it will

naturally entail higher cost of production from lands at greater distance from the market or from less fertile lands then available, for the land nearer to market or more fertile must have been used first, and hence the cost of production will be higher in both the cases.

This fundamental law has been in operation since the beginning of times. Owing to apparent increase of products yielded by the soil, as a result of intensive cultivation aided by science, the law may seem to be inoperative; but really this is not the case. In the long run it is bound to tell. Every producer should do well to take note of this fact of the limitation of the efficiency of land as a factor of production. But the other factors are not so bound by limitations.

In manufacture the case is frequently the reverse: Here the *Law of Increasing Returns* prevails. This law may be said to affirm that if productive factors devoted to any manufacture are increased, usually a more than proportionate return in the long run results; that is to say, the cost of production decreases. The cause of this is that machinery can be more extensively used and labour and capital may be more thoroughly specialised, when a manufacture becomes more extensive. The industries subsidiary to it are also benefited by these processes resulting in the lowering of expenses of production. But sometimes when the cost of production comprises the cost of the material which is subject to decreasing returns, the tendency to increasing returns is counteracted.

It may be the case sometimes that there is neither increasing nor decreasing returns in an industry, when it is said to be under *Constant Returns.*

Scale of Business Units.

The size of the representative business units in industries differs, being small in some and large in others. This is also the case in the same industry and business concerns in the same line—the small and the large being found apparently to flourish side by side.

Two factors appear to determine the scale of units of business. The first is the nature of the industry and the second the nature of the demand. In some of the industries, specially extractive industries, the *Law of Diminishing Returns* applies and when the limit beyond which they become unprofitable for operation of the law is reached, their further growth is checked, for application of further capital in them becomes unremunerative. On the other hand constructive and manufacturing industries under the operation of the *Law of Increasing Returns* continue to be more and more profitable with the sinking of more capital in them and the typical business units in them are found to be large. Besides, certain industries can not be started or carried on without a very large capital, while some others require a smaller outlay. This tends to determine the size of the different business units to a great extent.

(The second is that when there is a steady demand for some commodities, the organization to meet it will tend to become large, for a considerable part of the process of production will in that case be standardised and reduced to routine. But when the demand for the production is irregular and uncertain and the market for it is limited, the attention of the organization will have to be directed to satisfy different tastes, and standardisation to an appreciable extent will not be possible. In such cases personal attention of the organizers will be necessary, without much being left to the routine. The business units in such cases will necessarily be small. In wholesale business and big concerns like Railway Companies, Insurance Companies, etc., the units are therefore large and in retail business and concerns like Tailoring Companies, Leather Goods Manufacturers, etc., such units are small)

Variety of taste of the people also contributes to some extent to the success of both large and small scale business in the same line, the size of which is determined by such varying taste. We shall have occasion to discuss about the advantages and disadvantages of both large scale and small scale industries hereafter.

QUESTIONS BEARING ON CHAPTER II.

1. What is the relation of Business with Economics ? How is the latter a science of wealth ?

2. What is wealth ? Define it and give your opinion with reasons as to if immaterial goods are wealth.

3. What are Direct and Indirect goods? Explain by examples.

4. What is meant by Free goods and Economic goods ?

5. Explain the economic meaning of production.

6. What are the different systems and different stages of production ?

7. Why is exchange necessary ? How did it develop with the progress of Society ?

8. What is exchange by barter and exchange by sale ?

9. What is to be understood by the word "distribution" when used in Economics and when used in a general sense ?

10. Why is the problem of distribution now a complicated one?

11. What are the factors of production entitled to its shares ?

12. Describe the function of capital in modern Industry and Commerce.

13. What are the main facts to be taken into consideration in connection with distribution amongst several agents of production?

14. What is meant by consumption of wealth ? What is to be understood by efficiency of consumption and harmful consumption ?

15. How is consumption related to capital ?

16. "Waste in consumption is harmful and economy is beneficial, and while the former which means too high a standard of living cannot be commended, too much of the latter is also prejudicial to the best interests of the nation." Explain.

17. What is Engel's Law ? Discuss its applicability to Indian condition.

18. Explain "utility." Has opium or whisky any utility ? Give reasons for your answer.

19. Explain total utility and marginal utility.

20. How does marginal utility alone decide the exchange value of a thing ?

21. What is law of substitution ? Explain by an example.

22. What does the demand of a thing imply ? How do demand and price depend on each other ?

23. Explain elastic and inelastic demands.

24. What is equilibrium of demand and supply ? Explain by an example.

25. Explain by an example what are buyer's maximum seller's minimum and consumer's surplus.

26. What are marginal cost of production and marginal firms ?

27. Explain law of increasing returns, law of decreasing returns and law of constant returns.

28. What are the factors upon which the limit to the size of a business organization will depend ? Explain how they act.

CHAPTER III.

ORGANIZATION OF OFFICE.

MECHANICAL EFFICIENCY DEVICES.

IN modern business the office and office routine play an important part—a part the usefulness of which can not be over-estimated. The office may be called the generating machine of the whole mechanism of the business transacted by a business concern. The modern office is generally situated in an up-to-date building and furnished with all necessary fittings and furniture and presided over by the senior partner or the manager or some other responsible person. In a big up-to-date office the following labour saving and efficiency devices and appliances are generally found though this list is not to be taken as an exhaustive one. The requirements will naturally vary with the nature of the business transacted by a concern.

The Telephone.

This has become one of the most important devices to keep the head of the office in constant touch with his departmental heads as well as outsiders far and near Telephone has now come to such a perfection that conversation can be held with its help with persons at a distance of many thousand miles. In many big offices telephone clerks are now employed specially for the purpose of operating this machine in order to save time of those responsible persons who are generally engaged in more important office work. In big offices where intercommunication is necessary, internal telephones are now fitted up to save time in communication between those engaged in the office. There are several varieties of this system of internal telephones.

Automatic telephone system is now replacing the old style. It dispenses with the necessity of an exchange or an operator, for a subscriber under this system can be called by adjustment of a dial, with the numbers 1 to 9 and 0, fitted to each receiver.

The Typewriter.

The typewriter has now become an indispensable necessity for an Office. With its help scribbling by hand has almost been done away with and very neat and clean writing in types has been substituted in its place. Besides, with its help as many as twelve copies can be obtained in one operation. The machine requires no description. If properly cleaned and overhauled, it continues to give efficient services for years.

The Dictaphone.

This machine is used in the offices where the correspondence is very heavy. It is practically a phonograph worked by a motor which puts the machine in motion as soon as the mouthpiece is taken off the holder. The letter or any other message to be transcribed is then dictated into the mouthpiece and it is automatically recorded on a wax cylinder. The typist can then receive the dictation through his transcribing machine in which the cylinder is placed and with the help of the earphone can type it at his convenience. No shorthand notes therefore are necessary and the presence of the typist before the dictator is dispensed with. Busy and responsible officers of business houses can choose their convenient time to dictate letters with the help of a dictaphone without requiring the services of a shorthand typist who might have busily been engaged at the time, and thus effecting considerable economy in time.

The Duplicators.

The Roneo Letter Copier—This machine can be worked either by hand or by electricity. The letters to

be copied are put into the Rollers and as the machine is moved it is copied on a roll of specially prepared paper and delivered on the other side on a tray. As each letter passes through the machine, an automatic knife cuts the roll into separate sheets which are delivered as above. As many as sixty letters can be copied per minute with the help of this machine.

Copying ink or copying ribbon is to be used to write or type the letter to be copied by this machine. When typed, five or six good copies can be obtained from the original, if necessary, with its help.

The Flat Duplicator—With the help of this duplicator which is always hand-driven, as many as one thousand copies of a letter or any other document can be prepared from one stencil. The original is typed or written on a stencil and stretched on the frame of the machine and then covered with a silk sheet. The paper is placed on the bed of the machine and the stencil frame is pressed after inking the slab. The ink is pressed through the stencil and a copy is formed on the sheet of paper. The process is repeated for each copy required.

The Rotary Duplicator—This is an improved form of the flat duplicator and is operated either by hand or by electricity. The stencil in this machine is stretched on a round drum and the paper is passed between the cylinder and the roller. There is the automatic inking system. With the rotation of the cylinder the paper is carried with it on which the copy is imprinted and drops into a tray. The machine then picks up another sheet of paper and the process is continued until the required number of copies is received. One stencil specially prepared for use in this machine can produce up to ten thousand copies of the original.

The Rotaprint.

Instead of the stencil as in the above process, a flexible aluminium plate is used in this machine. Special ribbon or special ink or pencil is to be used in writing on this plate after which it is treated by a chemical. It can then be used

for duplicating purposes as in the case of other duplicators above mentioned but with a remarkable speed of even 6,000 copies per hour.

In addition to use in duplication the metal plates can be sensitised by day light rays when a negative can act on it. Illustrations in lines or half-tone or letter headings, plans, etc., can be reproduced with the help of this machine. So it has the added advantage of being useful for photographic work.

The Photostat.

This is a small photographic machine with a camera and a receptacle for sensitised papers with developing and fixing arrangements. The lens and the prism are three and all the processes of cutting, developing and fixing are carried on in the machine itself, no negative and dark room being required. It can be focussed to the required size of the copy. The machine is useful for the photographic reproduction of drawings, maps, etc., etc.

The Printing Machine.

In some big offices where large number of circulars, price lists, etc., are frequently required, a small printing machine of special make is used instead of or in addition to stencil duplicators. These are generally rotary machines known as the *Multigraph*, the *Roneotype* or the *Presilo*. No stencil is of course used but lead types are set up instead and arranged in a pliant case called a "form" which is fixed round the cylinder. The paper put between the type face and a second cylinder is printed with the revolution of the cylinder at the rate of about six thousand copies per hour, if the machine is electrically operated. An additional advantage of this machine is that "blocks" or "electros" can be used in setting and thus illustration and diagrams, etc., can be printed.

Besides the above, a more up-to-date office is provided with Calculating machine, Book-keeping and Ledger-Posting machine. Addressing machine, Tabulating machine, Gumming machine, Sealing machine, Numbering machine,

Folding machine, Stamp-Affixing machine, Franking machine, Stapling machine and some other minor labour saving devices. The use of these machines is indicated by their names.

BOOKS AND FILES.

Various Books and Files are kept in the office for recording transactions. These are the most essential things for an office and without them transaction of business is impossible. In the following few pages we have tried to give a short description of some important Books and Files in general use in mercantile offices, together with the procedure followed in keeping them.

Letters Received Book.

All letters received in the office are recorded in this book. They are generally numbered and stamped with a date stamp and entered in the book in which there are columns for noting the serial number, date of receipt, name of the writer, his address and its contents in brief. This book is very useful as a document for future reference. The inward correspondence in big offices is generally classified under different heads according to requirements of the particular office. The letters are then passed on to the officers concerned who take necessary steps on them. For instances,—*orders* are made over to the sales manager; *invoices, receipts*, etc., to the accountant; *enquiries* and *complaints*, etc., to the departmental head; *agreements*, etc., to the secretary; *letters with remittances* to the cashier; *letters on technical matters* to the works manager; and so on. They thereafter receive the necessary treatment on which a proper check is maintained by the responsible office master through a regular process of supervision.

Despatch Book.

All outward correspondence is entered in this register with such headings as are considered necessary by the

particular office. Generally the date and number of the letter, the name and address of the person of the firm to whom it is sent and the contents of the letter in brief with the particulars of postal charges are entered in this book. For parcels a separate despatch book is kept and necessary particulars are entered in it.

It is not of course necessary to copy the inward correspondence as it remains in the office in original and may be referred to when necessary; but copies of outward correspondence must be kept, so that the full particulars of what has been written to various parties may be found at once when necessary. Correspondence which is in progress is ordinarily kept in a *Suspense File* and dealt with in different ways by offices according to their practice and necessity. Completed correspondence is filed with necessary data on it.

Enclosures, if any, are to be carefully sent with the letters, a note to the effect being made at the foot of the letter. Transparent envelopes are sometimes used for outward correspondence and the letters are so folded as to make the typed names and addresses of the persons written to appear through the transparent portion of the envelopes. These envelopes are known as "window" envelopes.

Outward Correspondence.

There are more than one way of keeping copies of outward correspondence, but a system of Rotary Copying is now almost general in modern offices. This is done generally with the help of a Rotary Copying Machine as explained above.

Carbon copies are kept in some offices. This is done by putting an extra sheet of paper under a carbon paper in the type-writing machine and an impression is obtained on this paper when the letter is typed. More than one copy may be obtained by similarly putting more extra sheets with carbon papers in the machine. If the papers used be thin, sometimes even a dozen copies may be obtained by this process.

The oldest method of copying letters is by a Copying Press. Though this process gives a faithful copy of the letter, the system is very cumbersome and is becoming out of date. This is done with the help of a Copying Press, with some other paraphernalia, such as Damping Brush, Oil Sheets, Waterwell, etc., which are all familiar objects to our readers.

Manifold Books.

Sometimes books are used by firms for keeping copies of estimates, invoices, cash memos, etc., with numbered printed heads of each class of documents separately. Copies of writing day to day are obtained by placing a tin plate underneath the sheets to be written with a carbon paper between them. When the writing is done with a hard pencil a *facsimile* carbon impression is simultaneously obtained in the sheet of paper underneath. These books are known as Manifold Books.

Index.

Firms have got to despatch a large number of letters and when a reference to any one of these is necessary it becomes very tedious, if not impossible, to find out the copy of the required letter which might have been filed long ago. Hence an index of these letters is kept. This is prepared in various ways. Improved methods of indexing are being introduced with the increase of complexity in business.

Alphabetical List and *Cross-Reference*—Generally two different methods are followed in keeping this index. In some offices an alphabetical list is kept in the beginning of the book where the name of the correspondent is entered together with the number of the page of the book in which the letter has been copied. Where there are more than one letter addressed to the same correspondent all the numbers of the pages in which the letters have been copied are given in the index. Sometimes there are a good many letters to a single correspondent and to find the copy of any particular letter it may be necessary to refer to the index

so frequently that much time is lost to find it. A device in this respect, called Cross Reference, is followed to obviate this difficulty. Every copy of the letter in such cases is cross-referenced by entries in coloured pencil on the page numbers, to the letters to the same correspondent preceding and following the letter under reference. By this way reference to the index again and again becomes unnecessary, as from the pencil entries on the top of the copy of each letter, the numbers of pages of two or more letters to the same correspondent are found.

The Card Index.—More up-to-date offices have now introduced the card index system. By it, matters have been made more elaborate and at the same time more easy. A card is allotted to each correspondent or customer and all particulars about him are entered in it. These cards are then kept in card drawers arranged alphabetically and sometimes numerically or geographically according to the necessity of the office. In order to facilitate reference, guide cards are made to project above the cards and by this way the required card can be found out at once, and with the help of the entries on it the correspondence or other particulars not in the card are traced. Card index system has now been improved by the introduction of different new varieties facilitating reference and increasing advantages.

Docketing.

While copies of outward correspondence are thus preserved, inward letters are filed in such a manner as to be easily available with the letters which are replies to them. So, when necessary the whole correspondence may be referred to and the case dealt with. There are different systems of filing and preserving correspondence in office.

Some offices adopt the system called Docketing for this purpose. This is done by dividing the letters alphabetically and folding them in a uniform way. The name of the writer and his address with date and particulars of the contents of the letters or other documents are then noted at the top of the folds and distributed alphabetically in the

compartments of a nest of pigeon holes. The compartments are generally twenty-four in number, each compartment having a letter of the alphabet written in bold types at the top. If there be any necessity of separating the letters from other documents, separate nest of pigeon holes may be used. Any set of particulars desired may be noted on the folds of the documents, but generally the name of the correspondent, his address, the date of the letter and a very brief note of its contents are entered.

At stated periods the docketed documents are removed from the pigeon holes and rooms are made for fresh letters. The correspondence or other documents taken away are made into bundles and their contents are briefly marked on them. They are then alphabetically arranged and the period to which the bundles appertain is also noted on them. These are all marked in bold letters on the bundles which are kept in the record room or any other place set apart for the purpose.

Flat or Horizontal Files.

Another method of filing in general use in offices is Flat Filing system, consisting generally of what are called the Pilot Filing and the Shannon Filing. The former is nothing but a box like binding case and the latter a file in which the papers are pierced by a punch with two holes for fixing them to two projecting spikes. The papers are held tightly to it by a mechanical contrivance. The Pilot filing is a Loose-Sheet system while the Shannon filing is a Liver-Arch method.

Vertical Files.

This is a cabinet consisting of a number of compartments in which the correspondence is filed in upright folders by various mechanical devices in alphabetical, geographical or any other convenient order, so that the required correspondence may be found at once for reference, when necessary. The compartments or drawers made in various sizes are fitted with "expanders" which hold up the folders. A

set of guide cards is there which with its projecting tabs divide the folders into parts with their distinctive marks.

The reader may get himself familiar with the various devices for filing correspondence in a few days' time, if and when he comes to work in an office. The system is mechanical and practices in different offices vary according to the taste, convenience and requirements of their masters. Various improved systems of filing are now coming into use.

Precis Writing.

In big offices it is not always possible for the heads of the departments to read long letters or the whole of a series of correspondence, often tedious and long. Hence precis is made of such letters or series of correspondence, which means preparation of a brief summary. The object of precis writing is to give the digest of the subject matter of the whole, correspondence in a form which expresses its substance in a succinct way. The main points in the original letters are made prominent in the precis while the unimportant points are omitted. Precis of a long series of correspondence is generally written in narrative form. Precis should always contain the date of the letters, the names or designations of their writers and the names or designations of the persons to whom they are written. Precis is necessarily in the third person and should be written in the *past* tense, where appropriate. The following examples will be explanatory of the subject :—

RECOMMENDING FOR HELP FOR LITERARY PURPOSES.

No. P $\frac{129}{694}$

From the Chief Secretary to the Govt. of Bengal,
To the Secretary to the Govt. of India.

Dated, Calcutta, the 4th May, 1909.

Sir,

I have the honour to enclose herein an application from an author of repute in Bengal who prays for State grant to his project

of translating one of India's best Epics, the **Ramayana.** His Honour the Lieutenant-Governor of Bengal has great pleasure in recommending the work to the Government of India, and will be glad to see the author patronized by Government.

I have the honour to be,
Sir,
Your most obedient servant.

PRECIS.

Secy. to Bengal Govt
To Secy. India Govt.
129
No. P————of 4-5-09.
694

Enclosed application of a reputed author praying for State grant for translating **Ramayana.** L-G recommends with pleasure and will be glad to see him patronized.

II.

APPLICATION FOR INVALID PENSION.

Sir,

I have the honour to submit that I have served the Government faithfully and humbly for 23 years from 1910 to 1933, and have always been spoken of favourably by my superiors. I am now not in a fit state of health and I enclose herein a medical certificate of my incapacity for further service. I shall feel highly obliged if you will kindly permit me to retire on such pension as I may be entitled to.

I have etc.

PRECIS.

Letter No.....
Mr.————to the
Secretary
Date.....

Applies for permission to retire on pension. Encloses medical certificate stating incapacity for further service. Worked faithfully for 23 years from 1910 to 1933.

III.

PERMISSION TO REMOVE A BODY FOR RE-INTERMENT.

Sir,

I have the honour to bring to your kind notice that Mr.———— came out to this country with letters of introduction to me and died suddenly at——Calcutta. I had his body interred in the Burial Ground at Circular Road. His widow now writes to me to have his body exhumed and buried in the family vault in — Church at —. But I am advised that the Chaplain under whose care the Burial

Ground is, requires the sanction of the Government, I would be much obliged if you would be good enough to give me the necessary sanction.

I have etc.

PRECIS.

Letter No..... Mr.....to the Secretary, India Government. Date.....	Asks permission to remove the body of..... from..... to..... for re-interment in a family vault.

IV. A SPEECH.

"We rest in the confident belief that England, in spite of her burdens and her disadvantages, will maintain her commercial pre-eminence among the nations of the world, provided only she can also maintain, or rather also elevate, the moral and spiritual life of her own children within her borders. Her material greatness has grown out of her social and religious soundness, and out of the power and integrity of individual character. It is well to talk of our geographical position; but this does not alone make a nation great in industrial pursuits. There is our mineral wealth; not, probably, so much greater than that of other lands as earlier extracted and employed; and whence proceeded that earlier extraction and application? There is our capital, the fruit of our accumulated industry; why does this exceed the capital of other nations, but because there was more industry, and therefore more accumulation? There are our inventions; they did not fall upon us from the clouds; they are the index and the fruit of indefatigable thought applied to their subject-matter. It is the creature Man, such as God has made him in this island, that the moving cause of this commercial pre-eminence of the country is to be found; and his title to that pre-eminence is secure if he can in himself but be preserved, or even rescued from degeneracy.

PRECIS.

The commercial pre-eminence of England is due to the industry, inventions, and character of her people, and it will be secure if they are preserved from degeneracy.

CORRESPONDENCE, TELEPHONE AND TELEGRAPH.

To be useful in an office, one must know the etiquette of addressing letters, using a telephone and writing telegrams, as business generally is transacted through their medium and success to a great extent depends on their proper and skilful use. Different forms of address to different people are necessary and while the proper use of the form means a good deal, its improper and wrong use sometimes affects business in sensitive quarters. A student therefore must know the form of address in general use. Indians are sometimes found to use it very loosely causing some merriment elsewhere. This can be avoided by taking some care in noting the following modes of address to be adopted when writing to people of different grades and professions :—

Forms of Address.

When writing to a private gentleman, the word "Esquire" or its abbreviation "Esqr." should be used after his name, e.g.,

D. N. Bose, Esqr.,
39, Simla Street,
Calcutta.

If he has a degree or any distinction, this should be added at the end, e.g.,

D. N. Bose, Esqr., M.Sc., F.C.S. (Paris),
39, Simla Street,
Calcutta.

but when he is a professional man and that profession is indicated by a prefix to his name, the word "Esqr." after the name is to be omitted. The degree or distinction may also be omitted in the case, e.g.,

Dr. D. N. Bose,
39, Simla Street,
Calcutta.

or, Professor D. N. Bose,
39, Simla Street,
Calcutta.

but the degree or distinction also is generally added in such cases, e.g.,

Dr. D. N. Bose, M.B.,
39, Simla Street,
Calcutta.

or, Principal D. N. Bose, M.A., B.L.,
39, Simla Street,
Calcutta.

The name of a tradesman should be prefixed with "Mr." and that of a firm with "Messrs." as follows :—

Mr. J. N. Roy,
Chemist and Druggist,
8, College Sqr., Calcutta.

or, Messrs. Roy, Martin & Co.,
General Merchants & Order Suppliers,
23, Fairlie Place, Calcutta.

If the addresse is a limited company, then the word "Limited" or its abbreviation "Ltd." should be added after the name, e.g.,

Messrs. Roy, Martin & Co., Ltd.,
General Merchants & Order Suppliers,
23, Fairlie Place, Calcutta.

The word "Messrs." should never be used when the firm addressed to, is trading under an impersonal name, e.g.,

The Bengal Engineering Co.,
The Great Indian Insurance Co., Ltd.

that is, they are to be addressed in their bare name only without any prefix. This point is to be specially noted as this rule is very frequently disregarded in India.

Persons of different religious orders are to be addressed with different prefixes as follows :—

"The Reverend" for an ordinary Clergyman,
"The Venerable" for an Archdeacon,
"The Right Reverend" for a Lord Bishop,
"The Very Reverend" for a Dean,
"His Grace" for an Archbishop,
"His Eminence" for a Cardinal.

The word "Sir" is to be prefixed to the name of a Knight. If he is possessed of any order or degree or other distinction, it should be added after the name, as follows :—

Sir K. C. Roy, M.A., B.L.

A Baronet is to be addressed with that distinction after the name, e.g.,

Sir K. C. Roy, Bart.

The degrees or distinctions, etc., if any, are to be put after the word "Baronet" in the above case.

The members of the British Peerage should have the following prefixes :—

"Most Honourable" for a Marquis,

"The Right Honourable" for other Peers.

Dukes should have the words "His Grace" prefixed to their names.

The proper superscription for Secretaries of State, is,—

"To the Right Honourable (name) His Majesty's Principal Secretary of State for....."

Ambassadors and their wives are to be styled as "His or Her Excellency."

Envoys and Charges D'Affairs are also given the same prefix, though by courtesy only.

The Pinces and Princesses of the *Blood Royal*, that is, the King's sons and daughters, brothers and sisters, uncles and aunts are to be addressed,—

"To His (or Her) Royal Highness."

But the nephews and cousins who are only of the *Blood* should have the prefix "Highness" only, unless specially permitted by the King to add the word "Royal" before "Highness."

The British Sovereign should have the prefix,—

"To the King's (or Queen's) most Excellent Majesty," and should be addressed, "Sire (or Madam), Most Gracious Sovereign; May it please your Majesty."

The conclusion should be,—

"I remain with the profound veneration, Sire (or Madam), Your Majesty's most faithful subject and dutiful servant,"

All reigning Kings should have the prefix,—"His Majesty",

The Governor General and his wife and Provincial Governors and their wives are to be styled, "His or Her Excellency." The Commander in Chief is also to be addressed as 'His Excellency.'

The rulers of important Native States are to be addressed, "To His Highness."

The members of the Executive Council of the Governor General, the members of the Council of State, the President of the Legislative Assembly, the Ministers of the Provincial Government are styled as 'The Hon' Mr. So & so.

The judges of the High Court are addressed thus : The Hon. Justice Mr. R. N. Mitra.

Correct Beginning.

Besides being careful in addressing people properly, it is necessary that letters should begin in such a way as to recall the subject matter of the correspondence, so that the reference may at once be apparent to the reader. For instance, suppose, a letter is written to a Life Assurance Co., about a proposal already sent. It should begin like this—

"Dear Sirs,

Re : Proposal on my own life dated....."

Date and number of the letter (if any) of which it is a reply should also be given in the following manner :—

"With reference to your letter No..... dated the...., I have the honour, etc....."

Correct Ending.

Like the correct beginning of a letter attention is to be given to its correct ending also. Some formal words are used for this purpose, called the complimentary close. These are, "Yours faithfully" in ordinary letters, but according to circumstances "Yours respectfully," "Yours obediently," "Yours sincerely," "Yours affectionately," etc., are used. In formal letters these are preceded by the words "I remain," "We are," "I am," "We remain," after

phrases like "Awaiting the favour of your esteemed orders," "Apologising for this delay in reply," "Recommending the draft to your kind protection," "Regretting our inability to accept your offer," etc., etc.

Business letters should have persuasive phrasing and must be full of courtesy.

Telegrams.

Some explanation is necessary about the use of telegrams specially in business transactions. As the charge is made according to the number of words used, it is necessary that a telegram should contain the least number of words, but at the same time should convey the exact meaning intended by the sender and must not be ambiguous in any way.

For the sake of cutting down expenses, specially in foreign telegrams, in which the charge is comparatively very high, and sometimes for privacy, telegraph codes are used. In them, one word is made to serve the purpose of a group of words and the messages are understood with the help of the recognised Code Books.

Many firms have their own private codes for use between the head office and branches or agencies. In such case a word is allotted to mean a particular message known to those offices only. By this means the telegram is shortened and secrecy ensured.

The words and figures used in codes are without any ordinary meaning and are composed of five of them. As up to ten letters or figures are allowed to form a code word, two of them may be joined together for economy when sending a message. There are different telegraphic codes in use, such as the ABC, Bentley's, Marconi's, etc. The code used by a firm is indicated in its letter heads for guidance of correspondents. The following examples will be illustrative of the use of public and private telegraphic codes :—

ABC CODE, SIXTH EDITION.

Episo.....Endeavour to get a deck cargo at shipper's risk.

Epsov..... Expect it will have to go on deck.
Epsua..... Expect the latter will go on deck.

PRIVATE CODE.

Binus..... Market rising, go on purchasing.
Bipad..... Market falling, stop purchasing.
Biram..... Market steady, purchase if rate favourable.

ABC CODE JOINING TWO CODE WORDS.

Wuank.....We offer subject to being unsold on receipt of reply.
Grylz..... Tates No. 1 Cubes.

The message, " We offer subject to bring unsold on receipt of reply Tates No. 1 Cubes' when codified will be " Wuank-grylz."

PRIVATE CODE JOINING TWO CODE WORDS.

Arino.... We have sold 1000 bales one month's delivery.
Atona.... Purchase to cover the quantity as soon as possible.

The message, " We have sold 1000 bales one month's delivery, purchase to cover the quantity as soon as possible" when codified will be " Arinoatona."

Cypher telègrams are specially used for absolute secrecy. They are generally composed of wholly of figures or wholly of letters. Each of these Cyphers indicates a certain message known only to the sender and his correspondent. Every separate figure or letter or a group of five figures or letters or a part thereof is reckoned as a word in cypher code which is nothing but a special private code. Combination of two or more real current words to form a cypher is not allowed.

Specimen Business Letters.

A few specimen business letters are given here including some from the " Wide World English Correspondence " by Mr. K. M. Banerjee, " Principle and Practice of Commercial Correspondence " by Prof. J. Stephenson, " Effective Business Letters " by Prof. Edward Hall Gardner and " Modern Commercial Correspondence " by Mr. J. K. Grebby.

A Tradesman Commencing Business.

Canning Street,
Calcutta, 10th July, 1930.

Dear Sir,

We beg to inform you that we have commenced business at the above address as motor and cycle dealers. If favoured occasionally with your orders, we shall esteem ourselves indebted. Our stock has been selected with great care from those of the leading warehousemen in England and elsewhere, and we have made arrangements to add thereto the newest patents or patterrns as they are produced by big manufacturers. The assistants, we have engaged, have long experience in the line and are qualified in every respect to give prompt and satisfactory effect to a customer's wishes.

We enclose a catalogue and trade price-list of principal articles in our stocks.

Yours etc.

Complaining of Delay in the Execution of Order.

Dear Sir,

On the 10th instant I forwarded you an order, requesting you to execute and despatch it not later than 20th instant. The 23rd of the month has arrived, but the goods have not yet come to hand, neither have I received any tidings of them.

This delay has put me to the greatest inconvenience and has compelled me to break my faith with some of my best customers. If you found it impossible to execute the order by the time stipulated, for, should I not expect you in fairness to write me to that effect, in order to enable me to advise my customers accordingly?

I now write most positively to say that unless the goods are delivered by the 30th instant at the very latest, I cannot receive them, as after that date they will be perfectly useless.

Trusting that you will make every effort to prevent further disappointment and delay.

I remain,
Yours etc.

Reply to the Above.

Dear Sir,

I regret exceedingly the non-delivery of your esteemed order, and the inconvenience and disappointment occasioned thereby. I can assure you however, that I am in no way responsible for the delay but that, on the contrary, I have made every effort to secure the prompt execution and despatch of the order.

It happens unfortunately for us, that just at the present moment, the manufacturer is overwhelmed with business, and in a juncture such as this, there is no help for it but to wait patiently the execution in the due course of the orders sent.

With the hope, however, of prevailing upon the manufacturer in this particular instance to use a little extra diligence, I have sent him an urgent messenger, and I feel certain that if my request can be complied with, it most certainly will be. So soon as my messenger returns I wire you such positive information as may prevent further disappointment.

I must apologise for not having written to you previously; but the truth is, I myself was expecting every day to hear some tidings of the order which I might send you.

Regretting the trouble and annoyance to which you have been put, and trusting these will be speedily remedied,

I remain, etc.

Applying for Agency.

Gentlemen,

Having heard that you are desirous of establishing an agency in this city for the sale of your goods and being at present in search of such an appointment, I take liberty of offering my services.

I beg to inform you that I have been established for many years in this place, and have not only a thorough knowledge of the class of goods in which you deal, but am also intimately acquainted with most of the persons in this locality who are likely to be interested in them. These you will own to be of special advantage, to which I may add, that I can furnish you with the highest references of my respectability and business qualifications.

Should you entertain by proposal, and consider it necessary for me to wait upon you personally with a view to further arrangements, I shall be most happy to come to town for that purpose, or to meet your representative here or elsewhere. If, on the other hand, you deem it possible to settle terms, etc., by correspondence, I shall be prepared to receive your instructions per letter and to return you such answers as may assure you of the business having been entered upon with a perfect understanding.

Awaiting the pleasure of an early reply,

I remain, etc.

Commencing Business by Indent.

Gentlemen,

Though we are not fortunate enough to be personally known to you, yet we take the liberty to address you on the desirability of establishing business connection with your firm. We import sundry stationery goods from the European and Japanese manufacturers for sale here and carry on business on an extensive scale. If you can keep us supplied with goods of quality and description we intend to have, we shall be happy to deal with you, in wholesale business from time to time.

Against your shipment, and on the Bill of Lading and Policy of Insurance of the articles sent out, reaching us, we shall remit

the value of the goods by Telegraphic Transfer or Demand Draft as will suit you best.

As regards the character of our firm we beg to refer you to our London Agents, Messrs. Moore, Robinson & Co. of Cannon Street, E. C. and Messrs. Robert, Walker & Co., Bankers, of Fenchurch Street, either of whom, we are confident, will satisfy you.

We are, etc.

Introducing a Representative by Letter.

Gentlemen,

Mr. K. C. Roy, who will have the pleasure of presenting this to you, has recently been appointed a representative of our firm and goes to your town with a view to entering into business arrangements with yourself or one of your neighbours. We shall be gratified to hear that you have honoured us by opening an account through him.

We are, etc.

Confirmation of Sale.

Dear Sirs,

We beg to confirm having this day sold to you—

Quantity : 5000 (Five thousand) Prime Newzealand Lambs.

Brand : SX.

Price : 10¼d. per lb.; C. I. F. Colonial Weights.

Shipment : First week June next.

Payment : Cash against documents on arrival of vessel in London. Any dispute arising out of this contract to be settled by arbitration in London in the usual way.

Yours etc.

Complaint about Damage of Goods.

Dear Sirs,

We regret to find on opening up the 10 cases of glass delivered here yesterday by Messrs. Brash and Rotheram that 10 per cent. of the sheets are broken, 50 per cent. show bottles, and nearly all are badly scratched.

Will you please instruct your London Agents to inspect and report to you upon this delivery, because we shall have to claim upon you for the 33⅓ per cent. of the amount of your invoice the balance representing our estimates of the value of the glass as it stands ?

As we are under contract to deliver assorted size of this quality immediately, and are awaiting your decision before cutting up, we look for your immediate attention to this matter.

Yours etc.

Urgent Reminder for Settlement of Account.

Dear Sirs,

We are still without settlement of our account rendered, £18 10s. 6d., notwithstanding our letters of the 15th and 31st ultimo and

must for the third time request you to give your immediate attention to this matter. Further, the remittance must be made in full, as the settlement discount is contingent on payment within ten days from date of rendering.

Yours etc.

Acknowledgment and Remittance.

Dear Sirs,

I beg to acknowledge receipt of the two tons of Cooking Peas, the consignment of which you advised me by your letter of the 3rd inst., and which I have found to be in order.

In payment of your account, I enclose cheque for £19 5s. 3d., and shall be glad if you will acknowledge its receipt and credit me with the amount.

I beg to remain,
Yours faithfully,

Postal Enquiry about Parcel.

Dear Sir,

On the 4th Sept., between 10 a.m. and 11 a.m., we forwarded from your office a small parcel in grey packing paper, containing vanilla, and addressed to Mr. John Smith, 96, Halliwell Road, Bolton. On the 10th Sept., our customer advised us that the above mentioned parcel had not yet arrived, and we shall therefore be glad if you will make the necessary inquiries in regard to this parcel, and let us know the result thereof.

Thanking you in anticipation,

We are,
Yours faithfully,

Enquiry about Machinery.

Dear Sir,

We are indebted for your address to Mr. A. Taylor and beg to hand you enclosed drawings of three pumping machines, requesting you to inform us by return for what price and in what time you can deliver them. We would mention that we are in a hurry for the machines, which must be delivered not later than the 1st August.

Should your price suit us, and the machines prove satisfactory, we may be able to give you further orders, as we shall need some more machines to complete our factory plant.

Yours truly,

Refusing a Claim.

Dear Sir,

We regret that we are unable to allow the return of the articles mentioned in your letter of September 9.

Goods of this character, intended for personal use, are not saleable after return, so that we have been obliged to pass a regulation against accepting them for credit.

We regret to inform you that your claim for $ 19.45 for damage of goods delivered on May 2, has not been allowed.

It appears that the shipment left our house in good condition and was delivered in good condition, so that if it is damaged the responsibility does not lie with us.

We trust you may be able to locate the responsibility.

Yours truly,

Refusal of Credit.

Dear Sirs,

We thank you for your courteous letter enclosing an order to be shipped on open account. Our soliciting orders through catalogues causes us to experience considerable difficulty in obtaining needed information, so that consequently in very many cases we are obliged to depend largely upon commercial agencies for a credit basis, even though we are unable to guarantee their correctness.

In the present instance we are very sorry to find the mercantile report somewhat unfavourable, so that until we can become better posted we cannot, according to our conservative methods, offer you a line of credit. We therefore hope you may feel disposed to accept our cash terms for your immediate wants, and we believe a careful consideration of our circular offers will enable you to see your way clear to do this.

We think we can succeed in becoming better acquainted in this way, and we trust such an arrangement may prove temporarily satisfactory. We hope you will excuse the unavoidable delay in replying to your letter.

Yours etc.

Application For Clerkship.

Dear Sirs,

With reference to your advertisement in to-day's "Times," I beg to offer myself as an applicant for the clerkship which is about to become vacant in your firm.

Although I am satisfied with my present situation, it has been my wish for some time past to extend my knowledge by obtaining a position in a large commercial centre.

In regard to my character and commercial experience, the copies of three testimonials which I enclose will give you the fullest information. I shall be pleased if you will be good enough to favour me with an appointment for a personal interview.

Should you decide to engage me, you may rest assured that it would be my constant endeavour to merit your confidence by conscientious devotion to my duty.

In anticipation of a favourable reply

I am, Dear Sirs,
Yours respectfully,

Another Application For A Post.

Sir,

In reply to your advertisement in to-day's "Statesman," I beg respectfully to offer my services for the vacant post of Accountant.

I am just over twenty years of age, and have left College about a year after passing the Intermediate Examination of the Calcutta University in the first division. During this time I have been striving to make myself proficient in shorthand and typewriting and have now attained a speed of ninety and thirty words a minute, respectively.

While I was at College I gained first place in Commercial Arithmetic, and also received a pride for elementary book keeping. I have besides, a fair knowledge in English literature and History. My late principal Prof. John Beary of the St. Thomas College will, I am sure, speak favourably of me, and I am also permitted to refer you to Sir L. H. Mehta of Dalhousie Square, Calcutta, who has known me all my life.

Soliciting the favour of an interview and assuring you that if appointed, I will do my best to give satisfaction,

I remain,
Yours obediently,

Request for Renewal of Bill of Exchange.

Dear Sir,

We regret to inform you that owing to the serious depression of trade now prevailing we shall be unable to meet our acceptance for Rs. 1500/- which matures for payments to-morrow. Enclosed we beg to hand you a cheque for Rs. 1000/- and shall be obliged if you will renew the balance at one month under interest. May we express the hope that the prompt manner in which all our engagements have hitherto been met will tend to assure you that only a temporary inconvenience prompts this request, and to add that every thing points to a strong trade revival in the immediate future.

Thanking you in anticipation,

Yours faithfully,

Strong Letter for Outstanding Dues.

Dear Sirs,

Your letter of the 3rd. inst. We note what you say as to the difficulty you experience in collecting your outstanding accounts, but we are compelled to remark that we do not think you are treating us with the consideration we have a right to expect. It is true that small remittances have been forwarded from time to time, but the debit balance against you has been steadily accumulating during the past twelve months, until it now stands at the considerable total of about Rs. 1000/-. Having regard to our many year's connection during which you have been a customer of this house, and generally speaking the

satisfactory character of your account, we are reluctant to resort to harsh measures. We must however insist that the existing balance shall be cleared off by regular instalments of, say Rs. 100/- per month, the first instalment to reach us not later than the 15th. prox. and that, in the meantime, you shall pay cash for all further goods, we allowing an extra 2½ per cent. discount in lieu of credit.

We shall be glad to hear by return that you agree to this arrangement, as otherwise we shall have no alternative, but definitely to close your account, and place the matter in other hands.

Yours faithfully,

Advice of Shipment.

Dear Sir,

We beg to advise you that we shipped per S. S. Silvan 100 bales of jute (lightning) on the 7th. inst. against your Order No. 3265 of the 11th March last and drew a bill of exchange for Rs. 3,130 and Ans. 9, being the price of shipment as per accompanying invoice. We have discounted the bill with the National Bank of India Ltd., who will present it in due course with the necessary documents. We commend the bill to your usual protection.

Yours faithfully,

Intimation of Dishonour of Bill.

Dear Sir,

We were surprised to receive intimation from our bankers this morning that your acceptance for Rs. 500/- due 4th inst. has been dishonoured. We must ask you immediately to send us your cheque to take up this bill and also to remit us Rs. 5/8/- protest charges. If funds are not in our hands by first post Friday morning, we shall, without further notice, place the matter in the hands of our solicitors.

Yours faithfully,

Intimation of Opening City Branch.

Dear Sir,

We have pleasure in announcing that owing to the large increase in the volume of our business with Calcutta, we have decided for the convenience of our customers to open a new branch in the Metropolis and have appointed as manager our Mr. Ghosh.

Mr. Ghosh who has been with us for the last twenty years has been granted power of procuration and we shall feel obliged if instead of sending your kind enquiries and orders direct to our works here, will in future place them with him. He is of course quite conversant with all the details of manufacture and will be able to answer all enquiries.

Thanking you for your valued support in the past and hoping for its continuance,

Yours faithfully,

Application For Promotion.

Sir,

I am very much disheartened to find that I have not been promoted to the 4th year class this session.

The poor marks I got at the last annual examination were due mainly to my long suffering from eye complaints before the examination. In spite of this unfortunate circumstances, however, I passed in two important subjects, viz., English and Economics. In the half-yearly examination, it may be noted, I passed in all the subjects creditably and stood sixth in order of merit. Besides, being poor, the loss of one year will tell heavily on my future prospects. I therefore pray that you will be so kind as to consider all the above circumstances and allow me to be taken into the next higher class.

I beg to remain,
Yours obediently,

Application for Change of Time Table.

Sir,

We the undersigned students of the third year class of your College beg most respectfully to invite your attention to insufficiency of time devoted in our routine to English Composition and Letter Writing, the importance of which has greatly been enhanced by the last change in the University curriculum in which they have been made subjects for a separate paper. Only one period a week has been given to these subjects in the present time table.

We therefore earnestly request you to replace this routine by a new one in which more time may be set apart for the above mentioned subjects.

Hoping our grievance will have your kind attention,

We remain,
Your most obedient pupils.

To Manager to Restrict Production.

Dear Sir,

We have already made you apprised of the fact that continuous fall in the tea market is causing anxiety to us. Latest advices from London increase this anxiety. The market there is reported to be almost flat with practically very little doing and there is therefore another fall in the price. This has its natural repurcussion on the market here, and though there is some demand for higher grade tea at a reduced price, lower grade is absolutely neglected. There is no prospect of improvement for the latter in the near future and we would advise you to seriously consider about the continuance of its further production in the factory at present. As there is still some demand for the higher grade, it would be better if you restrict your production to that grade and that to a limited quantiy only—the plucking in the gardens being kept under suspension as far as possible under the local condition.

We should however like to be guided by your judgment in this respect and shall not altogether stop you to use your discretion in the matter keeping the above circumstances in view. Please favour us with a report giving your opinion and explaining the step you take on receipt of this letter.

Yours faithfully,

QUESTIONS BEARING ON CHAPTER III.

1. What are the principal instruments necessary for a modern office ?

2. Describe the utility of the following books kept in the office and mention their contents in brief :—

Letters received book, Despatch book and Manifold book.

3. How is the outward correspondence in an office copied ? Describe its several methods.

4. What are the various systems for indexing of outward letters ?

5. What is Cross reference and what is its use ?

6. How is the inward correspondence docketed in an office and what is the utility of docketing ?

7. Explain Pilot file and Shannon file.

8. Explain in detail a good filing system.

9. Discuss the leading systems of filing and indexing of correspondence you know of.

10. Discuss the relative advantage of the different systems of filing office correspondence.

11. Describe the vertical system of filing correspondence.

12. What is the form of address in writing to a private gentleman ? How and where are his degrees and distinctions, if any, to be put in such an address ?

13. How can such distinction or degrees be dealt with if he is a professional man and what alteration should you make in the address in such a case ?

14. How is a tradesman to be addressed and what will be the change in such address if a company is written to ?

15. When will you omit the word "Messrs." in addressing a firm ? Give an example.

16. How are the following persons to be addressed ?

A Lord Bishop, a Cardinal, an Archbishop and an ordinary Clergyman.

17. How will you address a Knight when he is a Baronet ?

18. How are the British Peers to be addressed ? Mention the form of addressing persons of the **Blood Royal.**

19. What do you understand by correct beginning and correct ending of a letter ? Show by an example how you will begin and end a letter correctly.

20. What do you understand by complimentary close ? Show its use by examples.

21. Mention the importance of Telephone and the benefit and convenience by its use.

22. How will you compose a Telegram? What is a private Telegram and a cypher Telegram? Why are they used?

23. State the advantages of Telegram Codes in the mercantile world.

24. Draw up a letter to a customer who has written complaining to you of the late delivery of goods ordered.

25. Describe the suitable method of indexing letters in the office of a share broker.

26. Describe the advantages of card indexing system.

27. Write in proper form—
    (a) An application for a situation which you have seen advertised in a newspaper.
    (b) A suitable reply as from the Secretary of a Public Company to a letter written by a shareholder asking for an explanation of a rapid fall in the market price of the company's shares.

28. (a) Write an advertisement by a private gentleman, stating that he has the Encyclopedia Britannica, the 13th Edition for sale; and forward it with a covering letter to a daily newspaper.
    (b) Write a letter making an offer in response to the advertisement.
    (c) Write a letter in answer to (b).
    (d) Write a letter from the purchaser, enclosing cheque. Draw out the cheque.

CHAPTER IV.

ORGANIZATION OF INDUSTRIES.

THE industries of the world now are not what they were a few centuries ago, nay, even a century before our time. The modern civilization itself depends on modern industries and in their failure our civilization itself may break down. Scientific methods are now applied to all branches of industries to carry them on as efficiently as possible by human endeavours. All industries aim at production of various things and include physical and mental activities of all sorts employed for creation of utilities in the form of goods or services.

Classification of Industries.

Industries may mainly be classified into three groups—(i) Extractive, (ii) Constructive and (iii) Professional. Under the first come fishing, hunting, agriculture, extraction of timber, cattle rearing, poultry farming, mining, etc., and it includes every form of industries by which things are extracted from the soil or natural deposits or other sources. Under the second, are classed all manufacturing industries, that is, by which goods of higher value are produced from raw materials by various processes of combination or separation. The marketing of the products of both the first and the second is the distributive branch of such industries. The direct services rendered by different classes of people come under the third group of industries.

EXTRACTIVE INDUSTRIES.

Requisites for Fishing, Mining, &c.

In the organization of fishing industries, good f
grounds, natural or artificial, are the primary re the prir
Grounds rich in game are necessary for hunting of industries
but this industry is now confined to a few ab

Cattle breeding and poultry farming industries which may be taken to be parts of agricultural industries, require expert knowledge with sufficient capital, for their organization. Mining is an industry which can be organized in places where there are sufficient deposits of the required materials in the womb of the earth. Similar is the case with timber extraction industry, for unless there are rich forests at the places where the industry is to be carried on, its organization is not practicable. All these extractive industries, though mainly depending on natural resources, require human skill and attempt for their success. Hence extractive industries are termed *Genetic* industries.

Agriculture Proper.

Agriculture proper has a little distinctive feature from the above industries, for theoretically the industry can be organized almost every-where except on rocks, sea and ice, but success in it depends much on the fertility and other conditions of the soil, though inferior soil is capable of improvement by artificial aids. This industry though now carried on much carelessly in some countries also requires technical knowledge in addition to adequate capital and sufficient labour like the other industries. It has been found by experience that it is possible to feed a larger number of people by cultivating the same soil in a better way with the aid of modern science and the industry is capable of vast expansion if properly organized.

Requisites for Agriculture.

Besides land and labour, capital is now playing more and more important part in agriculture, for modern agriculture requires much fixed capital in the shape of buildings, plants and implements in addition to the animals for breeding purposes. Much working capital is also necessary for wages of labour, food stuffs, seeds, fertilisers, etc. The
·er of agricultural industries must take note of the
nditions prevalent at the place selected, namely,
climate, labour supply, markets for sale, trans-

Extensive and Intensive Cultivation.

Cultivation may be of two descriptions, namely, extensive and intensive. If a very big area is cultivated lightly without much expenditure on manures, irrigation, etc., and without spending the money required for scientific treatment of the soil, the cultivation is *extensive*; but if a comparatively small area is cultivated with much expenditure of capital and labour on scientific process so as to make the soil yield the largest possible produce, it is termed *intensive* cultivation. The system—*extensive* or *intensive* —to be adopted in the organization of this industry will generally depend on the existence of various factors of production and conditions prevailing in the locality—the determining criterion being the possibility of more or less profits in either system.

Credit is also important in modern agriculture, though the farmers generally sell their products for ready cash. This has been treated in the book in the chapter on Co-operative Societies.

CONSTRUCTIVE OR MANUFACTURING INDUSTRIES.

Their Beginning and Development.

Constructive industry comprises all manufacturing concerns—big or small, in contrast with commerce and trade. Its beginning was the manufacture of articles for personal or family consumption, but with the progress of society this was followed by large scale production. Organization of big industries has now become one of the most important factors of production. This large scale production is now the order of the day and on this the whole edifice of modern civilization has been built up; but the extractive industries are not unimportant as these being the producers of raw materials, feed the manufacturing industries.

Requisites for Manufacturing Industries.

Not only land, labour and capital are the principal factors in the organization of this class of industries, but

generally, organization of the market is also necessary for the sale of the products of these constructive industries. This market is ordinarily found amongst those carrying on the extractive industries, that is, those who are producing raw materials. Thus we find that an interchange of the products of these two classes of industries is generally to be arranged by the industrialists.

The great change in the method of manufacture took place with the Industrial Revolution, as it is called, which replaced the hand labour in manufacture by operation of machinery generally worked by steam power. Production under this system became enormous and the process of organization of the business also became complicated with it. Marketing of this huge quantity of commodities, which has now been reduced to an art, is therefore engaging the attention of the industrialists of the world.

Sometimes the extractive industries producing raw materials are combined with constructive industries producing finished goods, of facilities, convenience, reduction of cost and other economic reasons. Steel works may be joined with the mining of manganese, and saw mills can be established in the forests where timber is available.

Advantages of Manufacture over Agriculture.

The organizer of a manufacturing industry has one particular advantage over an organizer of an agricultural industry inasmuch as the former is not so much affected by the weather and other natural factors, such as rain fall, storm, etc., as the latter who has to take into account the natural factors over which he has no control. Manufacture can be carried on all the year round, while agriculture is seasonal to some extent. Manufacturing industry is generally more profitable than agricultural industry and the former can gain advantage over the latter in matters of raw materials, transport and marketing by careful selection of site. Hence the organization of the industries of the two classes is necessarily of a little different type, though the qualities essential for a successful organizer are practically the same in all cases.

Organization of Labour.

Success in industrial pursuits depends on proper supply of raw material, capital and labour, and a capable industrialist must secure them in time for ultimate success. But it is not these requisites alone that are necessary for an industry; the organizing capacity of those in charge is an essential factor to ensure its success. The organization of labour plays one of the most important parts in the successful running of a farm, a mill or a factory. On its efficiency depends much of the profit-earning capacity of these modern symbols of civilization.

Efficiency of labour depends to a great extent on various factors which are partly influenced by State regulations and partly by the judgment and sense of fairness and magnanimity of the employers of labour. The State can enforce certain cardinal conditions for health and safety of the labourers and the employer can encourage or undertake welfare work in his factory or farm for his labour force. Both these contribute to efficiency. A considerate rate of wages according to the capacity of individual labourers increases efficiency by encouragement. Payment of extras for more than average work done, helps efficiency by giving impetus for work to the workmen. But indiscriminate subserviency to a demand for higher wages does not as a rule do much good to the labourer or to his employer. On the other hand a remuneration below living wages undermines the efficiency of labour.

Next comes the appointment of the staff and necessary distribution of work amongst them. Much sound judgment and discretion are necessary in this respect to ensure effective services and smooth working, for which a study of the capacities of the several departmental heads employed becomes necessary.

Organization of Capital and " Land."

Next to organization of labour comes the organization of capital or rather its proper arrangement and employment. Over-capitalisation and under-capitalisation are both detri-

mental to the interest of the business. Suitable distribution of capital over the necessary factors prevents overlapping, and its proper use is of vital importance.

Without nature's gift which is technically called the "land," no industry is of course possible and the first requisite for a successful industry is the supply of this "land" yielding raw materials in abundance. These also require the attention of the organizer for their proper supply and equitable distribution in the several departments of the manufactory. The organization of their supply at the least possible cost is another factor for success of the industry. We have dealt with the efficiency of these factors of industries in their proper places in the book.

Organization of the Market.

Goods produced by manufacturing concerns must find buyer of their products at remunerative price. For this a proper and efficient marketing organization is necessary. For this purpose generally the management department is separated from the manufacturing department which is allowed to concentrate upon efficiency of production. It is the business of the management or commercial department to ascertain the demand of the public for goods produced by the factory and to advise the manufacturing or technical department accordingly. Market is organized generally by advertisement, canvassing, employment of travellers, opening of agencies, despatch of circulars, etc. This is the commercial or distributive department of an industry. The person in charge of this department should be a man of versatile capacity capable of correctly gauging the market condition not only of his own district or country but of the whole world and immediately responding to the needs of the situation.

When representatives are appointed to promote sale in different parts of the country, friction and unhealthy competition amongst them must be avoided by clearly demarcating the areas of their operation. A fixed policy should be determined in the matter of marketing of goods, and

sales campaign should be planned accordingly. It should never be forgotten that success in manufacturing business depends to a great extent on the efficiency of marketing its products.

Scientific Management of Industry.

A system of routine management is generally evolved in all industries and smooth working and systematical practices result. By a special study of the condition prevalent in such routine, changes in it can be effected to the benefit of the industry itself and in the condition of its labour. This is scientific management of an industry. It aims at its full development in efficiency in production, economy in cost, saving in manual labour and increase in profit, by a scientific systemisation or the working of the factory. Hence it presupposes a specialised study of all processes of the industry by the persons at the departmental heads and connotes an intensive observation, planning and research on their parts to introduce specialised system for the purposes in view. Frederick Taylor was the high priest of the doctrine who showed how a "time and motion study" is possible in industries and how they can be based on "functionalized foremanship" as it is called. "Scientific management," therefore, "is in the main a method of redistributing and re-organizing the functions and the mutual relations of the personnel of a great business, with the purpose of increasing aggregate efficiency by narrowing the range of responsibility of most of its employees, and bringing careful studies to bear on the instructions given in regard to the simplest manual operations."

Measurement of time and motion with scientific exactness benefits industries which produce goods of different standards, varieties and nature, for an accuracy of calculation of cost in different processes is always necessary in such cases for planning and estimating; but in factories producing standardised goods of the same class with a fixed routine, its introduction may not be as useful as in the class of factories first mentioned.

Rationalisation of Industry.

After the Great War of 1914 the industrial position of the world underwent a revolutionary change, and consumption failed to keep pace with production. There were then too many factories and mines. This caused a great price collapse, making production unprofitable. So it induced the advanced productive countries to concentrate on production on the most efficient units so that the inefficient concerns might be eliminated and only the most efficient, by application of up-to-date scientific methods, might survive in competition in the markets of the world. This is *rationalisation of industry* by remodelling it—by reconstruction from within on a planned economy in all stages of production. It contemplates suppression of the small uneconomic productive concerns and creation of the powerful business syndicates on scientific planning beforehand. It does not however connote amalgamation or combination, though frequently it leads to them. Lord Melchet popularised this idea in England. It embodies "physical economies, less fetching and carrying, less waiting and delay, a steadier employment of power, a better division of labour, a shortening of time, less 'splash,' the elimination of intermediate profits."

Rationalisation therefore stresses the fact that the individualism of the nineteenth century can no longer keep pace with the growing necessity of the economies in productive operations of the twentieth century. Hence the ultimate aim of rationalisation is to eliminate the small, inefficient and therefore uneconomic units of production by preventing waste in productive efforts. This may bring temporary hardship to individual producers, as is usual in the transitional stages in all cases, but ultimately it conduces to the welfare of the community. In the words of Sir Josiah Stamp, "True rationalisation is always directed to a reduction of costs by greater efficiency and capital methods. Pure individualism, practically on a small scale, finds its way out of this difficulty by the economic annihilation of the less fit units in the struggle for the means of

subsistence. Ultimately they have to go; but in their dying struggle they enfeeble the fit and reduce the whole industry to a precarious position. True rationalisation does not defeat or hold up economic consequences, but (1) having ascertained what is in due course inevitable, it brings about the course more quickly by definite action; (2) it does so more humanely by spreading some of the cost and the risk in a prescribed or known way; and (3) it does so with more certainty—that is, the individual business that now go under are not necessarily the least efficient, but they may be financially the weakest."

General Organization.

The most important matter to be kept in view in organization of industries is to see the various units of which the business is composed, work together smoothly, harmoniously and efficiently to bring about a result in the direction wished for.

In any case the brain and the mind of the organizer or the manager are the most important factors in the organization and successful management of industries. He has to make a psychological study of the minds of the staff who are to work, and to see that the work assigned to each of them is properly done. Special attention to this cardinal principle is necessary in India, for the failure of many industries in this country can be attributed to the neglect of and apathy to this most important factor of business organization.

DIRECT SERVICES.

Who Render Direct Services.

Another branch of industry is the personal services rendered for satisfaction of human desire. This is direct services by workers without producing or directly helping the production of tangible goods as in the case of other branches of industries. Such services are rendered, for instance, by the lawyers, the doctors, the teachers, the

soldiers, the sailors, the music hall artists and others of the nature who, though not direct or even indirect producers, are satisfying not only human needs but also natural cravings of mankind. Direct services also render other occupations secure, easy and pleasant, and are therefore as important as those of persons engaged in other occupations.

Demand for Direct Services.

The demand for such services is growing apace in the civilized world as is evident from the growing expenditure of the governments and the public, for securing these direct services. The organization of these services which is the concern of the various governments and the several institutions employing those who give their personal services, is also becoming complicated requiring an expert knowledge and experience for their efficient and profitable employment. This growing demand indicates comparative growth of prosperity of the world, as it seems that a greater share of the national income can now be spared for the purpose of developing this side of the national requirements having little to do with the actual production of everyday necessaries of life in the form of food, cloth, etc.

QUESTIONS BEARING ON CHAPTER IV.

1. Classify Industries with examples.

2. What are the several important requisites for extractive industries including agriculture?

3. What do you understand by intensive and extensive cultivation? Explain the conditions under which they are respectively suitable.

4. What are the principal factors in manufacturing industries?

5. Explain what are the advantages of manufacture over agriculture.

6. How is the labour to be organized for its attainment of required efficiency?

7. Explain the importance of organization of capital and "land."

8. How is the market organized? Explain its importance.

9. What is scientific management?

10 Examine the potentialities of scientific management for good or evil.

11. Scientific management involves in its essence a complete mental revolution on the part of the workman and an equally complete revolution on the part of those on the management side. Comment.

12. Describe the changes which occur under scientific management in the internal organization of a business.

13. "The most obvious advantage of scientific management is the additional output that follows a more intensive and better directed division of labour, and a fuller utilisation of plant and capital resourcess." Comment fully upon the statement and criticise.

14. What do you understand by scientific management? Explain the principles underlying it.

15. What are the aims and objects and the methods of the present day movement called "rationalisation of industry"?

16. What scope is there for rationalisation in the Indian Textile Industry?

17. Discuss the salient features of the present day rationalisation movement in industry.

18. What is direct service? Is it productive and how?

CHAPTER V.

ORGANIZATION OF MANUFACTURING CONCERNS.

FACTORY SYSTEM.

Its Importance in Production.

WE have in the previous chapter of this book, given a broad outline of the organization of productive industries. We now propose to deal with the methods and mechanism of the organization of manufacturing concerns through which production generally takes place. Manufacturing concerns are of such a large variety—each having its peculiar methods and manners,—that it is not possible to attempt a description of them separately; but the purpose for which they exist is the same, namely, " creation of additional utility for satisfying wants " of mankind by changing the form of existing materials, and their main features are necessarily alike. We can therefore give here only some broad descriptions of the ways and methods which are of general application to manufacturing concerns.

The factory system which generally implies organization of large scale industries has not attained that stage in India in which it is found in the Western countries. This branch of business organization is now engaging the serious attention not only of the employers and the workers, but also the earnest and careful attention of the State, the well-being of which under the modern condition of the world depends on the success of the industries of the country to a great extent. Here in India the capital invested in industries is usually inadequate, the labour inefficient, and the management defective, which are all drawbacks that can not but cripple our industries rendering them too weak to compete with industrial concerns of the world scientifically organized without these drawbacks.

Like all other organizations, the manufacturing concerns should also be organized on scientific principles. In these days of hard competition an organization without a regular system and in a topsy turvy manner is doomed to failure. Scientific method can be adopted by such men only as have a regular training and experience in the line of work they are called upon to perform. They only can evolve a method suitable for any particular concern.

Two Broad Divisions.

A manufacturing concern has ordinarily two sides to attend to—the technical side and the commercial side. The former performs the functions necessary for production from raw materials, and in big concerns is generally headed by a Works Manager. The latter is concerned with the purchasing of raw materials and marketing of the finished products, generally under a Sales Manager. Both these functionaries work under a Chief who may be the Proprietor himself or a General Manager or a Managing Director as the case may be. In very big concerns each side is subdivided into departments and a staff of skilled departmental Heads is appointed, while in small cottage industries, the proprietor himself may be in charge of all his "departments" and may look after the "technical" as well as "commercial" side.

Requisite for Efficiency in Factory Organizations.

As the success in large scale industries depends to a great extent on the efficiency of the organization, the attention of the organizer of an industry ought to be directed to the principal factors which make for this efficiency. These factors may be classified under the following heads :—

(a) Adequacy of capital.
(b) Suitable site for the factory.
(c) Supply of raw materials, at the proper time and in proper quality and quantity.
(d) Proper expert direction of the business.

(e) Up-to-date machinery.
(f) Favourable condition of the labour.

Capital.

Capital is one of the most important factors, rather the essential factor, required for success of an industry. It is very often found, specially in this country, that organizers miscalculate about the extent of requirement of capital and as a result the industry can not be properly carried on or is stopped altogether for its want, after some progress. Sometimes the inequitable and improper distribution of the capital amongst the several departments of the industry causes a deadlock which frequently ends in the closing up of the factory. Over-capitalisation also sometimes interferes with the dividend of an industry. It should always be a point with the *Entrepreneur* to make careful enquiries about his requirements, present and future, and make a correct estimate of the capital necessary for his enterprise, before jumping into a project.

Site.

It should be the concern of the organizer to select a suitable site for his factory. Success to a great extent depends on the proper location of the factory, which ought to be built at a place in close proximity to the sources of raw materials and labour supply, required for its proper working, ensuring low costs for these essentials of industries. Sometimes manufacturing concerns are established on the plantations or mines supplying the raw materials and not unoften the manufacturer owns these plantations and mines. Coal is an essential necessity for factories by the organizer. This point requires special consideration in working with steam power, so the facility for obtaining coal at the cheapest possible cost is a thing to be primarily sought for selecting a site for the factory.

When powers other than steam, such as motor power, electric power, etc., are to be used, attempts should be made to obtain favourable condition to secure them at the cheap-

est possible cost by selection of a site that may bring them within easy reach.

Goods produced in the factory, specially heavy goods, require facilities for transport at a reasonable cost. This can be secured by locating the factory as near as possible to the means of outlet for goods manufactured. The factory should be at a place where more land will be available for future extension. The land should not cost more than what is absolutely necessary.

All these conditions, of course, can not be secured together at one and the same time. Sites in cities are convenient from almost all points of view, but they are very costly, the rents and rates being high and the municipal regulations exacting. So only small industries can afford a city site. Suburban sites are now given preference to other sites as they enjoy most of the advantages of the city sites, though their value or rents and rates are considerably cheaper. Country sites have the advantages of low price, absence of restrictive rules and regulations of the cities and availability of more land for expansion—all these resulting in lower cost of production. But they are under the disadvantages of a distance from the markets, difficulty in obtaining skilled labour and want of repairing facilities. The want of attention to these matters in selecting the site for the factory is the cause of failure of some industries started mostly by amateurs in India.

Raw Materials.

Supply of raw materials for manufacture into finished goods, of proper quality and in sufficient quantity, is another important requisite for efficiency in industry. The nearer the source of this supply, the more the increase of this efficiency. The supply should also be in quantity sufficient for the purpose of keeping the machinery fully engaged and its quality must be of the nature required for the purpose of producing the desired finished goods. Great discrimination of the organizer is necessary in respect of selection of raw materials and their condition of supply.

'The best at the cheapest cost' is the motto in this matter. The condition necessary may be secured by locating the factory as near as possible to the sources of supply of raw materials, of course taking all other conditions, such as transport and marketing facilities, labour supply, price obtainable, etc., into consideration.

In America and some other places arrangements have been made in many cases to build factories by the side of the mines or agricultural farms, thus securing raw materials for their production, just near at hand and reducing cost of production to the minimum. An instance of this is found in Java in its sugar factories which are mostly situated on the great sugarcane farms of that Island. Where possible this system can very advantageously be followed in India.

Expert Management.

The importance of expert management of manufacturing concerns, as well as other concerns, cannot be too much exaggerated. Many of the failures in industrial enterprises, specially in India, are directly due to the want of experience and technical knowledge of those who are entrusted with their management. A manufacturing concern should have experienced men in the line, in charge of its affairs; even persons with high academical and technical qualifications without experience will not do. The reasons are obvious, for without experience no one can master the technique of the complicated processes that are necessarily involved in the running of even a manufacturing concern of modest size.

Machinery.

The success of industrial concerns depends to a great extent on the machinery used by them. New machinery introducing more improved system is being invented, and competition in the world's market implies the use of these up-to-date labour-saving and more efficient devices. A factory using the old and obsolete machines without taking advantage of the use of their improved forms will incur

higher cost in its production than those using them, for the latter will save more time and labour by their introduction. The former will thus lag behind, courting a failure in the undertaking. It is therefore necessary to be up-to-date in this respect.

It is contended in some quarters that greater efficiency in machinery at a very high cost is required only in those countries where labour is scarce and costly, but countries like India where "cheap" labour is in abundance, are not in need of so costly machinery. This is a mistake. Hand labour, however cheap and abundant, can not compete with machinery in mass production, for hand labour can not approach the speed with which the machinery works, and the cheapness and abundance of the former can not make up the difference in production, caused through the much faster speed of the latter.

Efficiency in machinery does not necessarily mean their supply only in up-to-date form, but also their arrangement in proper sequences in properly constructed buildings, so that no time may be wasted in their operation and that facilities may be obtained in the process of manufacture.

Condition of Labour.

One of the fundamental requisites for success in large scale manufacture is the efficiency of labour force employed in it. Machinery can not do every thing necessary in the process of manufacture, as the technical side of it requires human efforts. Besides, physical labour is necessary to work the machinery. Hence modern industry requires a large labour force on the efficiency of which its success depends to a great extent.

Factors of Efficiency of Labour.

Physical, technical, intellectual and moral fitness of the labourer largely contributes to the efficiency of labour. The present day State regulations and means adopted by the great industrial concerns aim at improving one or the other or all of these qualities of the labour, which are inter-

dependent to some extent. People who are not physically strong can not work well. A weak man will make a very bad factory hand, a bad travelling agent or even a bad clerk. A man's physical fitness is dependent on his parentage, on the care with which he has been brought up, the kind of food he takes, the atmosphere he lives in and the care with which his health is looked after. These commonplace things are really of vital importance. It is satisfactory that these are being taken note of now by industrialists all the world over. Several factory legislations passed in different countries of the West and the laudable attempts of the International Labour Associations to limit the number of working hours, as well as to provide the labourers with facility of leisure, culture and training, are healthy signs. They are certainly conducive to the physical fitness of the workers, and are bound to add to the efficiency of labour in the long run.

Technical fitness of its worker is another factor of efficiency. Mere physical fitness will not do. A labourer must be skilled in his work, specially when that work demands a special knowledge of complexities. Technical unfitness is at the root of much of the discontent and poverty all the world over. It also leads to a low standard of living which has ultimately a disastrous effect on the welfare and capacity of the future generations. With a view to removing this effect, a good deal of attention is being paid to technical education in all civilized countries.

Intellectual fitness of the worker is another important factor of efficiency of labour—no less important than physical or technical fitness. This is specially so in these days of complex business when general ability and intelligence are more important than special knowledge; for at any moment workers in a particular branch of industry may be thrown out of employment and they may find themselves under the necessity of taking to another branch of work. To adapt themselves to this new work, general intelligence due to intellectual training is not only highly important but is also indispensably necessary. This is why in all countries,

even in technical institutions, a preliminary general training is given. A little of literature, something of mathematics and something of physics and philosophy, contribute to the enlargement of the mind and the widening of the vision, which stand the student in good stead throughout the whole of his career.

Moral fitness of the labourer is also a vitally important thing. It consists of what is known as character due to good early training and healthy religious and social influences. A man without character may be compared to a boat without a rudder. A labourer, whatever may be his intellectual fitness, technical training or bodily health, can not be much useful in business and helpful to his employer if he lacks character. The State by its factory laws attempts to maintain the health and thus to ensure the physical fitness of the workers, and to raise their moral standard of life and the employer tries to make them intellectually fit and efficient in their technical work by providing primary and technical education for them and their children and taking up welfare work in the factories. These combined efforts, when properly directed, conduce to the well-being of the factory workers, which is an important factor in modern industry.

Factory Laws and Welfare Work.

The factory laws now adopted by almost all the civilized governments in different forms, lay down elaborate regulations for employment of labour in factories by restricting the hours of work to prevent "fatigue," making provisions for sanitation in factories, taking precaution to prevent accidents, preventing indiscriminate employment of women and children and providing for holidays. The employers have generally opened free primary schools in the factories and have undertaken various welfare work, in the form of providing free recreation centres, cheap or free cinema shows, free library and reading rooms, gramophones and radios, playground and gymnasiums, tea and coffee at cost price, etc., etc. Technical schools have also been opened

in big factories where the children of the labourers and the labourers themselves are given a training to fit themselves for the work which they may be called upon to do. All these make for general efficiency of the labourers—physical, intellectual, moral and technical. The employers at one time were oblivious of the advantages of these regulations and welfare work, but have now come to understand that the efficiency ensured by these is a profitable proposition to them in the long run.

Hours of Work.

Efficiency of labour specially demands careful consideration about the hours of work. Overwork causes "fatigue" resulting in a loss of efficiency, for there is a limit of time for which human physical and mental power can be continually applied, without its serious impairment. Hence the factory laws of the several countries have laid down the maximum hours for which the operator can be made to work in factories by their employers. Though objections were raised by the latter at first, against the fixing of working hours, it is now generally recognised that the efficiency obtained by judicious regulations in this respect, according to climate and other conditions of any particular country or particular industry, more than compensates for the short hours imposed by law.

Housing of the Labour Force.

Another important factor in efficiency of labour is the housing condition of the workers. This of course is included in arrangements for sanitation, but it is not a statutory obligation imposed on the employers in many of the countries where the factory laws are in force. Many employers however have provided good housing accommodation for their labour force at a cheap rent at or near the factory. This arrangement has been found to be conducive to the good health of the operatives to the benefit of their employer, as its absence compels the workers to live in insanitary places that may be available near the factory,

thus undermining their health to the detriment of their interest as well as the interest of their employers. The aspect of the question should specially be taken into consideration in India where good and at the same time cheap accommodation is not available for the workers, near the factories. Though some of the mills are now providing sanitary accommodation for their operators, others have not done much in this direction.

Remuneration of Labour.

Then comes the question of wages to be paid to the labourer to ensure his efficiency. We have already said that too low or too high a wage tends to inefficiency, so an increase of wage does not necessarily mean increase of efficiency, but at the same time efficiency can not be obtained unless a " living " wage is paid. Dr. Shadwell in his book *Industrial Efficiency* lays down the following principle about the payment of wages to the workmen :—

" Labour may be plentiful and cheap, but it may be bad economy to buy it cheap. For what an employer wants is not labour, but the result of labour, if he buys too cheap he will not get it; just as a man who buys a coat may buy too cheap. What he wants is not a coat, but warmth or the result of a coat, and if he buys too cheap he does not get it. Cheap labour may be dear through want of capacity or of will. The former is generally recognised, but the latter is often overlooked. Wages are the incentive to work, and must be adequate to produce it. This is the real meaning of the " living wage." Men may be forced by their necessities, in accordance with the law of supply and demand, to work for wages below a standard which they consider acceptable and call a living wage..... Labour so purchased is apparently cheap, but being unwilling it is really dear and false economy."

The wage should therefore be adequate for the maintenance of the worker in modest comfort, for an inadequate wage undermines his efficiency, but it should not be so high as to interfere with it. Many factors are therefore to be

taken into consideration to determine the proper wages to be paid to the workmen. Efficiency and wage re-act on each other and while efficiency can not be expected at a low wage, the payment of a high wage is not possible in the absence of efficiency.

Methods of Payment of Wages.

The question of the remuneration of labour, in the present condition of the world, is therefore one of the most important factors in regulating and determining the condition of industries in a particular country. This of course depends to a great extent on the productive efficiency of the labourer employed, and the employer can pay to him only to the extent of an amount that may leave a margin of profit to him by such employment. This payment is the remuneration of the labourer or the wage earner as he is generally called. This is now-a-days paid usually in money, which may be termed the nominal wage of the labourer, for the real wage is represented by the purchasing power of this monetary payment. The general principle followed in payment of wages is either based on the *time spent* for work or the *work done.*

Progressive Increase and Family Endowment System.

Expenses increase with lapse of years and hence the worker naturally expects a progressive increase of his income. This is secured either by the worker undertaking to start on less than a fair rate, in consideration of an increased rate to be followed later on or by gradually increasing his output by increasing his efficiency with experience. The size of the family of the worker also grows with lapse of years. Hence a progressive increase in the wages becomes necessary.

Sometimes this necessity is met by what is called Family Endowment system the object of which is to ensure a higher remuneration for a worker with a family than that for one without a family. Though this system is not in strict accordance with the economic principle of wage-payment, the unit for which is the worker and not the

family, it indirectly increases efficiency by tending to distribute the production of the industry according to needs and thus promoting human welfare. The great draw-back of the system, however, is that it is likely to discourage single men to join an industry and to encourage married men to flock to it. It also might tend to an undesirable increase in the birth rate. This family endowment method is however still in its infancy and experience with lapse of time alone can determine its suitability or otherwise in the present condition of the labour market of the world.

Time Rate and Piece Rate Systems.

Various other methods of payment of wages are followed in different cases. The worker may be paid according to the *time rate*, that is, so much per hour, per day, per week, or per month, whatever may be the output of his work. The production of the worker is not taken into consideration in this case, and the worker is paid at the settled rate as soon as the time contracted for is spent. The worker may be paid according to the *piece rate* also, that is, so much per unit of output, no matter what time is spent by him for it. In this case the time spent is not taken into consideration, but he is paid only when he finishes the work contracted. Sometimes workers in a factory work under different conditions in regard to machines, raw materials, etc., supplied for piece work. In such cases unequal opportunity amongst them prevails. So here a *group piece rate* system is adopted and a lump sum is paid to the workers to be equally divided amongst them as remuneration for the output contracted. Though less efficient workers benefit by the superior skill of their more efficient comrades under this system, it stimulates co-operative effort by the workers.

Premium System.

Both the systems have their merits and defects. The time rate has no inducement for the worker to do his best, while the piece rate has the inducement for him to rush, to the deterioration of the quality of his work. Hence a system called the *progressive wages* or *premium system*,

in different forms, has now been extensively introduced. Under this system a standard of output is agreed upon, and on output over this standard, a progressively lower *piece rate* is paid. As the rates for extra output progressively diminish in this system, the incentive to increase it by rush is also more and more diminished, and thus a chance of the operative's running with extra speed or over-working himself becomes less. The suitability of each of these methods of payment depends on the character of the industry.

Sliding Scale & Profit Sharing Systems.

In modern industry, some other methods of payment to the operatives have been profitably adopted, principal amongst which are the *sliding scale* and *profit sharing systems*. In the former, wages are regulated according to the profitableness of the industry paying the wages, that is, the wages rise with the rise of the profits and fall with the fall of the profits. In the latter, the wage earners share in the profits of the industry or of the particular firm. Both these systems though ensuring a certain amount of devotion of the employees to the interest of the industry in which they are employed, are beset with many difficulties in their application to the varying conditions of the trade or industry employing them. Besides they do not take into account the frequently changing cost of living of the operatives.

Task Rate System.

Another system has lately come into vogue under which the labourer is paid according to the period of time for which he is engaged but on condition that he does not turn out less than a certain amount of work during that time. This system is termed *task rate*. The distinguishing feature of this system is that while in *time rate* the worker is paid with the lapse of time without any reference to the work done during that time, payment to the operator according to time in *task rate*, is contingent on the completion of the minimum amount of work during that time;

but in case he does more, he is not paid any extra remuneration for it. This system is not generally popular with the workers, as while it discourages slowness and inefficiency, it does not encourage swiftness and efficiency. Tea garden industry in India generally adopts this system of payment to the coolies who are paid a certain amount for a fixed number of hours' work in the morning on condition that they turn out the minimum amount of work set for them. Of course they receive extra remuneration for their afternoon work, if any.

Share Giving or Bonus System.

The *task rate* system has now been superseded in some cases on account of its unpopularity, by a system of progressive wages known as the *share giving* or *bonus* system, by which the operative becomes entitled to a premium for every hour he can save in the execution of a certain amount of work set for him to be performed within a standard time. If he finishes the work in time or even if he fails in that, he is paid merely at the time rate.

For example, suppose a worker can normally produce one gross of the heads of a particular class of toys within a day of 8 hours. If he finishes this one gross in 6 hours' time he saves two hours to the benefit of his employer and he gets a certain share of this benefit in the form of a premium or bonus under this system. It is to be noted that this is not a *profit sharing* system as explained above in which the operatives share in the profits of the entire concern without taking part in the control of the undertaking.

Co-partnership System.

The most up-to-date system introduced in some industries in America and some other places, for remunerating labour is the *co-partnership* system devised to eliminate friction between capital and labour. Under this system not only the labour shares in the profits of the undertaking but also takes part in its control and therefore shares responsibilities. There are different degrees of this partnership

and control allowed to the operatives in different cases, but in a complete *co-partnership* system the following factors are present as enumerated by Stephenson :—

(1) The payment of the existing standard wages of labour.
(2) The payment of fixed rate of interest on capital.
(3) The division of the surplus profit between capital and labour in agreed proportion.
(4) The payment for part of the workman's labour by allotment of share in the capital.
(5) The sharing in the control of the business by the representatives appointed by labour.

The system makes the worker greatly interested in his work and by giving him a voice in the management of the factory raises his status. As he becomes a partner in the business he always tries for its success and to make it profitable by his exertion.

Productive Co-operation System.

In some cases the whole profits of the undertaking are distributed amongst the labourers who find the capital under co-operative system and organize, control and manage the business through their elected representatives, thus doing away with the necessity of a separate capitalist and thereby eliminating the employer. This system of remunerating the labour may be called *productive co-operation* system. This is nothing but producers' co-operation as explained in the chapter on Co-operative Societies.

By a combination of the above methods of payment of wages, some other systems have also been made to evolve from them; but for practical purposes they are of minor importance and so their discussion will not be of use here. These may however be briefly classed under the heads—Halsey's *gain share* system, Merrick's *differential* or *multiple piece* rate system, Taylor's *differential piece rate* system, Gantt's *task and bonus plan* system, Emerson's *efficiency* system, etc. All these come under either one or the other of the systems above explained or are combinations or modifications of those systems.

Division of Labour—Its Nature and Extent.

Division of labour under the modern condition of industry contributes a great deal to its efficiency. It is by this division that the quality and quantity of the output of the factory can be maximized. In primitive societies this division of labour was in a crude form. This can not serve its purpose for the complexity of the modern societies, and a great specialisation has now become imperative under present condition of industries. At present this specialisation has been carried on not only to all the processes of production, but also to its part processes.

This specialisation has also developed in particular localities according to the facilities obtainable in the place for a particular industry. For instance, labour in Bombay and Ahmedabad have specialised in the operations of cotton mills, and labour in Calcutta and the surrounding districts have specialised in the operations of jute mills. This division of labour by specialisation is called *geographical* division of labour. The root cause of this sort of specialisation is the localisation of big industries, for it brings up to the trade generations of skilled operators, who also become adepts in the subsidiary industries which grow around the place where such big industries are established.

Advantages and Disadvantages of Division of Labour.

The advantages of division of labour are :—

(1) The division of labour requiring a worker to devote himself to a particular branch of business or to a particular sub-division of a branch, ensures complete mastery and thorough efficiency. A man who makes boot or constructs building or instructs children for the whole of his life becomes an adept in his special business; he becomes an excellent boot-maker or a skilful builder or an expert teacher. This would not have surely been the case had he been a boot-maker, a builder and a school master at the same time.

(2) The division of labour saves a good deal of time. Constant changes from one occupation to another means waste of time, labour and materials.

(3) The division of labour has contributed a good deal to the physical relief of the workers by replacing manual labour by machine labour.

(4) It provides a variety of people with a variety of employments suited to their taste and ability, thus ensuring employment to all and avoiding a good deal of waste of labour. But for this a large number of people highly skilled in one special work would have to spend their energy for doing things for which they are not skilled.

(5) The more the process of an industry is subdivided, the more do certain types of work resemble one another. This enables a man to change one occupation for another without much disadvantage, for the kind of skill which he has acquired in his own special business stands him in good stead in the new occupation he takes.

(6) Lastly, the division of labour provides the labourer with a scope for inventiveness and gives him relief from much physical strain, thanks to the employment of machinery.

It will be seen from the above that the division of labour contributes to productive efficiency by ensuring productivity of labour, by creating a great diversity of occupation and by avoiding a good deal of waste of skill, energy and materials.

But the disadvantages of division of labour are neither few nor unimportant. These are :—

(1) Although division of labour contributes to a great output, it does not contribute to a wider range of efficiency of the worker. Owing to a good deal of division and subdivision under the present system, a man is acquainted not with the whole process of a manufacture, but with a fraction of it. Thus a man learns to make the wheel of a motor car and not the motor car, the tongue of the boot and not the boot itself, the spring of the watch and not the watch, and so on.

(2) Division of labour produces a narrow vision in the worker and makes him artistically imperfect. When a man works at a small process leading to the production of a

fraction of a thing, he cannot have the same artistic satisfaction as he would have, if he produced a whole thing.

(3) It makes the man dull by monotony and repetition. There is no pleasure in mechanical labour where the human element is almost wanting.

(4) The division of labour has a tendency to make the man a machine, as it does not demand either individual initiative or skill.

(5) Last of all, it has led to the factory system with its crowded town life, unhealthy atmosphere, undesirably low moral tone in life, wretchedness, vice and diseases.

But when the advantages and disadvantages are compared together, the balance is, on the whole, in favour of advantages.

Position in India and America.

In India the labour is held by some economic thinkers to be costly in consideration of its efficiency, for the labour available here has not attained and is not expected to attain, for many years to come, the same standard of efficiency as we find in the West, on account of the lethargy and indolent habits of the people due partly to climatic and other conditions present in India. Moreover, industrial labour here has not yet fully organized itself on the line of the West. The result is that our labour force may be taken to be an almost inefficient instrument to be employed in our infant industries. One of the main causes of our failure in industrial efforts is due to our inability to compete with foreign manufacturers on account of the inefficiency of our labour and the consequent higher cost of our production. Many of the textile factories in Bombay and Ahmedabad were almost on the verge of being closed down, due to some extent at least, to the abnormal cost of labour, in the opinion of some authorities. The theory that labour in India is cheap therefore seems to be not very sound when we take into consideration the fact that though the rate of wages is lower in India in money, it is actually higher when the output of that labour is taken into account.

That it is the efficiency which determines the standard of wage, though wage influences efficiency, will be understood from the condition prevailing in America in this respect. There the workman receives a higher wage than any other workman in the world, but in spite of that, America produces commodities at such a cost as to enable it to successfully compete with other countries paying a lower wage to their workmen, in the markets of the world. This is due principally to the very high efficiency of the American labour.

Systems of Wage-Payment Followed in India.

The major portion of Indian factories pay their labourers under the *time rate* system, but *piece rate* system is also followed by some of them according to the nature of the industries. In some cases the *bonus* system is found to exist, but to a limited extent and generally to ensure regularity in attendance. The introduction of various other complicated systems for remunerating the labour has not yet been found feasible in this country not only for the backwardness of the operators but also for the imperfect organization of the factories.

The wage payment in India is usually by months and the wage earners receive payments generally by the tenth of the month following that for which these become due. In Calcutta Jute Mills, however, the wage payments are weekly and these are made in a week from the date on which they fall due. So in the former case ten days' wages are kept in hand and in the latter about a week's dues are held back by the employer as a protection against the loss due to the wage earner's leaving without notice—a common occurrence in factories.

Weekly payments are considered to be better for the worker in a way in this country, for it keeps him free from embarrassment for borrowing from money lenders, at least to some extent and gives facilities to obtain his necessaries from the retail shops on a cash basis on better terms. Besides, the worker in such cases is better able to equalise

his expenses in a uniform way throughout the week days. The drawback inherent in the system, however, is the common habit of the wage earner to indulge in drinks and dissipations on Saturdays and Sundays, on receipt of the wage on Saturday evening. This may, however, be remedied to some extent at least by introducing the system of payment on some other week day. Monthly payment on the other hand will not give him the above advantages and the tendencies of the workers for indulgence and dissipation on receipt of the monthly wage, though minimised, will not leave him.

Hours of Work in Indian Factories.

Under the Indian Factories Act no person can be employed in a non-seasonal factory for more than ten hours in any one day and more than fifty-four hours a week. In the case of a child the period is not to exceed five hours in any one day. Any person under the age of fifteen is a child under the Act. No child under twelve can be employed in a factory. The day's work in the case of women is not to start before 6 a.m. and none of them is to be allowed to work after 7 p.m. Within the period of work there must be at least one hour's rest at intervals not exceeding six hours or at least half-an-hour's rest at intervals not exceeding five hours provided the total duration of the period of rest on the day is not less than one hour for each six hours' work. No child under the law can be employed in more than one factory on the same day. The factory manager is to fix specified hours for each person for employment in his factory and no one is to be employed except during that period.

The law also provides for various measures for health and safety of the operators in the factory in the form of provisions regarding cleanliness, ventilation, lighting, drinking water, latrines, fencing of machinery, etc., and penalty for their breaches. Provisions have also been made for the protection of the workers in case of accidents in the course of employment, by the Workmen's Compensation Act dealt

with in the chapter on Insurance. Welfare work in the form of education, medical aid, maternity benefits, etc., have also been undertaken by many factories.

LABOUR OR TRADE UNION.

Its Object and Operation.

With the organization of labour it is necessary to understand the organizations of the labourers themselves, for these organizations are to be taken into account by the business organizer, to successfully cope with his labour force. Labour unions are generally formed for the purpose of protection of labourers against the capitalist. It is distinctly a modern institution being the result of industrial revolution brought about by scientific inventions. To-day almost all trades have got their labour unions. In order to facilitate co-operation, sometimes several trade unions combine together to form a strong and bigger union. Trade unions are private organizations generally recognised by the governments of all advanced countries. They have got legal recognition in India by the Trade Unions Act of 1926. Registration of the Unions under this Act is optional, but registered Unions have certain privileges.

When the members of a particular trade feel extremely aggrieved by the treatment of their capitalist employers, they declare a strike, *i.e.*, they cease to work unless and until the employers come to terms with them. This formidable weapon, which is now in the hands of the labourers, could not have effectively been employed had there been no trade unions commanding common funds enabling the strikers to get on without work during the days of their voluntary unemployment.

Its Advantages and Disadvantages.

The trade union has its advantages as well as disadvantages and its disadvantages are dwelt on by writers with capitalistic tendencies who assert that it means frequent strikes leading to economic loss not only to the capitalist

but ultimately and necessarily to the labourers themselves, as well as to the community at large.

The advantages of trade union may be divided into two classes, namely, industrial and social. Industrially it aims at improving the conditions and terms of employment, and socially it aims at making some provisions for the accidents of life. It is through the efforts of the Trade Union that the working hours in the factories have now been reduced, the employment of child-labour has been regulated and due provision has been made for the education and sanitation for the workers.

The strike is the most effective weapon that is in the hands of the workers to be employed against their employers as a means of compelling them to come to terms, and the employer of labour has got to handle his labour force sympathetically and tactfully to avoid such strikes in order to ensure success of the business enterprise itself.

Settlement of Trade Disputes in India.

When there is a strike, or dispute in any other form between the employers and the employees, it sometimes assumes a formidable character and causes great loss to both the parties and frequently to the public. For amicable settlement of such strikes or disputes the Trade Disputes Act was passed in 1929 by which provisions have been made for the establishment of Courts of Enquiry and Conciliation Boards for the purpose. The Courts or Boards are appointed by the Government on the application of the majority of both the disputing parties. At first it tries to effect an amicable settlement failing which a report is made to the Government with recommendations to end the dispute by taking necessary steps according to law.

COST-KEEPING IN FACTORIES.

Its Importance.

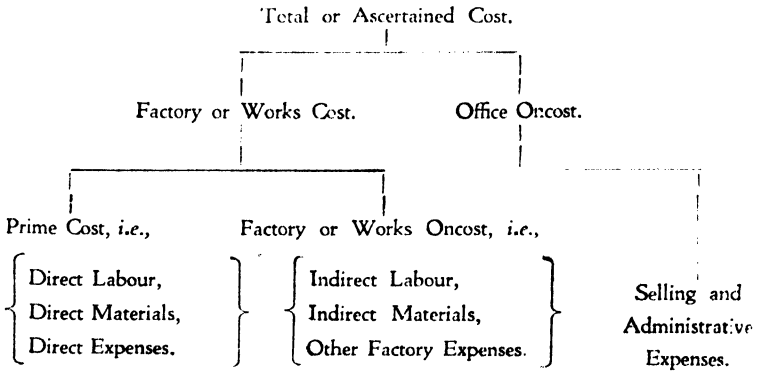
Cost-keeping in industrial concerns is one of the important parts of manufacturing business. Some people are

apt to think that while the selling price is generally fixed by competition, the expenses involved in maintaining a system of cost-keeping are unnecessary and useless. This seems to be a mistake. Without it the manufacturer can not ascertain at what price he can sell his production with profit, and where the weak spot of his organization lies, so that he may take necessary remedial measures in time. Hence it puts him on his guard in his transactions.

The early system of cost-keeping was crude, but now it has been developed and perfected under professional accountants. Instances are not rare where business failed on account of a faulty and incorrect estimation or guesswork of the depreciation, interest, material, labour and other charges. A proper system of cost-keeping now adopted in all up-to-date factories has greatly improved the position in this respect.

Elements of Cost.

Two sets of items require consideration in ascertaining the cost. The first comprises items involving expenses of a fluctuating nature, e.g., for material, labour, management charges, etc., and the second comprises those which involve expenses of a permanent nature, e.g., for depreciation, machinery and other fixed capital, interest, premium for insurance, etc. These items may be classified and shown under the following well-arranged tabular statement prepared by Prof. Thomas :—



Selling Price = Total or Ascertained Cost + Profit.

It will appear from the above table that expenses incurred in labour, materials and direct services are considered as Prime Cost. Expenses in the factory on other items than these, such as, light, power, insurance, rent, rate, overhead and clerical charges and other unclassified and indirect items of expenditure which can not conveniently be included in the charges for a particular work, are taken as Factory Oncost. These are generally calculated on the percentage basis. These two items together make up the Factory Cost. The expenses incurred by the selling and administrative department are taken to the Office Oncost. Total or ascertained cost of a job, process or article is the total of the Factory Cost and Office Oncost, to which a profit is to be added, to find the Selling Price.

Advantages of Cost-keeping.

The objects and attendant advantages of cost-keeping are many, some of which may be mentioned as follows :—

(a) The costing system shows the total cost incurred on an article at a glance.

(b) It gives a guidance to the manufacturer for making estimates.

(c) It preserves accurate records of expenses on any particular article for future reference.

(d) It helps the manufacturer to find the weak spot of his organization and thus guides him in taking remedial measures.

(e) It shows at once if any particular article is being produced at a profit or loss, etc., etc.

From the above it will be easily understood how important this system of cost-keeping is and how the business suffers without it. As a matter of fact, any manufacturing concern of some importance can not do without it at present.

Collective Job-Ticket System.

The early system of cost-keeping was imperfect, and in small factories the foreman used to keep it in his own way;

but at present the system has been perfected and is based on principles evolved out of an experience in general condition of factories. Different systems of costing are adopted for different types of industries; for, a system suited to an industry producing articles of a particular type may not be suited to an industry producing articles which differ in type, size and price. Many systems according to circumstances of the particular case, have therefore grown in this respect, but the Card System, as it is called, has become almost universal. Under this system the cost of a job, process or article is recorded in a Card. The entries begin with the cost of materials supplied to the works department and end with that in the percentage of the general expenses on completion of the job, etc., each item of expenses being recorded in its proper order during the interval, through the stages of manufacture. The Card is then passed on to the office where it is indexed and recorded. This Card System is known as the Collective Job-Ticket System.

Frequently this Collective Job-Ticket System is modified according to the necessity of the particular manufacture. Two or more cards are sometimes used instead of one, to ascertain the cost of particular items. In some factories different cards are used for different stages of manufacture for the purpose of ascertaining the cost incurred by, and thus the efficiency of, each department through which the job passes before completion. There are other systems also, followed by different factories, but all are based on the same principle and are for the same purpose, namely, obtaining a statistical summary of the result of work in the factory.

COTTAGE INDUSTRY.

Its Magnitude.

The demand in the world for finished goods is not met only by factory production, but there are cottage industries necessarily small, conducted by individual families, throughout the whole world, which play a very important part in

meeting this demand. As a matter of fact, before the Industrial Revolution this form of industry was practically the only source of supply of finished goods and it flourished in all parts of the world. These small industries are generally conducted by hand labour, sometimes with the help of small labour-saving devices, by members of a family occasionally assisted by outsiders.

Though the factory is now occupying the fields of almost all the industries of the world, the cottage industry is not yet dead, for in some directions, the public taste for hand-made goods is still there and a large variety of cottage industries is in existence even in the industrial countries like France, Germany, Norway, Sweden, Switzerland and Japan.

Position in India.

In India in spite of an attack by the factory system of production, from inside and outside her borders some of the cottage industries seem to be still not very much crippled. *Dhoties, Saris*, etc., made by weavers with hand looms are still plying their trade. The goldsmiths are catering for the women-folk and working for the purpose of decoration now, as from time immemorial; and the shoe makers, the tailors and many other craftsmen are supplying the every-day needs by working with their hands in their small dingy rooms either in the Bazars or their dwelling places. So cottage industry is not yet dead in India, and the present national movement has given an impetus to it. In spite of that, the vitality necessary to save it from decay is not there and expert services of organizers are necessary for its improvement by application of scientific methods to it in order to enable it to stand the competition of the factory system.

Factory System Vs. Cottage Industry.

Both the systems have, however, some special advantages and disadvantages of their own which may thus be summarised :—

The advantages of factory systems are :—

(*a*) Labour can be specialised.

(*b*) Division of labour can profitably be affected.

(*c*) Production of maximum for minimum cost is possible.

(*d*) Some relief is given to human exertion for production.

Its disadvantages are :—

(*a*) Huge capital and expert organization are necessary.

(*b*) Feeling the pulse of the world is required in respect of demand and supply.

(*c*) Serious competition from similar manufacturers is to be faced.

(*d*) Services of men with specialised technical knowledge and of men with business brain of a high order, are necessary to conduct a factory.

The advantages of cottage industries are :—

(*a*) Not a very big capital is necessary.

(*b*) Specialised labour and huge organization are not required.

(c) Competition can be withstood by frequently combining it with other occupations.

(*d*) Personal supervision by the proprietor is possible.

Its disadvantages are :—

(*a*) Economy of labour can not be effected.

(*b*) Production of large quantity of goods of the same kind is not possible.

(*c*) The cost of production is generally higher in comparison with large scale industries.

The system of production by cottage industry, as will appear from the above, is therefore much simpler than the system of production under factory system, but the elements necessary for success in the former are not quite different from those required for the latter, for the requisites—intellectual, physical and material—for production on a small scale can not be much different from those required for pro-

duction under factory system, though the ways and means of production in them may be different. So the remarks made in respect of efficiency in factory system apply *mutatis mutandis* to the cottage industry.

QUESTIONS BEARING ON CHAPTER V.

1. What do you understand by factory system of production?

2. What are the drawbacks which cripple the factory system of production in India ?

3. How will you divide the management of an industrial concern ?

4. What are the chief factors of efficiency of a large scale industry ?

5. Why are capital and site for a manufacturing concern so important factors for its success ?

6. Describe the importance of availability of raw materials and expert management of a factory. What is the importance of machinery in it ?

7. What are factors of efficiency of labour in an industrial concern ?

8. What do you understand by technical and moral fitness of workers in a factory ?

9. Explain how regulations of working hours in a factory have improved the efficiency of workers in production.

10. Describe the importance of proper housing of the labour force of a factory.

11. What is the policy you will adopt in remunerating your labour force in the factory and how will you determine its wages ? Mention the various methods of remunerating labour.

12. Compare the position in India with that in America in respect of payment of wages to the factory labour.

13. How does the division of labour increase the efficiency of the workers?

14. Compare the advantages of division of labour with its disadvantages.

15. Explain Trade Unions mentioning their advantages and disadvantages. What is a a strike? Do you support it??

16. Why is cost-keeping necessary in a factory? What are the elements of Cost?

17. Differentiate Factory cost with Prime cost.

18. What are the advantages of cost-keeping?

19. Describe the Collective Job-Ticket system in keeping cost.

20. State the importance of cottage industries in the production of the world.

21. What is the position of Cottage Industry in India at present?

22. Mention the advantages and disadvantages of Factory System and Cottage Industry.

SOME UNIVERSITY QUESTIONS.

1. Sketch the departments into which the organization of the manufacturing establishment may be divided and explain the necessity of seeing that there exists a proper co-relation between these departments (B. Com., Lucknow, 1927).

2. Clearly sketch the internal organization of a manufacturing industry. (B. Com., Lucknow, 1927).

3. What are the salient points in the efficient organization of the purchasing department of a trading firm? (B. Com., Bombay, 1927).

4. Enunciate the general principles to which wage system must conform if they are ,to be sound incentives to work. (B. Com., Bombay. 1930).

5. Explain the relation between efficiency of labour and the methods of remuneration adopted in a manufacturing business. (B. Com., Bombay, 1927).

6. What is labour efficiency? Discuss briefly the factors influencing it. (B. Com., Bombay, 1928).

7. What is fatigue? Can we measure it? What practical step would you suggest to reduce fatigue in our present industrial system without reducing our volume of production? (B. Com., Bombay, 1930).

8. Discus the principal methods of remunerating labour in India. (B. Com., 1927). Critically examine the various methods of remunerating labour in industry. (B. Com., Calcutta, 1931).

9. State what you conceive to be the advantages and disadvantages of the piece wage method of remuneration (B. Com., Bombay, 1926).

10. What are the difficulties of introducing piece rates as a general system of wage payment? What contribution has scientific management to make towards perfecting the system? (B. Com., Bombay, 1929).

11. "With all its drawbacks a well regulated piece-wage system is undoubtedly superior to the time wage system." Discuss the advantages and disadvantages from the point of view of general efficiency of the two wage system referred in the above question. To what types of industry or business are they specially suited? Give illustration. (B. Com., Bombay, 1924).

12. Explain the methods of the principal bonus system of remuneration, comparing them with similar methods of time or piece wage. (B. Com., Bombay, 1924).

13. State and discuss the methods of payment to wage earners with a view to reconcile labour with capital. (B. Com., Lucknow, 1926).

14. Trace some of the causes of inefficiency of Indian labour and suggest means of improving the efficiency. (B. Com., Bombay, 1927).

15. State the chief characteristics of Indian labour and how far they must be taken in account in (a) provision in housing accommodation, (b) organization of Trade Union. (B. Com., Bombay, 1923).

16. The problem of factory labour in India has been engaging the attention of our industrials for years, and the recent industrial commission has also reported upon it. State what deductions you draw from the report in connection with the cry of scarcity of factory labour, and mention the remedy that suggests itself to you. (B. Com., Bombay, 1923).

17. What are the proper functions of labour organization and what would you consider to be their limitations, and why? (B. Com., Bombay, 1926).

18. What faculties would you expect the head of the large business to possess? (B. Com., Bombay, 1924).

19. In organization of a large concern the responsibility is in some case "collective" and in others individual. Discuss the merits and drawbacks of each. Also state what principles in the interest of efficiency should be followed in the selection of the staff. (B. Com., Allahabad, 1926).

20. What are the causes of labour unrest in India? What measures would you suggest for establishing better relations between Labour and Capital in India. (M.A. Com., Cal., 1927)

21. Estimate the value of profit sharing and sliding scale remunerations as expedients for obviating labour disputes. (M.A. Com., Cal., 1928).

22. "The produce of labour constitutes the natural recompense or wage of labour." "The natural price of labour is that price which is necessary to enable the labourers, one with another, to subsist and to prepetuate their species." Comment. (M.A. Com., Cal. 1928).

23. Give an account of the various legislative measures that have been passed in recent years to ameliorate the condition of Indian Factory labour. (M.A. Com., Cal., 1928).

24. What is the importance of costing the manufacture? (M.A. Com., Cal., 1928).

25. On what lines would you organize a manufacturing business? (M.A. Com., Cal. 1928).

26. A business man in these days is a specialist whose service in the placing of goods are as important as those of the technical expert in their production. Comment on this. M.A. Com., Cal., 1928).

27. Practically every thing can be done upon a large scale much more cheaply than upon a small scale. Comment. (B. Com., Bombay, 1924).

28. What are the main difficulties of profit-sharing schemes ? (B. Com., Bombay, 1930).

29. Distinguish between co-partnership and profit sharing and the advantages which profit sharing holds out to employees. Can you suggest any practical difficulties likely to be experienced in the working of profit sharing schemes ? (B. Com., Bombay, 1924).

30. How are wages determined in industry ? Discuss the influence of Scientific management on wages. (M.A. Com., Cal. 1929).

31. Describe the function of capital in modern industry and commerce. (B. Com., Cal. 1929).

32. Describe : (i) Profit-sharing ; (ii) Co-partnership. (B. Com., Calcutta, 1933).

33. Define the terms 'Factory Oncost' and 'Office Oncost' and explain why their allocation to final cost is a difficult affair. (B. Com., Calcutta, 1934).

34. "Wages should be based on time and/or output." Explain what is meant by this, and give instance of wage payment system based on (i) Time, (ii) Output, (iii) A combination of both. (B. Com., Calcutta, 1936).

CHAPTER VI.

ORGANIZATION OF COMMERCE.

INLAND TRADE.

COMMERCE is a branch of industry which may be called its distributive branch. It is through commercial work that distribution mainly takes place and it is necessary for the student to understand the mechanism of this distribution as it takes place in the world.

Exchange of Goods.

Distribution is effected through exchange. The method and the medium of exchange however were not the same in the primitive age as we find them now. Amongst the primitive people exchange existed in the form of barter, that is, exchange of goods for goods, and this we may call the beginning of commerce.

With economic development of the world the method of this exchange and therefore the system of commerce have changed, though its basic principle remains unaltered. Instead of direct exchange of goods, modern exchange is effected through a medium called money and generally through persons called traders. The intervention of those two factors have given a new shape to the system of exchange, but its original basis remains the same as it was in the beginning of human society.

Methods of Distribution.

While industries efficiently organized and successfully carried on result in profitable production, the goods produced require successful marketing without which no industry can be kept alive. The manufactured goods are distributed through different intermediate agencies which themselves are separate organizations though a practice is

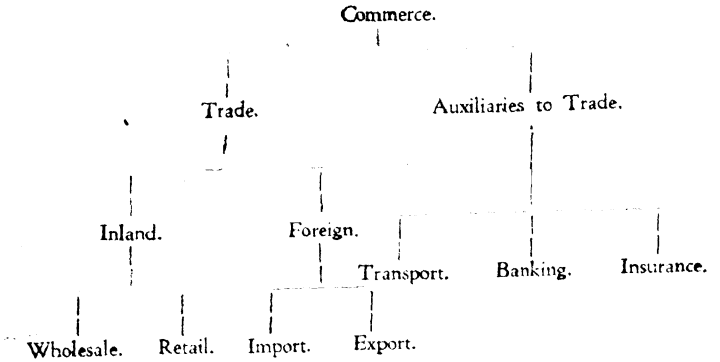
now growing amongst the manufacturers to sell their products directly to the consumers by opening retail departments in their establishments or by methods described in the chapter on Advertisement. Hence the methods of distribution of goods, may fall under the following heads :—

(a) Direct sale by the manufacturer to the wholesaler who distributes the goods to the retailers by organizing the market or himself retails them.
(b) Direct sale to the retailer who distributes the goods amongst his customers.
(c) Direct sale to the commission agent who sells either directly to the customer or to the retailer.
(d) Direct sale to the consumer without any intermediary.

Generally a manufacturer does not confine himself exclusively to any of these methods and a combination of two or more methods is frequently adopted by him.

Trade, Commerce and Industry.

All the above distributors are jointly called *traders* and their act of distribution with a view to make profit by its process is called *trade*, its difference with *commerce* being that while the former is the interchange of goods as carried on in a country, the latter is the same interchange considered in its national and international aspect. On the other hand, *industry* means the process of manufacturing the goods in which trade and commerce are carried on. Trade may be *local* when it is carried between persons of a definite place, and *particular* when it is carried on in a definite commodity. Commerce has a wider significance. It is, in the words of Stephenson, "the sum total of those processes which are engaged in the removal of hindrances of persons (trade), place (transport and insurance) and time (warehousing), in the exchange (banking) of commodities." In other words organization of commerce denotes the organization of trade, banking, transport, insurance, warehousing, etc., all of which will be dealt with in their proper places. Commerce may be classified according to the following table :—



Trade carried on in the country is known as its inland trade. This is done under certain procedure and legal provisions of the country, not very much different from those followed in foreign trade to which some special conditions are attached, the circumstances being different in it mainly on account of the tariff regulations of various countries of the world. These will be noticed in their proper sequences.

Mercantile Agents.

We have spoken of the manufacturers and the intermediate dealers in goods who help in the distribution of commodities manufactured or raised from different sources. These classes do not and cannot always deal directly with the consumers. A number of men are frequently required to help them in their transactions. Those men who act for their principals—the manufacturers or intermediate dealers—are termed mercantile agents. They have, in the ordinary course of business, the authority as agents, to sell, buy or consign goods or to raise money for their principals, if and when necessary, on the security of goods. Managers and other employers of firms are more or less agents of this class. They may be called the general agents of their principals. A principal may appoint some body to act for him in some special way by empowering him to do someth in outside the ordinary business of an agent. He is in s e dis case a *special* agent. Factors, Brokers and Au s which are ordinarily special mercantile agents inasmu practice is

functions are outside the ordinary business of a general agent and are fixed by a special agreement expressed or implied.

Difference Between Various Special Mercantile Agents.

A *Factor* or a commission agent, as he is called, when selling on commission, has the possession of the goods which he sells. He is remunerated by a commission for his services, in such cases. He also purchases the goods of his principal and sells them on his own account. In either case he sells in his own name and the buyer does not know the sources of goods sold, but *when he sells on commission, the principal remains liable with him to the buyer for any breach of contract.* Similarly in such a case the buyer is also liable to be sued either by the principal or the factor in the event of a breach of contract.

The *Broker* has not the possession of the goods and he sells these for his principal on a commission called *brokerage.* He also does not sell on his own account and when dealing with him his customers are dealing with his principal and not with the broker.*

The *Auctioneer* has the possession of the goods which he sells on commission in a public auction. The buyer is bound by the published condition of the sale and is liable to him for any breach of contract and he is liable to the buyer in the same way. *He has also a lien on the goods for dues to him.* He generally sells in separate lots. Sale of every lot is transferred. The goods are knocked down to the highest bidder subject to a reserve price, if any.

Market.

Various methods are adopted by all the above persons for effecting sales of their goods, principal amongst which are through *Market* and through *Advertisement.* The

*All brokers are not mercantile agents as they all do not deal in goods. For instance, a share broker is not a mercantile agent inasmuch as *shares are not* etc., as are only *legal rights.* Nothing but tangible movable property except within the category of goods. Such is the case of a *Hundi* broker paper broker.

term market refers not necessarily to a place, but to commodity or commodities and buyers and sellers of same who are in close business relationship with one another carrying on transactions. Such buyers and sellers are not necessarily confined to one place and transactions are also carried on by them in different commodities. As a matter of fact there are different markets for different commodities at different places, for instance, the coal market may be situated at a different place from the sugar market and the latter may be at a place which is far away from the gunny market. There are also wholesale and retail markets. The sellers and buyers of their respective goods operate in their respective markets, which moreover may be in numbers in one town or country, but they are brought into touch with one another by means of Fairs, Price-lists, Telegrams, Telephones, Post Offices, Advertisements, etc., thus constituting a common market. Advertisement is the most important of these means now-a-days and we have devoted a chapter to it.

PURCHASE AND SALE OF GOODS.

Contract.

Buyers and sellers coming in contact in the market do business by entering into contracts, under which the conditions of transferring the goods immediately or at a subsequent date by the seller to the buyer for price, are laid down. *A contract may be either for sale*, that is, when the goods are delivered to the buyer by the seller immediately, or *an agreement to sell*, that is, when the delivery is to take place either at a future time or on the fulfilment of some conditions. When the delivery actually takes place at that future time or on the fulfilment of the stipulated condition, the agreement to sell becomes a sale. Agreement to be valid must have two elements—an offer or a proposal on the one side and an acceptance on the other. When one party offers to sell to the other party on certain conditions and the other party accepts that offer *in toto*, the accept-

ance is a promise and the contract is complete binding both the parties. But if the buyer accepts the offer with any variation in the terms of the proposal, it is a counter offer and no contract binding the parties has been made.

Written and Unwritten Contract for Specific and Future Goods.

A contract need not always be written. It may either be verbal or partly verbal and partly written. Sometimes it may be by implication from the conduct of the parties, but such contracts involving more than a certain amount in value of the goods cannot be enforced unless the parties have bound themselves by acceptance or part acceptance of the goods, payment or part payment or by memorandum signed by the party against whom the contract is to be enforced. A contract may be made for the sale of goods which can be identified and are ready to be delivered or for sale of goods which the seller has to make or procure, respectively called *specific goods* and *future goods*. In the latter case it is an agreement to sell in which the time of delivery, specification of goods, etc., are always to be found.

Contract by Correspondence.

A contract should always be written with necessary description of the goods and details of the terms agreed upon, without which difficulties may often arise subsequently. It may be in one document or in more than one as in the case when a contract is contained in a chain of correspondence; but in important contracts for sale of large quantities of goods of considerable value, the contract should be in one compact document avoiding the risk of a confusion from a series of documents sometimes covering a long period and with a chain of scattered materials loosely fastened.

Warranties.

As stated above a contract for sale of goods contains the conditions of sale and the breach of such condition by the one party entitles the other party to repudiate the con-

tract and to bring an action for breach of contract against the defaulting party. But a Warranty which is an agreement with reference to goods forming the subjects of a contract collateral to the main purpose of such contract, is a different thing which ordinarily becomes operative after delivery and acceptance of the goods. If goods are warranted to be of a certain quality by the seller and if it is found to be of not that quality by the buyer after delivery and acceptance, he cannot return the goods, unless there was provision for such return in the contract, but may treat the breach of the condition as a breach of warranty and sue the seller for damages. A breach of warranty therefore does not give the buyer the right to reject the goods unless it is specially provided.

Whether a stipulation in the contract is a *condition* or a *warranty*, that is, whether the buyer has the right to repudiate the contract or only to sue the seller for damage is a subtle legal point that can sometimes be decided by lawyers only. Some conditions and warranties need not necessarily be expressed in words but they are generally implied.

Caveat Emptor.

The maxim of *Caveat Emptor*, that is, let every buyer look after himself, will however apply in all transactions, for generally speaking, it is the buyer's lookout to ascertain if the goods bought are of the required quality and are fit for his purpose. There is generally no warranty for quality and fitness unless the buyer has previously made known to the seller his particular purpose for the goods and has depended on the skill of the seller for their selection or unless the goods have been sold by description or sample, in which cases there are the implied warranties that the goods will suit the particular purpose or will answer the description or will correspond to the sample.

Terms.

When contracts are made for sale, all the terms governing it should find place in the contract. Generally a des-

cription of the goods sold, their quality and price are mentioned. Besides, provisions for payment and delivery are also included in the contract.

Description is ordinarily given in such a way as to enable the parties to identify the goods subsequently. Sometimes samples or type of the goods is mentioned in order to indicate the quality. Different procedures are followed in respect of the sale of different commodities.

Different Prices in Different Circumstances.

The price settled may be *Loco* or *Spot* or *Ex-warehouse* price, that is, the price of the goods at the place where they are lying at the time of sale. In such cases all out-of-pocket expenses are added to the price if the seller has to bear these for the buyer. The price may be the price on rail, that is, the price including the cost for loading them in the railway wagons; it may be the price at station, that is, the price including the cost for delivering them to the railway station. Sometimes the goods may be in the bonded warehouse and they may be sold *In Bond*, that is, subject to the additional payment for customs duty to release the goods. This is the *Bond price*. The price may be also *Duty Paid*, that is the price including the customs duty.

Prices When Goods are Shipped.

Besides the railway, goods are delivered to steamers, motor services, post offices and other transporting agencies and prices are quoted according to the circumstances of the case. Thus when goods are shipped, prices are quoted *F. O. B.*, *C. F.*, *C. I. F.*, *Franco* and *F. A. S.*, standing for Free On Board, Cost and Freight, Cost, Insurance and Freight, Free Delivery and Free Alongside Ship, respectively. When *F. O. B.* price is quoted, the seller undertakes to defray all expenses up to and including the loading of the goods into the ship. In the *C. F.* price are included the *F. O. B.* price and the freight and other charges up to the port of destination, except the insurance charge. The *C. I. F.* price is made up by the addition of the insurance

charge to the *C. F.* price. A *Franco* or *free* price includes all expenses including the customs duty, if any, up to the warehouse of the buyer. *F. A. S.* price includes all expenses up to taking the goods alongside the ship in a lighter but does not include the cost for lifting the goods to the deck of the ship.

So prices are quoted according to the requirements and arrangement in each case. Expenses involved in the transportation of goods from the seller's warehouse are always added to the *Loco price.* Expenses are generally incurred for packing, fire insurance, carriage, freight, marine insurance (in case of export), customs duty, if any, etc., etc.

Different Systems of Payment.

Payments are arranged in the contract in different ways. They may be *D/A* or *D/P* or *C/D* meaning respectively Documents against acceptance, Document against payment and Cash against documents.

Here it is necessary to state that when goods are sent to the buyer without cash payment for them, the seller generally draws upon him either for the full amount of his invoice or for a part of it. This is ordinarily done by a Bill of Exchange or *Hundi* (explained hereafter) as it is called, with which are attached the bill of lading and other documents, such as insurance policy, etc., as without these documents the buyer cannot take delivery of the goods or undertake to retire the bill of exchange. Frequently this bill is discounted with a bank by the seller to obtain ready cash before payment by the buyer and the bank's agent at the buyer's place presents it to him for his acceptance or payment. Now the arrangement may be "Documents against acceptance," that is, the bill of lading, etc., to be delivered to the buyer on his accepting the bill of exchange, or it may be "'Documents against payment," that is, the bill of lading, etc., to be parted with only when the payment for the draft is made, or it may be "Cash against documents," that is, the amount of the draft will have to be paid in cash on delivery of the bill of lading, etc. The last two are practically the same.

Delivery of Goods.

Deliveries are arranged in the contract by mention generally of *place* of delivery, *time* of delivery and *mode* of delivery. If the contract is silent about the place of delivery, then it is understood to be the seller's warehouse. It may be *ex-ship*, i.e., on the jetty where the goods are unloaded or it may be *free overside*, i.e., into barge supplied by the buyer for receiving the goods. About time, the contract may provide for prompt delivery, i.e., *immediate delivery* or for delivery *on arrival*, i.e., subject to the arrival of the ship carrying the goods, or it may be *forward delivery*, i.e., to be delivered after and before a fixed future date. The mode of delivery may be by a particular route, by rail, steamer or any other particular transport agency. The agency and route contracted to be used must be used by the seller, failing which the seller, for good reasons, should use some other route or agency taking reasonable care that the buyer is not prejudicially affected by such change. When possible the seller should in such cases ask for and obtain consent of the buyer to such course. The function of the carrier is not to *accept* the goods but only to *receive* them for carrying them to the buyer, for which there must be a proper contract with the former.

Right of Rejection.

The buyer has the right to reject the goods if they do not conform to the terms of the contract. This right extends up to the time when he has got the opportunity to examine the goods but a wrongful rejection makes him liable for any loss caused to the seller. A rejection by the buyer must immediately be communicated to the seller and if instead of doing so the buyer deals with the goods in a way which interferes with the position of the seller as the owner of the goods, or keeps the goods beyond a reasonable time, he can not afterwards claim his right of rejection, as in such cases the buyer is considered to have accepted the goods.

Lien and Stoppage in Transitu.

After the goods are sold, but before delivery, the seller has the right to refuse delivery in case he has not been paid for the goods sold by arrangement and ownership of the goods has not been transferred to the buyer. This right of the seller is called a *right of lien* on the goods. If the goods are sold on credit and they have been taken delivery of by the buyer, of course no question of lien arises, but in such sales when the goods are in possession of the seller he can exercise this right only after the expiry of the agreed time of credit. The right always ceases with the delivery of the goods to the carriers or the agents of the buyer.

When the goods are in the custody of the carrier before the seller has been paid, another right called the right of *stoppage in transitu*, is enjoyed by the seller. This entitles him to call upon the carrier to stop delivery of and return the goods to him, if he learns that the buyer has become an insolvent. The right of *stoppage in transitu* ceases if and when the documents of title to the goods, that is, the bill of lading, etc., have been delivered to the buyer and he has transferred them to a third party taking them in good faith and for value, or when the goods have actually been delivered to the buyer or his agent, *i.e.*, when they are no longer in transit; but a re-sale of the goods during transit without the consent of the seller generally does not take away his right of *stoppage in transitu*.

Consignment Account and Account Sale.

Principals frequently send their goods to their agents for sale on their behalf and at the price fixed by them. The expenses for landing the goods incurred by the agents in such cases become a charge on the principal, and the agents deduct these and other charges together with their commission from the gross sale proceeds of the goods. In such transactions the agents act for the principals and do not purchase the goods. This system of sale of goods is called *Consignment Accounts* sale and the statement rendered by the agents to the principals showing the gross

proceeds of the sale, out-of-pocket expenses incurred, and the commission charged by them according to previous arrangement, is called *Accounts sale statement.* The amount becoming due to the principal is sent to him by the agents with the statement.

Del Credere Agreement.

Ordinarily the agent is not responsible to the principal for bad debts and the loss for default of the buyers is to be borne by the principal in whose account the goods are sold. Arrangement can however be made by which this risk of loss may be shifted from the principal to the agent. This is done by payment of an extra commission to the agent for which he undertakes responsibility for bad debts and agrees to pay the principal the full price of his goods, no matter if he can realise it from the buyers or not. This is called a *Del Credere* agreement. It is to be noted here that this commission is over and above the agent's ordinary commission in the form of a higher rate.

Arbitration.

In order to avoid trouble and expenses of Law Courts, in case disputes arise in respect of the subject matter of the contract for sale an arbitration clause is generally inserted in it, by which provision is made for settlement of such disputes by a reference to a third impartial party called the arbitrator whose decision termed the *award*, the parties agree to abide by. There may be more than one arbitrator, when the majority decision generally prevails. In case of their opinion being equally divided, the appointment of an umpire is provided for in the contract.

Law Merchant.

There are various complications in the matter of transfer of ownership by sale and legal subtleties in the construction of contracts sometimes arise.* Elaborate pro-

*Ownership of specific goods is transferred with the making of the contract, no matter, the delivery or payment is arranged to be effected or made at a

visions have been made in the law to meet these complications and to get over these legal subtleties when they arise. These should form the subject of Commercial Law and need not be dealt with in a treatise on Business Organization. It may however be noted that these complications do not frequently arise and business is generally carried on smoothly and without occasion for constant intervention of the Law Courts. Certain trade usage has evolved in the matter of purchase and sale of goods, which has got the sanction of the law and hence is called the *Law Merchant*. This is based on simple commercial practice which is changing according to the change of circumstances in the business world. By the introduction of this usage the risk of legal complications in the matter of business, has been reduced to a minimum and frequent resource to a Law Court has become unnecessary.

METHODS OF SALE.

In Centralised Markets.

After dealing with the terms and conditions of sale, we now propose to discuss the methods followed for sale of goods. There are important markets in almost every country where dealings in particular commodities on a big scale are mainly effected. In these centralised markets sales often take place through brokers, who act on instruc-

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subsequent date unless something remains to be done to or in respect of these goods. Goods sent on approval do not change ownership before they are approved or accepted or kept beyond a reasonable time, according to the common practice of the trade.

A purchase from some body who is not the real owner or not authorised to sell without the consent of the owner and having no title to the goods, does not generally give the purchaser a good title to the goods purchased even for proper price, and the real owner can compel the buyer to give up the goods wrongfully sold, without paying any compensation to him.

In England there is an exception to this legal provision and persons acting in good faith and buying in a regular recognised market selling the goods in ordinary course of business—called *Market Overt*—acquire a good title to them, unless they are subsequently found to (a) belonging to the Crown, or (b) to be proceeds of robbery and the robber is caught and convicted. Buying in the

tion, but direct transactions between the parties are also effected. When a lot is sold, the buyer and the seller exchange *Contract Notes* generally on the next day. It is *a memorandum of the contract* which is to be accepted by the parties by their signature. The following is a specimen contract note :—

CONTRACT NOTE.

Mr. G. C. GHOSH,
16, Mission Row,
Calcutta.

82, Royal Exchange Place,
Calcutta, 16-3-1937.

We have this day sold to you on A/C of our principals
600 MDS. OF WHEAT, CHANDOWSHI, No. 1 @ Rs. 5 per md.
100 MDS. OF MUSTARD OIL, CAWNPORE, R. G. No. 2 @ Rs. 12 per md.
Brokerage ½ per cent.
Discount, 1½ per cent.
Prompt, 26th March, 1937.

CHATTERJEE & MALLICK
BY D. GUHA,
Produce Brokers.

If any discrepancy is found in the corresponding *notes* the bargain is adjusted by discussion between the parties, failing which t s settled by arbitration usually within a few minutes. The swiftness in decision is required for the sake of efficiency in business methods, for a procrastination in this respect involves not only loss of time but also dislocation in the transaction itself. Though contract notes for

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Market Overt does not give the buyer a good title to the goods in case of the sale of horses or where the buyer known that the goods sold do not belong to the seller. The transaction must also be between sun rise and sun set in full view of the public and must not be of an unusual character, such as sale of a watch by a furniture dealer. No Market Overt is recognised in India.

But when the seller being in possession of the goods sold to one party who became their legal owner, sells them to a third party without disclosing to him the fact of their first sale, the second buyer acquires good title to them provided he acted in good faith. Similarly if a buyer being in possession of the goods with the consent of the seller, sells them to a third party before becoming their legal owner without notice to him, such third party acquires a good title to the goods.

stocks and shares are to be stamped, these contract notes require no stamping, these being for goods.

Delivery Order.

After this comes the invoice for goods bought from the broker. On the payment of amount of the invoice (explained later on) the buyer receives a delivery order (D. O.) from the broker or from the seller. This delivery order may be an "*In Bond*" one, meaning that the import duty will have to be paid by the buyer supposing that the purchase is of imports received at the dock. This D. O. may be transferred by endorsement to the sub-purchaser, i.e., the customer of the buyer, and it may be "In Bond" as it was, or "Duty Paid" if the buyer has released the goods from bond. In the former case the customer pays the duty. It is to be noted that this delivery order is not a Dock Warrant which is a document of title and is a negotiable instrument by practice, while the D. O. is only an order authorising delivery.

After receiving payment from the purchaser the broker settles his account with his principal by rendering *account sales* (A/S) when the transaction is through a broker. Dealings in commodities have more fully been treated in the chapter on Produce Exchange.

Outside the Centralised Markets.

In purchase and sales effected outside the centralised markets and through shops, they are not generally done by contracts or through brokers, though brokers may arrange them. These shops are usually kept by retailers. Departmental stores and multiple shops are also retail organizations on a big scale. Sales are effected to a large extent through Mail Orders as they are called now-a-days by these stores and shops as well as by wholesalers and others.

Departmental Store.

Sales, mostly retail, are arranged by big retailers and producers though what is called Departmental Stores and

Multiple Shops. The former was at first started by the consumers for their own benefit under the co-operative plan, but now they are mostly proprietary concerns like the latter. Under the departmental store system big retailers expand their business by becoming dealers of almost every conceivable kind of goods that may be required by their customers. Different departments under departmental managers are opened for different lines under the manager of the shop who is controlled by the managing director or some other head of the concern. Many concerns which used to handle only a limited number of articles have now grown to be very big business houses with palatial buildings, with the increase of their business activities and addition of departments for dealing in numerous articles, under trained managers, salesmen, accountants and others thoroughly acquainted with the working methods of their respective departments. Many of these stores, specially in France, have now grown to gigantic proportions and almost every thing required by any man from a needle to a motor car, can be purchased from such a store without the trouble of visiting different places for different articles. In India we have not a good many of these stores and not even one of the very big size described above. Messrs. Whiteaway Laidlaw's establishment and a few other stores may be said to be the nearest approach to it in sense in this country.

Its Management—The control of these huge concerns rests, as already mentioned, with the managing director or the head of the store, but the actual business is ordinarily carried on by the general manager and a secretary, between whom the work is divided—the former taking up the different sales departments, traffic department, statistical department and the general staff managements and the latter taking up the account, cash, record and warehouse departments. Departmental managers, traffic managers, staff managers, statistical managers, warehouse men. accountants and cashiers with under managers, salesmen, saleswomen, cash girls, porters, carters, chauffeurs, van-

men, errand boys, apprentices and others are appointed under the general manager and the secretary, and smooth working is ensured by proper distribution of duties amongst these members of the staff. The prices of the goods are usually marked on them obviating the necessity of higgling with the customers. The sales are frequently in cash, credit being granted only to good and reliable customers, to a limited extent. A large number of motor and other vehicles are kept by these stores for delivery of goods ordered. Extensive advertisements are restored to and new customers are attracted by free tea and popular entertainments. Sometimes small presents, such as toys and toy balloons, etc., are made to the children assembled at the stores with their parents or guardians.

Its Advantages—These stores provide facilities to the customer to satisfy his various needs at one place, which is a great convenience to him, specially when he is ordering through post offices. Besides when the customer visits such a store he finds an opportunity to compare different brands and types of goods side by side, which the small retailer can not stock at a time. Many capable men having specialised knowledge of some business can not start business in their own lines for want of capital. The departmental stores give them employment in their particular lines and utilise their knowledge and organizing ability to the benefit of both the parties. Small retail shops are not much interfered with by these stores as the former do business in specialised lines meeting the special individual tastes and the latter do business of a general and sometimes professional nature.

Multiple Shop.

In contrast to retailers' huge organization of departmental stores the manufacturers frequently adopt a plan of opening a large number of shops for the sale of their products, in different places, independent of any intermediate retailer, thus directly coming in contact with the consumers. This plan of organization by the producers generally, is

called Multiple shop system. The primary object of these shops is to sell the manufacturer's own productions only but by necessity with some other goods which are sometimes considered by the public as invariable companions to his own goods; for instance, a butter manufacturer would generally stock not only his brands of it but also tea, cocoa, bread, cheese, condensed milk, etc., for the convenience of shopping by his customers. The range of commodities sold by the multiple shop is however limited unlike the range of goods stocked by departmental stores. The principal aim of the manufacturer is to eliminate the middleman's profit and to attract customers by offering goods at a cheaper price than what is charged by the retailer, though it is doubtful if he succeeds in his object in view of the expenses he has to incur for successful marketing of his products through multiple shops.

When these shops are opened in different places of a town or district, a central depot for the goods is established there and all the shops where the goods are retailed are supplied from this central depot according to their necessities. Sometimes the goods stocked in one depot may vary in nature and description from the goods stocked in others, as experience shows that similar goods are not in uniform and equal demand in all places.

Its Advantages—The advantages of the multiple shop system are that it supplies a known and reliable brand of an article with a particular trade name, near at home without the necessity of the customer's travelling a distance to obtain it from a central store, and that the customer obtains this brand wherever he may be. The success in this enterprise on the part of the producer, however, depends on his capacity to work on an extensive scale with an expert and successful organization behind.

Mail Order Business.

Facilities of transport both in the country and outside the country have now increased and with easy methods of communication established through Post Office, business transactions by means of Mail Orders have now become

very common. The firm or the company doing business through mail orders need not have costly showrooms in the city and can command a large business with only a depot or store house for the accommodation of the goods in which it deals. Customers are found through advertisements in different forms, and successful handling of the business is carried on through persuasive and courteous correspondence. The success in Mail Order business depends to a large extent on publicity by advertisements in the Press and distribution of circulars, catalogues, price lists, pamphlets, patterns, samples, etc., in proper quarters. Once a correspondence is opened with a prospective customer, it is followed up by an attempt to remain in constant touch with him. Literatures and samples are continually sent to him and letters are written frequently offering the goods or their substitutes and showing the excellence of their quality from different points of view. A list of all prospective customers is prepared to which constant additions are made from subsequent correspondence. This is a special feature of Mail Order business and persistent "following up" with the help of this list often results in business.

Classification of the Business—Mail Order business may be classified under three heads—Manufacturing type, Departmental type and Middleman type. In the first the manufacturers sell their products to the public without the help of the middlemen, in the second some big "departmental stores" open Mail Order section in their business, and in the third the middlemen purchase their requirments from the manufacturers and store them for sale on receipt of orders generally through post. Though this last type predominates over the others in Mail Order business, these other types are frequently met with.

The manufacturers generally combine the mail order business with selling of their products in other ways. The departmental stores which have already got goods in stock, open only a supplementary department for their business. In the middle man type of the business the requirements are estimated beforehand on the basis of previous experi-

ence and goods are ordered accordingly. Sometimes the firms clear their old stocks usually at a reduced price, by organizing publicity campaign for the purpose. A time limit is sometimes imposed in such campaigns and free samples are also offered in certain cases. Ordinarily card index system is followed in the mail order business, for it gives great facilities for pursuing the "follow up" system, in recording change of address and in substituting new cards for the old ones when they become obsolete.

System of Payment—The system followed in this business for payment, is generally cash on delivery, known as C. O. D., by which the price of the goods are collected through the post under the Value Payable Post system. The parcel in such cases is sent through the post and the price realised for it by the post office, or it is sent through some other means of transport like railway or steamer, etc., and the bill of lading sent by value payable post. Value payable system can also be availed of in sending goods to certain foreign countries.

The drawback of this C. O. D. system is that the customer does not get any opportunity of examining the goods he purchases before the price is paid by him. Advantage of this system is sometimes taken by unscrupulous persons to deceive unwary customers whose orders are secured by means of attractive advertisements in magazines and newspapers, by sending spurious goods packed in the parcel. No difficulty however arises on this account if the seller is a person of integrity on whom reliance can be placed about his dealings, or where the goods are of a known standard quality.

Invoice.

In wholesale transactions outside the centralised market a different procedure is necessarily followed. When the seller sends goods to the buyer who is ordinarily a retailer, according to the order of the buyer in such transactions, he sends a written statement with them showing the quantity, price and the general nature of the goods and frequently mentioning the method of forwarding the goods

and charges for packing, carriage, etc., if any. This statement which is for the guidance and use of the buyer is called an *invoice*. The buyer after receiving the goods checks them by a comparison with this invoice and any discrepancy found is dealt with by him.

The invoice is ordinarily sent to the buyer on the same day as the goods are despatched, either by post or with the parcel containing the goods,—a copy being always kept by the seller. With the invoice is also commonly sent a note intimating despatch of the goods bought—called *Advice note*—containing information about the mode of conveyance used and about other matters considered necessary in particular cases. A specimen invoice is given here which will explain its form, necessity and purpose.

No.....
Telephone—Calcutta, 3456.
Telegrams—"Showy," Calcutta.
Codes used—ABC & Bentley's.

39, [redacted] INDIAN STREET,
CALCUTTA.
13th June, 1947,

MESSRS. KHANNA & CO.,
Allahabad.

Bought of Roy, Martin & Co.,
Wholesale and Retail Tea Merchants, Calcutta.
Gardens—Hesrabad and Kokandi.

Terms :—7½ % 1 month.

MARKS	PACKAGES	DESCRIPTION & QUANTITY OF GOODS SENT.	RATE. Rs. As. P.	AMOUNT. Rs. As. P.
R.M.	2	Orange Pekoe 100 lbs. ..	0 12 0	75 0 0
,,	4	Pekoe Susang 200 lbs. ..	0 10 0	125 0 0
,,	3	Pekoe Fanning 150 lbs. ..	0 9 0	84 6 0
,,	6	Dust mixed 300 lbs. ..	0 6 0	112 8 0
				396 14 0
		Packing and transit ..	0 8 0 Per package	7 8 0
			Total	404 6 0

The specimen is self-explanatory and needs no detailed comment. It would be understood that Messrs. Roy, Martin & Co., are the sellers and Messrs. Khanna & Co. are the

buyers and the sale has been effected on condition that a discount of 7½ per cent. will be allowed on the charge shown in the invoice if payment is made within one month for which period credit has been allowed.

On receipt of the goods by the buyer, they are checked with the invoice and if they do not answer to the description given in the invoice, the seller is called upon to account for the discrepancy and to substitute proper goods if necessary at his own expense. In extreme cases the buyer may refuse acceptance of the goods and ask the seller to remove them at his own cost. If the invoice is found to be incorrect, it is generally returned to the seller for necessary correction.

Debit and Credit Notes.

After the invoice is sent to the buyer it may be found that the buyer has been undercharged for some mistake on the part of the seller. In such cases an explanatory letter is sent by him to his buyer with a statement pointing out the mistake and the amount undercharged. This statement is called a *debit note*. The reverse may be the case and it may be found after the invoice has been despatched that the buyer has been overcharged through a mistake. In such a case a similar letter and statement showing the excess charged are sent to the buyer. This statement is called a *credit note*. When faulty goods are returned, these notes are sent by either party to the transaction according to the circumstances of the case. They may in all cases be from the buyer to the seller or from the seller to the buyer for overcharge or undercharge as the case may be. Two specimen notes are given here :

DEBIT NOTE.

Messrs. KHANNA & CO., *Allahabad.*

Dr. To ROY,MARTIN & CO.,

		Rs.	As.	P.
20th June, 1937.	To Orange Pekoe Tea 100 lbs. invoice @ 12 annas, should be 1 Rupee			
	Uudercharge	25	—	—

CREDIT NOTE.

Messrs. KHANNA & CO., *Allahabad.*

Dr. To ROY, MARTIN & Co..

		Rs.	As.	P.
20th June, 1937.	By Orange Pekoe Tea 100 lbs. invoiced @ 12 annas, should be 8 annas.			
	Overcharge	25	—	—

Pro Forma Invoice.

This specialised form of invoice is generally used in three classes of transactions.

(a) There are occasions when goods are despatched to agents and other persons, without being sold to them, *i.e.*, on *consignment accounts.* In such cases the price shown in the invoice is only formal, being the expected or minimum price of the consignor. The actual price fetched for the goods may be more or less but the customs duty, if any, is charged on the price shown in this "Pro Forma" invoice.

(b) Sometimes a firm may be willing to handle a class of goods in the sale of which it has no experience. In such a case it may make out an order for such goods and ask the manufacturers or dealers of the goods to send a pro forma invoice, meaning thereby that it wants a statement about price, description, discount and other matters (and not the goods) in order to judge for itself if it would be possible for it to profitably handle the goods. The invoice sent by the dealers in such cases is in the ordinary form but marked "Pro Forma." So this class of invoice contains nothing but a quotation of price with other details necessary for coming to a decision about the possibility of profitably marketing the goods by a firm contemplating business in a new line.

(c) Often a firm receives orders from prospective buyers with whom it has no business relation or whose order is too small to be entered in the account books of the firm. In such cases the firm would ordinarily write a polite letter explaining its inability to send the goods and send an

invoice with it marked "Pro Forma," meaning thereby that the goods will be despatched on receipt of the amount shown in the invoice.

It is to be specially mentioned in this connection that in all the above three cases of pro forma invoices, the amounts shown in them are not debited to the parties to whom they are sent, as is done in the case of an ordinary invoice.

Trade Discount.

The word *discount* requires some explanation. Selling firms generally issue price lists. These prices are sometimes nominal and are much in excess of the price which they can accept for the goods catalogued. They allow a big discount to their buyers. But there are other firms which quote a price which is only slightly above what they can actually accept with a good margin of profit for them. These sellers can therefore allow only a small deduction from their price. These deductions, large or small, are *discounts* which are allowed to buyers. They vary in different trades according to practice and are termed *trade discounts* in the respective trades. Discounts to be allowed are shown in the invoice or the bill when necessary.

Terms of Payment and Cash Discount.

Terms of payment are arranged at the time of the transaction. These may be *cash with order* (*C. W. O.*), *cash on delivery* (*C. O. D.*), *spot cash*, *prompt cash*, *net cash with a specified time*, *cash less a certain p.c.* for payment within a specified time, *monthly*, *quarterly or half-yearly account* less an agreed discount, and so on. In *C. W. O.* the price is to be prepaid and in *C. O. D.* it is to be paid on delivery of the goods and may usually be within a week or so. *Spot cash* means payment as soon as the buyer takes possession of the goods and *prompt cash* implies payment within 15 days or less from the date of the invoice. 1 *p. c.* 3 *days* implies 1 p.c. discount will be allowed if payment is made within 3 days of the invoice. 1 *p.c. monthly prompt* implies that 1 p.c. discount will be allowed if payment is made within

3 to 15 days of receiving the monthly account and 1 *p.c. monthly due* 30 *days implies that* 1 p.c. discount will be allowed if payment is made within 30 days of the rendering of the monthly account. So for *payment within a specified period of time* a certain allowance is generally made to the buyer by the seller, called the *cash discount*, which is nothing but an inducement to the buyer for regular payment of the bill of the seller. If payments are not made within the specified time, generally an interest is charged on overdue accounts, running from the date on which the specified time for payment expires.

Tare and Draft.

When goods are despatched to the buyer, they are always put in cases, bags, wrappers, etc. The weights of these receptacles which are deducted from the total weights of the goods with the receptacle, are called the *tares*. Different practices are sometimes followed in different trades to ascertain the *tare*, but generally a certain per cent. of the cases of the packages are weighed at random and the result is taken as the average to ascertain the *tare* of the whole consignment. This is *average tare*, but in some trades the *actual tare* is found by weighing all the cases after emptying them.

Over and above the *tare* an allowance is made by the seller to the buyer to compensate him for leakage, wastage in handling, inaccuracies in taring, etc. This allowance is called *draft*. The draft allowed in different trades is different.

Mode of Payment and Imprest Cash.

Ordinarily every firm keeps one or more bank accounts and payments are made by cheques, but payments in other forms are also made. Cheques received are ordinarily collected through banks. But small payments constantly required for petty transactions are not possible to be made by cheques. Hence the cashier or some other clerk of the firm is allowed to keep a certain fixed amount of money with him in liquid form, from which petty cash payments are

made on payment order by his responsible superior. This amount which is fixed according to the necessity for small payments, is entered in a book, called the Petty Cash Book and an account is kept of all payments. The amounts thus disbursed are drawn from the firm every week, fortnight or month according to the practice of the office to make up the original amount with which the account started and the transaction is shown in the petty cash book. The amount thus kept by the petty cashier is called the *imprest cash*, which is kept separate from the general cash received by the cashier.

Reference for Credit Transactions.

We have already noticed that all sales are not effected on cash basis and buyers are allowed to pay within a certain specified period. This credit transaction is of course possible only with approved parties having business relation with the seller. When an order for goods is received from a new party to be executed on credit, the seller wants to be satisfied about the financial status and business honesty of the prospective buyer. The general practice for the latter in such cases is to supply references with the order. He generally (a) gives the names of one or more known members of his trade or (b) furnishes the name of his banker for such references. In the former case the prospective seller will very politely ask such members to give him such information about the prospective buyer as may be necessary for his purpose and in the latter case he will write to his banker to obtain the necessary information from the banker of the prospective buyer, as no banker will supply such information except through a banker.

Mercantile Enquiry Agents.

It is however sometimes found that no reference is given by the prospective buyer with his order. In such a case the prospective seller may either ask for the necessary reference in a polite letter or may have the necessary enquiries made through some Mercantile Enquiry Agents many of whom are in existence in Europe and America, though the existence of this class of agents can scarcely be traced in this country.

These mercantile agents always make such enquiries secretly and obviously this is considered to be an advantage by the person engaging their services.

On receipt of the necessary information from the referee, the order for goods on credit is disposed of by the firm or person receiving it, according to such information.

Rendering of Accounts.

When goods are supplied to approved customers, the seller periodically supplies them with a statement of their accounts, showing the amounts due. This is done ordinarily for the purpose of giving facilities for checking the accounts of the buyer by comparison with those of the seller. Account is rendered weekly, monthly, quarterly or half-yearly according to practice, showing the date and amount of each invoice for goods sold to a customer during the period for which the account is made. All credits and allowances for goods supplied and discounts to be allowed on settlement, if any, are also shown in the account with the time limit. This discount varies in different trades and with different customers. If the previous account has not been paid or has only been partly paid by the customer, then the balance due is shown as the first item of the statement as "To account rendered" or "To balance brought forward," as the case may be. This statement is entered in the books of the seller as well as in those of the buyer when necessary, in which notes are made when payments are received to show the state of the accounts at a glance.

When payments are overdue a reminder is sent to the buyer asking for payment and when this reminder remains unheeded, a second reminder is sent. On its failure to produce the desired effect, a third reminder is generally sent in a stronger language. After the lapse of a reasonable time from the third reminder ordinarily the defaulter is threatened with legal proceedings which are instituted in cases where all other means to realise the arrears become unsuccessful.

Payments in Full and on Account.

When payments are made in full a clear receipt is granted by the seller, but if the amount remitted does not

cover the full amount of the bill or when a discrepancy is disclosed in the amount of remittance as compared with the amount shown in the books and a reconciliation is found to be difficult, a receipt is sent *on account* with an explanatory letter. These receipts are ordinarily given on a printed form of the seller or sometimes on the statement or bill which is returned receipted. When the amount exceeds Rs. 20 the receipt must be stamped one anna either embossed or adhesive and in the latter case the stamp is to be cancelled, when the receipt is given, otherwise the receipt is not valid and can not be used as evidence of payment in a Court of law. The adhesive stamp may be cancelled either by a seal or a signature or by some other effective marks across the stamp. No cancellation is of course necessary when the stamp is embossed. In case of non-compliance with these requirements, penalty has been prescribed by the Indian Stamp Act.

Remittances.

These may be made in different ways, but generally Coins, Money orders, Postal orders, Telegraphic money orders, Currency notes, Cheques, Promissory notes, Bill of exchange and Bank drafts are used for the purpose. Small payments are sometimes made in stamp. There are some other modes of payments which are also resorted to according to the circumstances of the case. Payments in coins, by money orders, by telegraphic money orders and in currency notes, require no explanation. Postal orders for the purpose are generally used in this country, only for small remittances to Great Britain, though this system has now been introduced by the Indian Post Office for inland remittances also. These orders may be crossed if necessary when it can be cashed through a banker only as in the case of cheques. The name of the payee in such orders may be inserted either by the sender or by the payee himself when the sender has omitted to insert his name. Other methods of payment will come in for treatment in their proper places.

QUESTIONS BEARING ON CHAPTER VI.

1. Why is commerce called the distributive branch of industry ? How does distribution of industrial products take place?

2. Under what principal heads do the methods of distribution fall ?

3. Differentiate between Trade, Commerce and Industry.

4. Who are the mercantile agents ? Distinguish between general and special mercantile agents with examples.

5. What is "Del Credere" Commission ? Explain what benefit accrues to the merchants through its payment. Mention the functions of a Factor, a Broker and an Auctioneer, mentioning the salient points of difference as to their powers and responsibilities.

6. What is the principal function of a broker or middle-man ? How would you justify the remuneration paid to him, considering that his labour is non-productive in the ordinary sense of the term ? Are all brokers mercantile agents? If not, mention some exceptions with reasons.

7. Write notes on Broker, Forwarding Agent, Del Credere Agent. (B. Com., Lucknow, 1924),

8. What is meant by business exchange ? State how business is carried on at exchange generally or at a particular exchange. State the advantages that the business exchange confers on merchants and dealers. (B. Com., Calcutta, 1926).

9. When is a contract a contract for sale and when is it an agreement to sell? When is a contract complete?

10. It is necessary that a contract should always be in writing ? Explain the circumstances in which an unwritten contract involving more than a certain amount can be enforced.

11. What are the drawbacks of contract by a chain of correspondence ?

12. What do you understand by Warranties ? Explain the circumstances in which a warrantee for goods becomes inoperative driving the buyer to seek for damage.

13. Explain "Caveat Emptor."

14. What should a contract governing sale of goods contain about the terms of the sale ?

15. What do you understand by price on Rail, Price at Station, Price in Bond and Duty paid price? What are F.O.B., C. & F., C.I.F., Franco and F. A, S, prices ? Explain them,

16. Explain fully the meaning of the following terms:—F.O.B., C.I.F., B/L., D/A,

17. Explain D/A, D/C and C/D payments. In what circum stances does each of them become necessary ?

18. Differentiate between ex-ship and free overside deliveries of goods and explain the meaning of immediate delivery and forward delivery.

19. What is the liability of the seller when the contracted agency and route are not used by him for delivery of goods ?

20. When can a buyer reject the goods and in what circumstances is he denied this right ?

21. What do you understand by lien on goods sold ? When can the buyer exercise this right of lien ?

22. Explain stoppage in Transitu and mention the occasions when this right can be exercised by the seller.

23. Explain Consignment Account, Account Sale and Del Credere Agreement.

24. What do you understand by Market Overt ? Explain the circumstances in which a purchaser of goods acquires good title to them in spite of the seller's defect of title.

25. What is Law Merchant ? How does it benefit the commercial community ?

26. What is a Centralised market ? Describe the methods of sale of goods in such a market.

27. Distinguish between a Delivery order and a Dock warrant.

28. In what other ways than through the Centralised markets, are sales effected ?

29. Describe a multiple shop by a suitable example. What is a Departmental Store ? Describe its origin and development.

30. How are the Departmental Stores constituted and how are they managed ?

31. Analyse the main features of a departmental store and account for its progress or otherwise in this country.

32. Describe the Organisation of a Departmental Store. What are the advantages of such stores ?

33. What are the Multiple Shops and what are their primary objects and advantages ?

34. What is the idea from the point of view of organization in case of departmental store as distinguished from the multiple shop arrangements ? Discuss fully. Explain with a clear sketch the laying out of an ideal Departmental Store.

35. Discuss the causes of the growth of mail order business in recent times. In what line is that method particularly suitable ?

36. What is an Invoice and when is it used ?

37. Give the particulars usually stated in an invoice. What is the Draft ? Is it of an invariable quantity ?

38. Explain Debit and Credit notes. Why and when are they used ?

39. What is a Pro forma Invoice ? Name the occasions on which it is used.

40. Explain Trade Discount. Why and when is it allowed ?

41. Explain the terms—Cash with order, Cash on delivery, Spot Cash, Prompt Cash and Net Cash within a specified time.

42. Explain Cash discount mentioning its difference with Trade discount.

43. What do you understand by Trade and Draft ? What are the circumstances which occasion those allowances ?

44. What is Imprest Cash ? Explain its necessity.

45. How and why are references taken by the selling firm before allowing credit to the buying firm ?

46. What is meant by Rendering accounts ? Why is it necessary ?

47. Explain Payment in full and Payment on account.

48. What are the different ways in which remittances are made ?

CHAPTER VII.

ORGANIZATION OF COMMERCE.

(Continued).

WHOLESALE AND RETAIL TRADE.

The Wholesaler—His Functions in Relation to the Manufacturer.

INLAND trade may primorily be classified under two heads—wholesale and retail.

The business of the Wholesaler, as he is called, is to purchase in large quantities and to sell in small quantities, generally to the retailers who sell to the consumer. He acts as an intermediary between the manufacturer and the retailer, and is neither a manufacturer nor a retailer except in rare cases. Besides, he acts as an interpreter of the demand by the customers of the quantity and quality of goods required, for guidance of the manufacturer. He thus helps the manufacturer in understanding the requirements of the market. By holding stock at the time when the market is very low on account of over-production and by selling stock when the market is rising due to under-production, he keeps the prices steady and prevents their violent fluctuations.

As we have seen the wholesaler exports and imports goods and comes in contact with the buyers and sellers of foreign countries. As he secures orders from a large number of retailers and places them with the manufacturer, the latter is saved from the trouble and expense of dealing with a large number of people. By his large purchases he makes the manufacturer free to concentrate on production without spending his time and energy in hunting up buyers. The manufacturer for these reasons is not required to keep a big stock, and his capital being released

by the big purchases of the wholesaler, he can use it for production of more goods to the order of the latter.

His Functions in Relations to the Retailer.

As the retailer can not hold a big stock of any particular goods for obvious reasons, it is the wholesaler who removes this difficulty for him by helping him with supplies only of the required quantity and quality in small lots, thus doing away with his necessity of locking up his small capital in a big stock. The wholesaler purchases at the proper moment, so the advantages secured by him regarding the price of the goods are shared by the retailer to the benefit of himself and his customers.

Another important, and probably the most important advantage enjoyed by the retailer in his business with the wholesaler is the credit allowed to him in some trades, as this system enables him to put through business for a larger amount than he could have done without the credit. In such transactions the retailer who ordinarily sells on a cash basis pays the wholesaler after an agreed time, from the proceeds of such sales. This credit therefore depends to a large extent on the rapidity of the turnover of the retailer.

Combination in Marketing Functions.

The wholesaler or the manufacturer sometimes combines the retailer's business with his own, as in the case of multiple shops described before, to save the retailer's profit; sometimes the manufacturer attempts to eliminate the wholesaler by dealing with the retailer direct, to save the profit of the wholesaler, that is, he in such cases combines the wholesaler's business with his own. These combinations are now frequent, though their success is not very common except in the cases where only small manufacturers and wholesalers are concerned. In some cases, specially in the case of perishable goods, the manufacturer can not do away with the wholesaler.

The system of commodities passing from the manufacturer to the consumer, successively through the wholesaler

and the retailer has evolved out of the necessity of trade, and this evolution of the system took a long time. A sudden dislocation in this will naturally cause an adverse effect on business, unless the new system can be made to suit the present trade condition. Generally direct distribution necessitates the setting up of a separate department by the manufacturer or the wholesaler, which is scarcely found to be financially justifiable except in the cases where the volume of the business put through that department is very large. Besides, the sales department set up for the purpose, in the case of seasonal commodities, will remain idle in the slack season causing a great financial strain on the concern. So the average of the advantages of the combinations will not be very striking in comparison with the average of their disadvantages, except n certain cases of special necessities.

Organization of Wholesale Business.

One of the most important points to be kept in view in connection with the organization of a wholesale business, as in the organization of a factory, is the distribution of the work amongst the various members of the staff in a definite way, so that there may not be any overlapping and consequent friction amongst them, each member being made responsible for the work entrusted to him. This distribution shall always aim at efficiency and an organizer should see that the whole organization works as a compact whole under him and his policy is carried out by all the members of his staff. Every business generally presents a type of its own and uniform rules can not be laid down for all cases regarding the details of organization of a business. This can therefore be dealt with in general terms only without attempting an elaborate description and without giving particulars of the details which are necessarily different types of business. They will ordinarily depend on the nature and extent of the business, the conditions prevailing in the locality, the trade facilities and such other factors. The management of a wholesale business concern is generally conducted in the following way :—

Administrative Department.

A wholesale business has generally two departments—Administrative and Executive. The first deals with finance, accounts, correspondence and general administration; and the second concerns itself with buying, selling, packing and despatch, etc., of goods. It also takes charge of publicity, warehousing and other similar works.

It is necessary that the administrative department of a wholesale business should be very careful about the finance and estimate of the requirements of capital which should be made before starting the business. In the case of a registered company, the legal provisions in this respect will of course have to be followed, but sufficient capital required in consideration of the nature and size of the business must be secured beforehand in any case. Its equitable distribution amongst the various departments of the business and careful use are also necessary, during the progress of the business, so that financial difficulty may not stand in the way of its success.

The administrative department will also carefully control the accounts and correspondence of the business and exercise general supervision over its administrative machinery. The finance section should also be in touch with the Buying and Selling Organization, so that the use of the capital of the business may be according to the requirements of the latter. It is to be remembered that for several reasons a wholesale business requires a comparatively big capital, the most important of these reasons being its necessity to carry a large stock and to give long credits to the retailers. Sometimes the wholesaler has also to advance money to the manufacturers of small means, for regular supply of goods he has to stock.

Executive Department.

The most important duties entrusted to this department are Buying and Selling, on the efficiency of which the success of the undertaking mainly depends. There is ordinarily a *Buyer* for each variety of goods stocked, but in smaller establishments one buyer is put in charge of

purchase of goods of different varieties. The despatch section of the business is attached to this departmennt. Ordinarily a special officer acquainted with rules of transport and methods of despatch of goods is in charge of this section. On the efficiency of this man depends the success of the business to some extent. Warehousing and advertisement are also undertaken by this department for which, specially for advertisement, there is generally a specialist on the staff.

Buying Organization.

There is a general manager to direct and supervise the operations of the *buyer* who are generally experts in their lines. They are generally given a free hand within a limit and are allowed to select the sources of supplies for the stock. Their decision about these sources will of course depend on the considerations about the quality, price, time of delivery and punctuality in supply of the goods. The *buyers* should come in touch with the customers to ascertain what goods they want, so that they may regulate their purchases accordingly. The sources of their supplies are mainly the growers, the manufacturers—home or foreign —the produce exchanges and commercial sale rooms. They are responsible to the management for their buying activities and have to regularly report on their working about their stock and buying commitments. The management from these reports exercises a check or "budgetary control," as it is called, over the business, which enables to co-ordinate buying and selling, so that the available working capital of the undertaking may be used to its best advantages.

Selling Organization.

Next comes the organization of sales of a wholesale house. The profit-earning capacity of a wholesale business depends to a great extent on the efficiency with which sales of the goods stocked by it, can be effected. The primary object of the wholesaler in this respect is to find purchasers,

either amongst the retailers, or amongst the general public in case he has a department for direct sale to the consumers. This is the business of the Salesman who must have the requisite quality in him to draw customers and to induce them to purchase the goods stocked by the wholesaler, at a remunerative price. For this purpose the salesman should have a detailed and specialised knowledge of the goods he is called upon to deal in. Sometimes the functions of the buyer and the salesmen are combined in one person so that there may not be any shifting of responsibility, but this combination is not possible unless the particular person combining both the functions is a specially qualified man. This combination is however possible when the business is not very extensive.

Indoor Sale and Outdoor Sale.

Sales are effected in different ways. When the wholesaler keeps a well organised show-room, indoor sale forms an important part of the business in this side. The retailers in this case visit the wholesaler's show room and select the goods they want for their purpose. This system is very convenient in the case of goods too bulky to be carried from the warehouses for inspection. The wholesalers sometimes arrange for "show days" when they specially display their goods and invite the retailers and the public to attend, very often offering special price concessions. The customers thus come into direct touch with the wholesaler to their mutual benefit.

Outdoor sales are effected generally through travelling salesmen, agents and advertisements. The functions of the salesmen and the agents are practically the same, the former sent out from the office to operate in a particular area and the latter appointed in a particular place, being a local man of influence and capacity. They generally carry samples of goods which are not bulky, with them for inspection by their existing or prospective customers and secure orders for their concerns for such goods as are found to be saleable in the particular places; for to induce a

retailer to purchase unsaleable goods and thus to burden him with a dead stock is not a good proposition for the wholesaler in the long run.

The main object of the travelling salesman or the agent, however is to increase his sales, which he does, not only by successfully bargaining with the existing clients of the wholesaler or the manufacturer, but also by securing new clients. The present day travelling salesman moreover advises his clients in all matters connected with the business; for instance, advices are given to them by him as to best method to be adopted by them for selling the goods, the nature and volume of demand of the goods, disposal of the goods they are induced to order, the size of the stock to be carried and such other matters. It is also his business to hear the complaints about the goods supplied by his firm and to communicate them to the Head Office.

Sometimes it is found that some of the customers of the House cease to give their custom to the firm. It is the business of the outdoor salesman to find out the causes of these defections and to revive the business with these "dead" customers, by applying necessary remedies to the cases requiring them.

Remuneration of Outdoor Salesman.

There are different system of remunerating those outdoor salesmen. Some firms engage them on commission basis only and some give them a fixed salary without any commission. Many however remunerate them by both. The defects of the first system are that during the slack period of the trade the salesman finds it difficult to earn a living wage and the system precludes the salesmanager from retaining a full control over him for obvious reasons. In the second there is the danger of a temptation to slack on the part of the salesman, when there is no incentive by way of an extra income by increasing his sales. A payment in both is therefore now considered to be a suitable way of remunerating the outdoor salesman; for it removes the defects of both the "only commission" and "only salary"

systems and gives the salesman a living wage without the risk of interference with his full activity, an impetus being given to it by the extra income from commission.

Quota System.

In the United States of America another system, called a "Quota" system, is now being introduced, under which only a fixed salary is paid to the salesman and he is required to operate only in a particular district, after the ascertainment by research of the volume of business procurable there which is fixed as its quota. The salesman is given a free hand in his methods and ways of selling and is required to follow only the broad line of the policy laid down by the salesmanager. So long the salesman achieves his sales quota this arrangement is not interfered with but in case of failure to reach this quota, he is compelled to receive and accept detailed instructions from the sales manager about the methods and details of ways of his operations in the district, and the "free hand," though it is an incentive for increase of business, is lost.

How the wholesalers push their sales by advertisements has been fully described in the chapter on Advertisement.

Locality and Equipment.

The dealings of the wholesaler are mainly with the retailers, so he need not be so particular about the locality and equipment of his premises as the retailers have necessarily to be. But he should select a place which is easily accessible to those traders who may mainly require his goods and which has the necessary facilities for receipt and despatch of goods. It is in the large business centres of big cities that these wholesale establishments are located, and many of them of the same nature and type are concentrated in the same locality creating a big market for the class of goods they stock.

Unlike a retailer who must cater to the necessity and taste of the general public by having his premises well fitted, the wholesaler will generally fit up his premises in a

practical manner. But still in some cases at least, the tendency of the wholesaler is to make his clients very comfortable in this respect as the retailer generally tries to do. Well furnished parlours are not now uncommon in wholesale establishments and some of these are now fitted up with all modern conveniences to give necessary comforts to their customers.

Organization of Retail Business.

The retailer is the last link in the chain connecting the manufacturer and the consumer in the economy of distribution of commodities produced by the former. The size of a retail business varies according to the importance of the market, though there are small retailers in prosperous big markets. The business ranges from that of the hawker tramping with his basketful of fruits or his load of cloths to the owner of a big multiple shop or a huge departmental store. The consumers as a rule purchase from the retailer.

There is a demand for the services of the retailer and therefore there is a good margin of profit in the retail business through which the goods reach the consumers, for it is not possible for the public to buy their every-day requirements from the manufacturer or the wholesaler who sells in bulk. The retailer's services are in demand because he sells in small quantities at places convenient for shopping for the local public and endeavours to satisfy their tastes by supplying the goods they exactly want. He also becomes useful to the people of his locality by supplying fresh foodstuffs daily. Moreover, he becomes popular by frequently granting credit to the consumers of his goods.

Hire Purchase and Deferred Payment Systems.

The retailer also allows credit in another way by arranging payment by easy instalments. Though the manufacturer and the wholesaler are now increasing their sales by giving facilities of purchase to their customers under this system, it is the retailer who has made it a special line of his business. Extensive business under this

system is put through in the West and India is now also following it. Two forms of payments on instalment basis are generally followed.

One is the Hire-purchase agreement under which the buyer is at once put into possession of the goods on his commencing payment of the stipulated instalments, but the goods do not become his property until the payment of all the instalments is completed. In the interval, if he fails to pay any instalment the seller has the right to retake possession of the goods and to forfeit the amount already paid. So under this system the buyer does not become the owner of the goods before the completion of payment of all the instalments arranged beforehand. The other is the Deferred payment agreement, under which the goods become the property of the buyer as soon as the first instalment which is ordinarily higher than the others is paid the buyer being given a credit for the balance without any security. But sometimes arrangement is made giving a right to the seller in case of default to take back the goods worth the extent of the instalments remaining unpaid.

Advantages and Disadvantages of Payment by Instalments.

The system of payment by instalments has its advantages and disadvantages. It is advantageous for the seller from the point of view that it increases his sale, and it is advantageous for the buyer inasmuch as it enables him to purchase expensive articles which he could not have done had he been required to pay cash down for these. Moreover the system gives an incentive to the buyer to save from his income to pay the instalments. The great disadvantage is that it frequently tempts people to jump into such expensive transactions as are not warranted by the size of their income and sometimes brings troubles and worries on the seller not commensurate with the extra charge made.

The buyer in the case of instalment payment has of course to pay a higher price for immediate possession of the goods for which he does not pay in full and the seller

is justified to make an addition to the cash price of the goods. He generally adds a percentage which varies according to the period over which the instalments are spread. Motor cars, sewing machines, expensive musical instruments and furniture, radios and such other articles have now come within the reach of people with modest income through the introduction of instalment payment system and the small extra paid by the purchasers in the form of this percentage addition is not generally considered to be heavy.

Horizontal and Vertical Development of Retail Business.

Retail business is carried on in two lines. Some retailers deal in finished goods, that is, in one stage of their production only, developing the business in the direction of extending their varieties, as in the case of Departmental stores, without taking to their manufacture to procure them at a cheaper cost. This is called "Horizontal" development of the retail business. Whiteaway Laidlaw's establishment is an example of this system.

Some retailers are not satisfied with the profits made by dealing in goods in one stage of their production only. They manufacture and sometimes control the sources of supply of the goods, as in the case of Multiple shops, in addition to distributing them. Here the range of commodities sold is limited but the retailer controls the manufacture of the majority of them. This is called "Vertical" development of retail business. A concern which owns tea plantations, manufactures tea and retails it, is an example.

Foreign trade in retail system is now growing in volume throughout the world. This is generally carried on not only through the agency of various transport companies, but the Post Office plays an important part in it. Goods in parcels and packets in small lots are now sent directly to the consumers from one end of the world to the other, under the V. P. P. systems or under other means of payment. This class of transactions is generally known as Mail Order business. Petty wholesalers also carry on their business under this system to a considerable extent.

SOME REQUISITES FOR RETAILERS.

Selection of Goods.

The retail seller is more in touch with the customer's tendency than the wholesaler, and therefore it is necessary for him to be more careful in judging the future needs of the market. Shops are sometimes stocked with merchandise the use of which has already become obsolete. So the retailer must be up-to-date in his selection of the goods to be stocked by him. Complaints are sometimes heard from shopkeepers about apathy of customers to visit their shops in spite of their investing a very large amount on the stocks. They forget the fundamental fact that a mere heavy stock would not attract customers, but even a moderate stock of choice to meet the varying taste of the public will draw crowds of customers to their well equipped shops. The fact that " dead stock " is the bug-bear of business and that unsold and unsaleable stock has brought ruin to many businessmen should never be forgotten.

Knowledge of Merchandise.

Post-war years have created a greater measure of individualism amongst the mass of the people and a demand for greater variety of goods has therefore increased and is still increasing. A retailer should therefore be more up-to-date in this respect and must have a practical knowledge of the merchandise which will satisfy this new demand. His work is therefore becoming more and more complicated, as his task now is one in which more technical knowledge is necessary. Big retailers appointing salesmen for their shops should take this fact into serious consideration when selecting shop assistants who would be called upon to deal with customers. It is not a practical proposition to put a salesman in a position to meet a customer until he can talk with a reasonable amount of knowledge upon the important points likely to be raised in connection with the merchandise he is selling.

Buying and Selling.

A factor of considerable importance in the success of retail business is the buying of merchandise in the right market at the right price and at the right time. Retailers specially those who are novices in the line, are sometimes heard to say to their customers that they can not sell at the price charged by some other shopkeepers on account of their buying the goods at a higher price, without taking into consideration the fact that this is of no concern to their customers who will not consent to pay a higher price for their article merely for its being purchased at a dearer market. Retailers must always compete in price and quality and should charge their customers at a definite rate of profit which ought to be the lowest possible in the circumstances and which should not be more than what is charged by others. This can be done only by buying at the right market at the right time at the lowest price, the quality of the goods purchased remaining unimpaired.

Cash and Credit Purchase.

A good many retailers in Calcutta and in other important trade centres buy beyond the capacity of their capital and become inextricably entangled in debt to their creditor wholesalers, who naturally sell for a price which is more than normal because they grant credit. The retailer therefore finds himself in a helpless position when he is called upon to compete with those who purchase cash. Any one visiting a retail shop in Calcutta in the evening will be convinced of the truth of this assertion from the presence of a host of bill collectors of these wholesalers in such shops. Buying on credits may of course be allowed to a limited extent, but over-buying should always be avoided and the retailers should not trade too much beyond the limits of their available capital. Financial consideration as a rule should dictate the maximum stock that can be safely kept.

On the other hand a well selected variety of stock should always be held by a retail shop unless it is a multiple

shop, as loss is frequently suffered on account of inadequate stock, for this means not only lost sales but loss of customers, who being disappointed to have their wants supplied, transfer their custom elsewhere. So while avoiding the risk of over-buying, a retailer should have ample stock of commodities according to the demand of the market and should add to the range of the article to the extent allowed by his capital resources.

Price, Quality and Cypher System.

A principle in this respect should be adhered to. Haggling and hesitancy should be avoided and a competitive fixed price should always be asked for with uprightness. The price charged ought to be such that the customer will not generally be in a position to purchase the identical article in the market at a cheaper price. This competitive price and quality of the goods sold are two most important factors which are the keynotes of success in business and their supreme necessity can not be too much exaggerated. Retailers should always remember that it is better to have a quick turning over a stock at a lower margin of profit than to have it 'sitting' on the shelves with an expectation of securing a higher price for it. The selling price of the goods should ordinarily be marked on them, but if secrecy is required in this respect the "Cypher" system may be adopted under which generally the numerals are indicated by letters. The retailer should also make it a point to see that the goods stocked by him are of the right quality. Any other policy will ultimately lead to the decay of the business.

Proper Display of Goods and Window Dressing.

Some shops have heaps of goods in the stock, but they are so disorderly arranged that the article wanted, though in the stock, cannot be produced on the requisition for it by the prospective customer. This causes much annoyance to him. Not only that the goods are to be systematically arranged for facility of ready production, but they should be properly displayed to draw the attention of the customers.

Window dressing, as it is called, is now a successful method to attract customers. This costs little, but is very effective in retail trade as it makes an emotional appeal to the shopping public at the start, which frequently results in solid business. Shop windows now-a-days are living advertisements to talk about the goods. "In the newer window dressing," said Mr. George Edgar, late Editor of *Modern Business*, "the three cardinal principles are: (1) To show reasonable thing. (2) To show it as simply as possible. (3) To show it so that the eye can determine every detail put into the window. In such window dressing, instead of crowding the window, the trade aims at a display which represents the prevailing note of the season."

Situation.

A good deal also depends on the situation of the shop, for success of retail business. Some people seem to think and act in an indiscreet way in this respect. Locality of the shop is a great factor to attract customers. The best locality is always the place where there are other shops of the same nature, as customers generally for shopping visit the place where a market for their requirements has grown up and where they can select the articles of their need from more than one shop. Sequestered shops in places with a fairly large local population, or places like a railway terminus which are convenient for shopping, by a floating set of people, such as, daily railway passengers, etc., are also frequently successful, but in such shops the variety of the articles stocked is necessarily to be large. When opening shops this essential matter of selection of site in a desirable locality should not be overlooked.

It will follow from the above that no particular royal road can be pointed out for the retailer to reach his goal; but success can be achieved by combining the various qualifications essential for a businessman with other necessary factors. Personal aptitude, knowledge, enthusiasm and apprenticeship, combined with the possession of saleable goods and adequate stock generally make for success.

QUESTION BEARING ON CHAPTER VII.

1. What are the functions of the wholesaler in relation to the manufacturer?

2. What are the functions of the holesaler in relation to the retailer ?

3. When does a wholesaler combine his functions with those of a retailer? What are the advantages of such a combination?

4. Examine the principles underlying the office organization of wholesale trading firms.

5. Give details of the buying and selling organization of an ideal wholesale business.

6. How are the outdoor salesmen remunerated in a wholesale business ? Criticise the various systems of remuneration paid to them.

7. How and on what consideration you will select the locality for a wholesale business ?

8. Why are the services of the retailer greatly in demand? What are the special facilities allowed by him to the customers ?

9. Describe the various systems of payment by instalments showing their advantages and disadvantages.

10. What are the peculiar dangers of selling by instalments from the stand point of customer and businessman?

11. What are the special features of the hire-purchase system ? To what trade is it specially adoptable? What are the risks inherent?

12. What are the principal requisites for success in a retail business?

13. What should be the principle to be followed by a retailer in stocking merchandise in his shop?

14. What should be the guiding principle of a retailer as regards cash and credit purchases by him?

15. State the potential value of window display as used by: (a) A general store (b) A manufacturer, and discuss the important factors which an efficient manager should particularly note.

16. How to select a situation for a retail shop?

CHAPTER VIII.

ORGANIZATION OF COMMERCE.
(*Continued*).

FOREIGN TRADE.

BESIDES the trade carried on within the country itself, a volume of foreign trade is carried on by every country. This takes the form of importing goods into and exporting goods from the country. Every civilized country of the world carries on foreign trade more or less extensively, which is thus one of the most important factors of commerce of that country. We therefore devote a separate chapter to it.

Foreign trade is practically an extension of home trade and comprises the exchange of the surplus goods produced by one nation with those of another. Economic prosperity of a country largely depends on its foreign trade which is usually carried on through manufacturers and wholesale merchants.

Foreign Trade and Doctrine of Comparative Cost.

As comparative costs in two countries determine the nature and extent of the foreign trade between them, an economic conception of these is necessary for a businessman. Comparative costs mean the ratios between the costs of things. The doctrine of comparative cost affirms that an enduring foreign trade cannot arise between any two countries unless there is a difference between comparative costs. The doctrine can be explained by an example :

Let us take the case of India and Burma and let us assume that there is no mobility of capital and labour between these two countries making them quite separate for the purpose of international trade. Let us also ignore the cost of transport, insurance, etc. Imagine that before

any commercial intercourse is opened between these two countries, the following is the state of affairs :—

	Rs.	As.
Cost of production of one *maund* of paddy in Burma -- -- --	1	0
Cost of production of one cubic ft. of teak scantlings in Burma -- -- --	2	0
Cost of production of one *maund* of paddy in India -- -- --	2	0
Cost of production of one cubic ft. of teak scantlings in India -- -- --	4	0

Here the ratio of Re. 1 to Rs. 2 is indentical with that of Rs. 2 to Rs. 4. According to the doctrine of comparative cost, there cannot be any enduring trade in the circumstances between the two countries, for when it is started Burma will export both the commodities to India which will export only money for their price. According to the quantity theory of money explained in a subsequent chapter, price-level will uniformly continue to rise in Burma and fall in India, until after some time the prices of these commodities in both the countries will almost approximate each other and trade in them will consequently cease, as no Burmese merchant will care to export and no Indian merchant will care to import them when there is little or no margin of profit for them in their transactions.

Now again imagine that before a commercial intercourse is opened between these two countries the position of affairs is as follows :—

	Rs.	As.
Cost of production of one *maund* of paddy in Burma -- -- --	1	0
Cost of production of one cubic ft. of teak scantlings in Burma -- -- --	1	0
Cost of production of one *maund* of paddy in India -- -- --	1	4
Cost of production of one cubic ft. of teak scantlings in India -- -- --	2	8

In the circumstances India will import both the commodities for a time, but very soon, as the result of passage of money from India to Burma, the prices of both will fall in India and rise in Burma, when paddy will cost, say, a little over Re. 1 As. 2 a *maund* and teak scantlings, a little over Re. 1 As. 2 a cubic ft. in Burma, and paddy a little less than Re. 1 As. 3 and teak scantlings a little less than Rs. 2 As. 6 in India. Burma will then cease to export paddy, but will continue to export teak scantlings. Further passage of money from India to Burma will thus continue and price in Burma will still rise, say to Re. 1 As. 4 for paddy and Re. 1 As. 4 for teak scantlings, and fall in India, say to Re. 1 As. 2 for paddy and Rs. 2 As. 4 for teak scantlings. This will ensure an enduring import trade in paddy and an export trade in teak scantlings for Burma, and an import trade in teak scantlings and an export trade in paddy for India. As exports will thus pay for the imports, unusual passage of money *only*, from one country to another, will cease and a normal foreign trade will continue.

Tariffs and Economic Nationalism.

Foreign trade of a country is greatly influenced and affected beneficially or adversely by its tariffs as well as by the tariffs of the countries having commercial relations with it, and before understanding the mechanism of foreign trade, the student should be conversant with the economic effects of the tariffs on the importing as well as on the exporting country. Tariff is a sort of tax on goods and hence it always raises their price. Commerce and industry are now regulated by almost all nations by manipulation of the tariffs. This is mainly directed towards benefiting the commerce and industry of the country by raising tariff barriers against other countries. This policy has now come to be known as Economic Nationalism

Export, Import and Excise Duty.

Almost every government levies some taxes on goods imported into or exported from the country at different rates for different goods for which it prepares schedules

known as tariffs. These levies are called Customs Duties —export duty in the case when the levy is on the goods sent out of the country and import duty in the case when the levy is on the goods brought into the country. There is another duty levied on the production of the country itself used for internal consumption, called excise duty.

One of the main source of revenue of a country is the import duty levied by it on goods coming into the country from other countries. This duty is levied either for the purpose of revenue only or for revenue and protection of the goods manufactured in the country itself which are in competition with foreign manufacturers of similar type. Hence this duty raises the price of the imported goods and exerts considerable influence on the industries of the country, the success of the marketing of their products depending on the price to a great extent.

Free Trade and Protection.

As already stated import duties (as well as the other duties above referred to) may be levied only for the purpose of securing revenue to the State without causing much disturbance to the equilibrium of price in its trade with foreign countries. It may also be levied by a country for the dual purpose of revenue and protection of its industries against competition of other exporting countries. The country which thus increases the price of foreign products by raising a tariff wall against other countries is called a *protected country* and the duties levied for the purpose of this protection are known as *protective duties*. The country which levies duty for the purpose of obtaining revenue only—called *revenue duty*—or does not levy it at all is called a *free trade country*. When this duty is charged according to the value of the goods imported, it is called *ad valorem duty* and when it is levied according to weight, volume or measurement of the imported goods, it is called *specific duty*.

Protected countries generally have a maximum and minimum tariff and the schedule is prepared in conformity

with it. Some countries levy both *ad valorem* and specific duties on the same article. We are not concerned here with the merits and demerits of protection and free trade in their national and international aspect, the discussion of which properly comes within the scope of Economics, and therefore we need not here dilate upon this topic except very briefly to the extent to which this duty materially affects the interests of the mercantile and manufacturing communities of a country.

Preference and Retaliation.

All countries do not levy import duty at a uniform rate on the goods of all other countries. According to commercial treaties one country may be given preference in this respect to another country and a reduced rate or sometimes nothing may be charged on goods imported from such a *preferred* country. This provision is known as the "most favoured nation clause" in the agreements. For example, British cotton goods are charged by India at a lower rate than what she charges for cotton goods of other countries. Here India is said to give *preference* for Britain in respect of her imports from that country. By the Ottawa Agreement a scheme of preferential tariff was arranged amongst the countries of the British Empire, the effect of which was expected to give a stimulus to the trade amongst the various units comprised in it.

It may be the case that one country levies import duty against another at a highly *protective* rate. In that case it may be considered necessary by the exporting country to take action against the former country by putting up high tariffs against it This is called *retaliation*. This is sometimes resorted to by a country having economic grievance against another country, when they are said to be at economic war with each other.

Bounty and Subsidy.

So we find that by manipulation of tariffs a good deal can be done to foster the industries of a country. Other

measures are also adopted by various governments including our own, for the same purpose. Sometimes *Bounties* are granted by the government to some industry, that is a payment in the form of bonus is made to the manufacturers and exporters at a certain fixed rate per unit of production to help them in development of the industry and in their competition with the foreign exporters. This may or may not be over and above the tariff protection. India gave protection to her steel industries, not only by a moderately heavy import duty but also by a bounty at a substantially high rate.

Some industry or business is sometimes subsidised by the government of the country by a lump single or fixed annual payment for certain period for its protection, when such industry or business finds itself almost unable to carry on, while its existence and improvement are considered to be of vital importance to the nation. This payment is a *subsidy.*

For the protection of some nascent industries, special legislation is sometimes resorted to by some governments and protection against foreign competition is given to some industry vital to the nation, by giving it some privileges of a monopolistic nature.

Key Industries.

The experience gained from the last Great European War has now induced some *free trade* countries to adopt a policy of discriminating protection. They found to their cost that the practical extinction of some basic industries from a country which is the natural result of a policy of out and out free trade, had put them in a dangerous situation during the emergency of the Great War of 1914-1919 for want of commodities, once produced by such industries, which were of indispensable necessity at that time for national defence. It was therefore thought necessary to foster these industries, specially the chemical industry, of the country and legislative measures were taken to give them protection against foreign competition. These indus-

tries are generally termed *Key industries* or *Pivotal industries*, i.e., industries on which other industries depend.

Protective Duties in England and India.

In England, a protective duty is imposed on the imports of certain goods under the Safeguarding of Industries Act of 1921. These goods are of the nature above referred to, such as optical and scientific instruments, wireless valves, synthetic, organic and some other fine chemicals, etc., and cover a list of about 3,000 articles. This duty is only payable up to the amount by which it exceeds the other customs duty on goods which are subject to such other duty.* In India where the same principle has been adopted, such industries are given protection where considered necessary after a thorough enquiry by the Tariff Board set up with the object of discriminating between industries requiring protection and those not requiring it.

Export Duty.

Export duties also have the effect of stimulating or depressing trade and manufacturing activities of a country. These are levied on the export of some goods to other countries generally for revenue purpose. Certain goods in India such as jute, tea, etc., are subject to this duty. Export duty of course raises the price of the goods in the countries where they are exported and brings them in competition with the same goods produced in those countries or imported there from other countries. Hence its imposition is generally considered to be detrimental to the export trade of a country.

Excise Duty.

The meaning of the word Excise is now confined to the duties imposed on goods produced in large quantities in a country for consumption in it. The duty is therefore mainly a revenue producing one, but it is sometimes levied, for the

* Lately further developments in respect of import duty took place in England and she is now levying this duty on a major portion of her imports.

...bunterbalancing the import duties levied on ...s by free trading countries, on the same kind of goods ...oduced in the country to avoid preference to the home manufacturer. For instance, a countervailing excise duty was imposed in India on cotton goods at 3½ per cent. *ad valorem* by the end of the last century, when a duty at that rate was imposed on foreign cotton goods, though no excise duty on such goods is now in existence. This duty is now levied in India on salt, petrol, intoxicating liquors and drugs, sugar, safety match, etc., generally for purpose of revenue.

The collection of this duty is now made in the form of charges at a fixed rate on certain commodities and a license fee from persons authorised to manufacture or sell certain commodities subject to this duty.

IMPORTING GOODS.

Certificate of Pratique and Boarding.

In a previous chapter we discussed about the purchase, sale and movement of goods from place to place without generally being subject to customs or excise duty; but as we have seen above, movement of goods is not ordinarily free and hence certain procedures are to be followed by the merchants for regular payment of the government dues, for which necessary rules and regulations are in force.*

To start with there are recognised ports where all ships bringing imports must land the goods carried by them and as soon as a vessel enters the port, a customs officer boards it to enquire about the health and other particulars of the crew and the passengers, and they are allowed to communicate with the shore if he is satisfied that there is no risk of any infectious or contagious disease to spread to the port through them. The ship is then allowed to proceed to its unloading berth. This is done by his granting a certificate called the *Certificate of Pratique*. If the officer thinks that

* We have here followed the rules and regulations in force at the port of London. These are generally followed in Indian and other ports with such changes and modifications as are deemed necessary according to local circumstances.

there is any such risk, the vessel is detained and an opportunity is given to the port medical officer to take such steps in the matter as he thinks necessary. In case the medical officer is of the same opinion, the vessel is generally put under a quarantine. All these acts are technically termed *Boarding*.

Under the Indian Sea Customs Act of 1878, protection is given to the public of this country against importation of inferior or unknown goods with marks of superior or well-known brands or with false description about their country of origin or in other respects.

Reporting to Customs Authority and Jerque Note.

After the arrival of the vessel at the port, the master of the ship is required to make a report to the customs authorities declaring about the nature of the merchandise carried by her and giving certain other information about the vessel and the cargo, except in respect of certain goods. When this report is found in order, it is countersigned by the officer accepting it and it forms the basis on which some future proceedings about the import depend. This is known as the *reporting*.

After this, the goods are landed at places approved by the customs authorities or unshipped into barges or lighters for conveyance to the approved places for examination and clearance, all at the cost of the importer. Imports of certain kinds of goods are either prohibited or allowed under restriction in respect of tonnage of the vessel, size of the packages, place of importation, etc., etc. After all these preliminaries are gone through, an inward clearing certificate called a *Jerque Note*, is issued by the customs on the application of the Master. This certificate confers the necessary authority on the ship for clearance inwards.

Free and Dutiable Goods.

As we have seen duties are not payable on all goods. Goods exempted from such payments are called *free goods* as opposed to *dutiable goods* on which such payments are

necessary. The procedure of importation of the former is simple. The goods are examined by the customs and if no discrepancy is found about their description, etc., with the details given in the master's reporting, the goods are passed as satisfactory and on compliance with the requirements of the law, delivery of the goods is allowed by the customs authorities.

Complicated procedure, however, is to be followed in the case of dutiable goods. In such cases the importer may either pay the duty payable on the import immediately and take delivery of the goods or may have the goods warehoused in an authorised godown which is either a warehouse belonging to the customs or a bonded warehouse at dock. In the first case an "Entry for home use ex-ship" giving full details of goods as to value, weight and duty, etc., is passed by the customs when the duty is to be paid. This entry is sent to the dock where the goods are lying. After an examination of the goods by the dock officers, if they are found to correspond to the description given in the "Entry," the goods are released.

Delayed Payment and Shipping Bill.

In the second case, when the goods are to be warehoused, "Warehousing Entry" with a landing order is to be passed by the customs authorities. The former goes to the warehouse and the latter to the dock where the goods are lying. The landing order secures delivery of the goods which are taken to the warehouse in locked vans or under the careful watch of the customs. When the goods are legally warehoused, the warehouse keeper becomes responsible for their safe custody.

Once the goods are warehoused, they cannot be delivered either for home consumption or for immediate export except upon a warrant (in which the particulars of the goods to be delivered, either the whole or a part of any particular consignment and the duty chargeable, are to be entered) passed by the customs and sent to the warehouse with the Delivery Order forming a part of the warrant.

In the case of exportation of such goods, the merchant must have a *shipping bill* in addition, passed by the customs. This bill is to give the distinguishing marks and numbers of packages of goods and the name of the exporting ship and its location.

Bill of Sight.

It sometimes happens the importer has not in his possession sufficient information about the description, quantity and value of the goods and hence cannot ascertain if the goods are dutiable or not. In such cases the entry may be made by a *Bill of Sight* in which only such information as are necessary for it and are in the possession of the importer are supplied. This serves the purpose of a warrant for the provisional landing of the goods. As the information supplied is declared to be insufficient for definitely entering the goods as dutiable or not, this is ascertained on an examination of the goods on the Bill of Sight being forwarded to the dock, and the subsequent appropriate procedures are followed on the result of such examination. The details of these procedures are unnecessary here.

Deposit in Warehouses.

There are government warehouses in every port besides bonded warehouses (explained below) and if the duty has not been paid on goods on which it is due, they are put in the warehouses pending the payment of the duty, at the time of actual delivery. The stores of the ship and of the crew when substantial are subject to payment of duty and they are also deposited in these warehouses or sealed by the customs officer in secured places in the ship, unless the duties have been paid on them. They are in such cases issued from time to time on payment of the duties on the whole or the part. The cargoes carried on the deck of a vessel, such as livestock, timber, etc., are charged according to number or cubic value—which is assigned for space occupied, 100 cubic feet being taken as equivalent to one

ton—where the duty is payable according to the tonnage of the deck cargo.

Passengers' baggages are also examined and the passengers are required to declare about all the dutiable goods in their possession, on which they have to pay the duty, except when these goods are in very small quantity for personal use. These goods may also be deposited in the warehouses if the passengers are unwilling to pay the duty at the time. They may pay the duty afterwards to take delivery of these goods, but in such a case the warehousing charge is added to it.

Bonded Warehouse, Bonded Carmen and Bonded Lightmen.

The warehouses may belong to the customs or to private parties. The former is under the control of the customs authorities while the latter is under the joint control of their owners and the government. The owner may be a private person or a Joint Stock Company. They give bonds to the Government guaranteeing proper conduct of the warehouse under the rules and regulations. These warehouses are therefore called *bonded warehouses.*

Sometimes it becomes necessary to transfer goods from one warehouse to another or to a ship, or from ship to ship and this transfer involves the use of cars or lighters according as the transfer is by land or water. So carmen and lightermen are also required to be licensed and they enter into bond with the Government, as a guarantee that they will conduct these transfers in accordance with the customs rules and regulations. The carmen or the lightermen in bond are called *licensed carmen* or *licensed lightermen.*

Necessity for Warehousing and Gross Payment.

From what we have said above about payment of customs duty, the student will understand that warehousing becomes necessary to avoid its immediate payment, as this sometimes involves a great financial strain which only a few importers can bear. By this arrangement

of warehousing, facilities are given to them for payment on such portions only as may be required by them from time to time, with the part deliveries of the goods. In order to avoid the trouble of payment every time of delivery, an importer may pay a lump sum at a time, the payment from which is debited to his account at each delivery taken by him until the whole deposit is spent up, when a fresh deposit becomes necessary. This is called *Gross payment.*

Indian Imports by Indents.

Almost a corresponding procedure is followed in the import trade in this country. A special system of import known as Indent Business is largely followed in India of course under the same procedure. The system can be traced to the presence at one time of the agencies of the foreign manufacturers and other foreign houses in this country and to the absence of facilities for the Indian merchants to obtain foreign goods by direct orders to parties unknown to them in foreign countries. These firms naturally became intermediaries in this matter at first and a system of ordering goods through middlemen came in vogue. It has since been much extended and some Indian firms have now entered the field carrying on Indent Business to a considerable extent. These Indent Firms secure orders in their names from local dealers ordinarily through brokers employed by them and are generally remunerated by a commission. These orders are generally on the basis of a 'firm offer' but 'open prices' basis is not altogether absent.

Under this system the importing merchant in India fills up an indent form of the local intermediary firm by which the latter is asked by the former to secure on his account, generally at a specified price, goods required by him and to have them shipped within a specified time. A fixed time, generally four weeks, on receipt of the indent is allowed to the exporter either to intimate his acceptance of the order of the importer or his inability for it. In case

the indentee accepts it, he is allowed to supply the goods in full quantity or a reasonable portion of them. The indentor is in no way concerned with the cost of the indentee to secure the goods and the latter is free to make any profit by the transaction. The goods are shipped at the risk of the indentor who undertakes to pay the insurance premium. Generally six months' time is allowed to the indentee to ship the indented goods and option is given to the indentor to cancel the contract in case of delay. The payment is stipulated to be made on delivery of the documents, failing which the indentor becomes responsible for any loss to the indentee. If the goods on delivery are found to be not according to the contract, the indentor can make his claim within fourteen days of the receipt of the goods by him. Disputes are generally provided to be settled by arbitration.

Relative Advantages and Disadvantages.—It will be seen from the above arrangement that in the indent business, the indentee is given a time to secure the goods ordered, at a price which may leave a reasonable margin for his profit and to enter into a binding contract after he is assured of this profit. When he finds it impossible to procure the goods to be supplied at the indentor's price with a reasonable margin for himself, he has the option not to accept the order. This arrangement ensures him a very convenient position almost guaranteeing a profit, while it places the indentor in an uncertain position on account of the fluctuating future market, though he gets the advantage of quoting his own price in the indent, on calculation. Sometimes, after the inability of the indentee to supply the goods at the stated price is intimated to the indentor the bargain is settled at a higher rate by cable or postal correspondence and a binding contract is thus made by the subsequent offer and acceptance. Higgling is not uncommon in these transactions and the law of supply and demand frequently keeps down the margin of profits of both the parties to a reasonably low level, for both the exporters and importers though not numerous are now found in

abundance. Though all these arrangements are generally to the advantage of the indentee, the indentor is also benefited by the presence of a party ready to help him by the influence which the former necessarily wields with the manufacturers in a foreign country. The help rendered to the indentor by the indentee through the indent brokers, in respect of quality, packing, freight, insurance, etc., of goods, is of considerable value to the former who is always ignorant of the condition of the foreign market.

This system of indent is generally followed between the East and the West when the former is the buyer and the latter is the seller. A movement is on foot in this country to have the terms of the indent form of the indentees modified to remove certain stipulations in it prejudicial to the interests of the Indian indentors. Indent business in this country is generally financed by the Exchange Banks, through Bills of Exchange as explained in their proper places. *Hundies* and accommodation by local finance houses are also frequently resorted to usually on the basis of security of the shipping documents. A specimen indent form in general use is given here :

Indent Form.

Dear Sirs,

I/We hereby authorise you to buy or instruct your Agents to buy for my/our account and risk the whole or any part of the following goods on the terms and conditions as named below and we agree to pay you a buying commission of three per cent. for your service.

I/We hereby agree to take delivery of the goods on arrival direct from the Steamer and to pay all duties and charges incidental thereon and authorise you or your Agents to draw in sterling upon me/us for the total amount of the Invoice in a Bill or Bills of Exchange at London.

If the bill or bills be drawn in sterling I/We agree to pay interest on the amount thereof at six per cent. from the date of the relative Invoice to the estimated date of arrival of remittance in London and further bind myself/ourselves to accept such bill or bills on presentation without any pretext, excuse or objection whatever and pay the same at maturity. No interest is to be allowed to me/us on part-payment of such bill or bills. Should I/We fail to accept or to pay at maturity such bill or bills I/We hereby authorise you as well as the holders of

of the bills to dispose of the documents or goods either by Private Sale or Public Auction on my/our account and risk, and I/We hereby bind myself/ourselves to make good any loss arising from such sale and all Sale Expenses and in addition a commission of 5 per cent. for yourselves on the gross sale price waiving all claims to any advantage thereon and I/We agree to accept your Account Sales as correct and consent to the same being used by you or your Agents in any Court or Courts against me/us without further proof.

Provided always that I/We hereby agree that in spite of anything that may be written on this Contract or elsewhere to the contrary, you have the absolute right to refuse to give me/us possession of the Shipping Document relating to this order or the goods until I/We have paid for the same as well as for all outstandings.

Should the goods for any reason be shipped in more than one shipment or for any reason a part or parts thereof be cancelled or left out I/We shall make no objection to take them just as they may be shipped.

In case of any dispute, you or your Agents are to have the option of (a) cancelling this order, or of (b) submitting the matter in dispute to two Merchants or their Assistants or the Referee appointed by them or of (c) submitting the matter to the ..... Chamber of Commerce for arbitration under such rules as may at the time be in force, and I/We agree that the decision so arrived at shall be final and binding upon me/us.

Any claims or disputes whatsoever with respect to this order with regard to damage, shipment, deviation from samples, inferiority of quality or any other objections whatsoever are to be made in writing of quality or any other objections whatsoever are to be made in writing stating full particulars of complaint and the necessary arbitration fees deposited by me/us with you within 14 days from arrival of the goods, after which time all responsibility is to be on my/our account and no claim will be made by me/us after the aforesaid period of 14 days and if I/We make it, it shall not be valid.

When goods are ordered from specified Manufacturers or Manufacturers' Agents I/We agree to take all risks connected with outturn both as to quality, delivery and in every other respect.

Any deviation from time limit not exceeding 15 days is not to be considered a breach of Contract. All goods which have been delivered up to time at Port of Shipment, shall be accepted as actually shipped within the limit of time stipulated and whatever your supplier writes in respect to this point is to be accepted as final.

In the event of fire, or strikes among workmen, or of any vis major, or of the failure of your supplier to deliver through bankruptcy or any other reason, you or your Agents are to have the

option of cancelling this order, and in no case shall any action be taken against you or your Agents for loss of profit or otherwise owing to late shipment, non-shipment or non-arrival of the goods.

All risk of damage to oilman stores or any other goods of a perishable nature are to be borne by me/us.

Goods to be insured F. P. A. unless otherwise stated. I/We bear any loss which may arise in consequence of goods insured F. P. A. arriving late, water damaged, etc. Any war risk premium which may be incurred, to be in all cases payable by me/us.

You or your Agents are not responsible for any leakage or breakage of any sort.

Description of goods indented.....

Terms and Conditions.....

Yours faithfully.

EXPORTING GOODS.

Entering and Clearing Outwards and the Manifest.

As in the case of importing, certain requirements are to be met in the case of exporting also. The vessel in which the goods are intended to be exported is to be "entered outwards" before the goods are loaded in it. Then before departure it is to be "cleared outwards." The master of the vessel arranges for these things by attending the custom house and filling up certain forms giving necessary information and sometimes a bond. When no bond is required, then within six days of the "clearing outwards" the master or owner of the vessel is required to supply the authorities with a statement containing particulars about the marks, numbers, packages, consignors, etc., of all goods shipped. This statement is called a *manifest*. Where the goods are shipped under bond, the shipping bill serves the purpose of this manifest.

The export duty when payable is paid at the custom house and necessary papers with the warrant and the shipping bill are submitted to the customs authorities giving the required particulars of the goods, when the goods are allowed to be exported. In addition to these documents, a bond is also required with a surety and the goods are released when all these papers are found to be in order.

Drawback, Debenture and Bill of Store.

In connection with the export, import and excise duties, it is to be specially noted that these duties are not payable on all goods and not in uniform rates. Import and excise duties are payable only on goods intended to be consumed in the country levying them. So when imported goods on which the import duty has been paid are re-exported or excisable goods on which the excise duty has been paid are exported, the import or excise duty so paid is returned on certain conditions. In the first case it is known as *custom drawback* and in the second, the *excise drawback*. Sometimes an *allowance* is also paid to the traders in consideration of loss, if any, through the operation of the excise regulations, in case of some particular goods. A document called a *Debenture* is used for the purpose of these payments, which is transferable by endorsements.

An appreciable part of the foreign trade of a country, specially of England, consists in its re-export trade. This is known as *Entrepot Trade*, that is import of foreign goods merely for the purpose of re-exporting them. London in this respect is the most important *Entrepot*.

In England when Drawbacks or Allowances have been paid to the trader on exportation, he can bring back the goods within five years from the date of such exportation, on repayment of the Drawback and the Allowance (if any) on a document called the *Bill of Store* and obtain the advantages allowed to British goods in such cases. The Bill of Store gives him such advantages also in the case of British goods on which no duty is payable.

Export by Different Agents.

Export is undertaken by Manufacturers, Wholesale merchants, Forwarding agents and Commission agents, who before exporting goods to the importing country frequently make enquiries about the financial and political condition of that country, extent of its requirements of the goods and custom duties levied in such country and also make themselves acquainted with the conditions affecting

their trade there in other ways. Exporters are necessarily concerned with the tariffs of the countries to which they export and it is always their aim to have these reduced to obtain facilities for disposing of their goods in those countries. Governments of the exporting countries interest themselves in this respect and generally help the exporters. Various trade agreements are in force amongst countries with this object in view.

Export by Manufacturer.—The practice of direct export by the manufacturer is now growing with the introduction of scientific advertisements and a desire of the importers for coming in touch with manufacturer resulting from world-wide advertisements of his goods, has encouraged him to eliminate the middleman's profit and thereby reduce the price of his goods. Many manufacturers have now got their exporting departments fully equipped and are carrying on direct business with the importers of different countries as efficiently as the other classes of exporters, following the identical procedures in respect of various requirements of the laws and regulations of the countries concerned.

Export by Wholesale Merchant.—The wholesale export merchant purchases and sells goods for export on his own account and makes his profit by the difference in his deals. He generally purchases from the manufacturer and sells to the foreign importer. He meets the requirements of the exporting regulations himself.

Export by Forwarding Agent.—The business of the forwarding agent is different. When orders from abroad are received by a manufacturer, he sometimes employs a forwarding agent for the despatch of his goods and supplies him with instructions about the goods to be forwarded, in a note called an *Advice Note.* He takes possession of the goods from the manufacturer and sends them to the customer by observing all shipping formalities. The payment is received directly by the exporter and the forwarding agent makes his profit from commission paid to him by the exporter or from payment made to him by

the latter in other forms. Sometimes he performs the same function on behalf of the foreign buyer on instruction from him when his commission is paid by the buyer. A forwarding agent does not act in his own name. Big houses requiring despatch of a large number of packages find it very convenient to engage the services for forwarding agents. In advance booking a *wharfage* is generally charged by them.

Export by Commission Agent.—In the export trade of a country the commission agent, as he is called, being remunerated by commission, acts somewhat like an intermediary between the exporter and the foreign importer. When he receives orders for goods from abroad, he places those orders generally with the manufacturer of his country. He acts in his own name and supervises the despatch of goods by the manufacturer and execution of the orders generally. His principal function, however, is to obtain indents from other countries and to pass them on to the manufacturer of his own country in his own name. He looks after the interest of his foreign buyer and insists on the goods being in conformity with the order for which he receives his commission from him. The commission agent thus brings together the exporter and the importer in his name, doing the needful not only for the despatch of the goods and credit, but frequently also for supply of capital for the transactions between them. An interest is charged by him on the capital invested.

METHODS EMPLOYED IN EXPORT TRADE.

Bill of Lading and Freight Note.

When goods are to be exported, *Bills of lading* generally four in number are made out by the exporter either in the name of the consignees when they are considered reliable or "unto order"—the goods being deliverable in the latter case on the indorsement by the consignors, either in blank or to the order of another. These are sent

to the shipping company and the captain or his clerk signs them if found in order after it is checked in relation to the particulars supplied by the dock office of the company. The captain retains a copy and returns the others to the shipping company which makes out a bill from them for the freight, which is known as the *freight note*, and sends it to the shipper, who on payment of the amount of the freight, receives back the Bills of lading duly receipted from the shipping company.

Invoice, Shipping Documents and "Secunda Via."

The invoice is prepared when the goods are loaded. This is done in triplicate with the addition of the name of the vessel and the charges for various items, such as cartage, dock expenses, insurance, etc., to the price of the goods exported. The original invoice with a duplicate, the bill of lading, the insurance policy and when necessary a certificate of origin of the goods, collectively called *shipping documents*, are then sent to the consignee with a covering letter or made over to the party concerned. The triplicate invoice and one bill of lading are sent by the next mail to insure against dislocation of business in the event of the contents of the first mail being miscarried. This second set is termed "Secunda Via."

Certificate of Origin.

As above mentioned sometimes a certificate of origin is to be attached to the invoice. This is necessary in the case when a tariff with preference to some country is in operation, for in such cases, a preferential discrimination is to be made in the case of goods coming from the favoured country, by charging a lower duty on them than what is charged on the goods coming from other countries. Hence where the importer wants to obtain this benefit the exporter has to sign a declaration before an officer authorised to attest it stating that the particular goods are manufactured by the favoured country enjoying the benefit of the lower import duty. This is known as the *certificate of origin*.

This certificate is sometimes required for countries where no discrimination is made as between one country and another.

Primage and Charges Other than Price.

Certain charges as already stated are added to the price of the goods and shown in the invoice. These amongst others are incurred for dock charges, meaning the charges made by the dock companies to load the shipments of the shipper. The charges are usually small and the shippers generally keep a deposit with the dock companies to meet such charges. These payments are debited to their accounts as and when made. Another expense is incurred by the shipper for packing the goods. This is charged for, according to the quality of the packing cases used.

Insurance is also to be effected for the goods, for which a policy is taken, but generally the goods are insured under a floating policy (explained in the chapter on Insurance). The cost of the policy is included in the invoice.

Then comes the freight which is the most important and considerable item of expenditure. Besides the freight calculated according to the tariff rate of the shipping companies, another charge equalling 10 per cent. of the freight is added to it, for supervision of the operation of loading. It is called *Primage* which is now merged in the freight, though originally it was payable to the captain of the ship.

Clean Receipt and Foul Receipt.

Sometimes goods are loaded into the vessel by water either for cheaper cost or for special urgency when the vessel is in midstream, when a Bill of lading can not be had by complying with the requirements previously mentioned. In such a case a mate's receipt is obtained by the shipper after loading the goods, which is afterwards exchanged for a Bill of lading at the office of the shipping company. If the consignment is in order and the number of cases loaded agrees with the number shown in the delivery sheet and none of the packages is in a broken condition, the mate's

receipt is a *clean* one, while in default of any of the above it is a *foul receipt.*

Consul and the Consular Invoice.

The process of assessing import duties where leviable takes much time and involves some trouble to the importer. At the same time he may wish to obtain the goods with as little delay and trouble as possible. In such a case a *consular invoice,* as it is called, is secured by the exporter on the request of the importer.

As may be known to the reader, there is an agent of each civilized country accredited to each of other such countries to look after its commercial and other interests. This important personage is called the *Consul* and his office the *Consulate.* Now when expediency and saving of trouble are desired by the importer, the exporter fills up a form obtainable in his country from the Consulate of the importing country giving all necessary details about his shipment in the form of an invoice and swears a declaration about its accuracy before an officer empowered to receive oaths. This invoice is called a *Consular invoice* and is in triplicate. Two of these are kept by the Consul to be forwarded to the port office of the port of his country where the goods are to be unloaded, the other being retained by the exporter. This is then sent to the foreign importer with the other documents. The customs authorities of the importing country will accept this sworn invoice as true statement of the contents and value of the shipment and will assess the duty on this basis, dispensing with the necessity of opening all the cases and thus saving time and trouble to the importer.

Drawing Bills of Exchange Against Consignment.

After the shipment the exporter realises his dues from the importer for his exports. This is done by a *bill of exchange* drawn by the seller on the consignee and ordinarily discounted with a bank in his own country which collects the amount from the consignee by sending the bill to its

agent in the country of the latter. All the documents, such as the bill of lading, insurance policy, etc., are attached to the bill of exchange, and before obtaining possession of these documents to take delivery of the goods the consignee has got to retire this bill by making payment for it, but when the drawer of the bill is a substantial party having credit with the bank, it will part with the documents on the drawee's accepting the bill if the arrangement be for "*documents against acceptance.*" The method and process of collection through bank have been fully dealt with hereafter in their proper places.

Delivery of Hypothecated Goods.

The delivery of the goods which are generally hypothecated to the discounting bank can be obtained as stated above on production of the bill of lading which with other documents under the above system can be secured by retiring the covering draft of the consignor either by paying for it or accepting it according as the goods are shipped on "documents against payment" (D/P) or "documents against acceptance" (D/A) arrangement. Customary interests are generally charged by the exporters on the balance remaining outstanding with the importers.

The tendency of the export trade at present is to eliminate the middleman from it by establishing direct trade between the producer and the consumer and between the manufacturer and the retailer.

QUESTIONS BEARING ON CHAPTER VIII.

1. Why is foreign trade one of the most important factors in the economic condition of a country ?

2. What do you understand by comparative costs ? What does the doctrine of comparative costs affirm ?

3. How is the doctrine of comparative costs applicable to international trade ?

4. Show by an example that an enduring trade cannot arise between two countries unless there is a difference between comparative costs in these countries.

5. What do you understand by Tariffs ? How do they affect the world trade.

6. Explain Export, Import and Excise duties. How do they influence nascent industries ?

7. What do you understand by Protection and protected country ?

8. Explain "Ad valorem" and "specific" duties.

9. What do you understand by Preference and Retailation in Tariffs.

10. Differentiate between Bounty and Subsidy and explain their influence on Trade, Commerce and Industry.

11. What are Key Industries ? Why are they protected ?

12. Why generally is Excise duty levied ? Explain its effect.

13. What do you understand by Free goods ?

14. Explain Certificate of Partique. What is its importance ?

15. Explain the system of deposit of goods in warehouses pending payment of duty.

16. What is Indent business ? How is it conducted and financed ? Why are two sets of middlemen considered to be necessary, in this kind of work ?

17. Discuss the nature and characteristic features of Indent business. Show why the system was evolved and indicate some of the main causes of Indian Indent.

18. Explain Jarque Note, Entry for Home use, Warehousing Entry and Bill of Sight.

19. What is a Bonded warehouse and why is it so named ? Why are goods deposited there ?

20. What are Bonded Carmen and Bonded Lightermen ? What are their functions ?

21. Explain 'Entering outwards' and 'Clearing outwards' and state what you understand by Manifest and Shipping bill.

22. What is Drawback ? Explain Custom drawback, Excise drawback and the document called Debenture used in this connection.

23. Explain Bill of Store. When and why is it used ?

24. Describe the different systems of Exports by manufacturers, by wholesale merchants and by commission agents.

25. What is a Bill of lading and what are its value and use ?

26. Explain Freight note, Secunda Via, and Certificate of origin.

27. What are generally the other charges added to the price of goods ? What is Primage ?

28. Explain the following terms:—Wharfage, export duty, import duty, manifest, demurrage, drawback and certificate of origin.

29. What are the circumstances in which Foul receipts and Clean receipts are granted when goods are shipped ?

30. Explain a Consular invoice and its necessity.

31. When and why are Bills of Exchange drawn against Exports ? What are their advantages. Explain how they facilitate payments and settlement of accounts.

32. What do you understand by Documents against acceptance and Documents against payment ?

33. What is the difference between Customs Duties and Excise Duties. Give a broad classification of Excise Duties. Explain the meaning of the terms :—Drawback, Bounties and Subsidies.

34. What is meant by Indent business ? How is it carried on ? What is meant by Documentary Bills and what is their utility in indent business ?

35. Explain how indent business is carried on in India. What do you mean by firm offer and open prices ?

CHAPTER IX.

ORGANIZATION OF PRODUCE EXCHANGE AND SPECULATION MARKET.

Exchange Market.

A MARKET has already been explained. Here all exchanges, that is, the buying and selling of the goods, stocks, bills, etc., take place. Produce exchange is concerned with the buying and selling of goods only, specially of agricultural products like cotton, wheat, jute, sugar, etc., while the stock exchange deals in securities. This latter has been dealt with hereafter in its proper place. The produce exchanges however have a peculiarity of their own. In the ordinary markets commodities are exhibited for sale, but in these markets nothing of the sort is generally done. Selling and buying in the produce exchange are by sample, type or description and are conducted on contract system, the different qualities or grades of the commodities dealt in being mentioned in the contract. The deals may either be in goods ready for delivery or in goods to be procured by the seller within an agreed time. The transactions are generally for large quantities with a fixed minimum in case of each commodity and offers for quantities below it can not be entertained.

Dealings in Futures—Basis Contract and Specific Contract.

Dealings in the produce market are not always *spot transactions*, that is, on the basis of delivery on the same day or the next day as the practice of the particular market may be, but are usually carried on under the *forward contract* system, that is, a system under which the goods sold are contracted to be delivered within a fixed future date, their supply being subjected to some amount of uncertainty for sudden change of condition under which they are produced. Transactions in "futures" are therefore specu-

lative. In a properly organized Produce Exchange there are standardised forms of contract and rules and regulations for the guidance of the members.

In a contract in "futures" the seller has usually the option to deliver goods of any grade from a range of standardised quality and the contract form is adopted to this purpose. This is known as *basis contract.* But provision is frequently made for delivery of a *specific* standard grade of goods when the contract form is changed accordingly. This is termed a *specific contract.* These contracts for *future goods,* i.e., the goods which might or might not have been produced at the time of the transactions in them are not to be confused with the contracts for *deferred delivery* which contemplates delivery of goods *to arrive,* i.e., goods in transit. Calculation by the commercial men of the probable demand and supply of particular commodities necessarily plays an important part in the speculations in "futures."

Anticipation of Demand.

As we have already seen, exchange ordinarily takes place through commercial work. The producers proper are now generally a class distinct from the commercial men who are designated as buyers, sellers, brokers, agents, dealers, etc., according to the functions they discharge in the important matter of exchange of commodities. Some people, of course, combine the functions of organizing the production and managing the details of its trading side, specially in farming, mining and some other similar industrial business, but generally speaking the commercial work or more properly the work of exchange is performed by the classes named above. It is the task of the commercial men to arrange purchase and sale as well as to estimate the future demand of goods, and thus to give a lead to production. The producers proper also share this latter task of anticipating demand with the commercial men and both are responsible for a correct estimate of the future requirements of the community for a particular commodity. This

necessity of an estimate of needs before production has always been present in the world and mistakes in this respect have frequently been made.

As a matter of fact this anticipation of demand, in advanced communities, is one of the most important factors in their economic life, and very often we find our wants foreseen. Everywhere we find ready stock of goods already manufactured for our use, as a result of the estimate by the producers and merchants of the future demands. This estimate of demand can not but be more or less speculative, and those unable to correctly foresee the future demand, future price and further needs of the community suffer loss, while those who can rightly gauge the situation in this respect make profit.

Speculation and Gambling.

When a man makes a guess in these matters and acts on his guess, he is said to *speculate*. Speculation on data is certainly helpful to promotion of trade and commerce, but a guess without a reason and acting up to it in one way or the other without taking into rational consideration the various conditions for the determination of the steps taken and behaving merely as a toss up, are *gambling* operations. So where there is a reasonable ground for the guess, it is speculation, and where there is none, it is gambling. While one is a rational anticipation, the other is a blind jump, though both the terms are frequently used in a confused way; but the former is now generally termed *speculation proper* and the latter *illegitimate speculation*. The legitimate business is distinct from both, though all classes of business must necessarily have some elements of speculation in them.

If a dealer in the produce exchange sells for future delivery a large quantity of paddy without actually possessing it, when the crops of the season are good, in anticipation of a future fall of price for abundance, or buys a large quantity when the crops are poor, in anticipation of a rise in price for scarcity, it is a speculation proper. On the

other hand, if a *bull* or a *bear* operator in the stock exchange endeavours to manipulate prices with the object of influencing the public demand for some securities by violent purchase or sale, it is an illegitimate speculation or gambling. *Put* and *call* options sometimes accentuate the effects of this speculation in the commodity market and in the stock exchanges as explained in their proper place.

Effects of Speculation.

While legitimate speculation like the former tends to steadying the price by smoothing out fluctuations, the illegitimate speculation of the latter kind serves to accentuate the fluctuations in price. So while the former is beneficial to the public, the latter is harmful to the community in general, for private investors are often victimised by the violent price fluctuations through its operation, and capital for legitimate enterprises becomes very shy for the time being on account of the loss of confidence in the market, and production thus receives a set-back.

Besides the above forms of speculation in business, there are some forms of gambling operations such as are carried on in the Races or at Monte Carlo, which can not be considered as business transactions at all. As all forms of business, however, involve an amount of risk, a prudent business should confine himself to such operations only as are within his proper sphere and in which he has gained experience and thus minimise such risk to the fullest possible extent.

Money Market and Gambling.

Prosperity of trade with the money market at a low rate of interest is generally followed by a crop of gambling, for the abundance of capital available reduces its proper earning capacity, and the yield being poor by its legitimate and careful employment, it is tempted into that channel of investment which is in the nature of a gambling. So a gambling mania is generally observed when the trade is

very prosperous. Speculation in shares becomes very common at such time.

How Speculation Smooths Fluctuation.

Sometimes on account of an abundance of supply of a commodity the price becomes abnormally low, to the loss of the producers, and the speculator's buying operation at this time tends to prevent its heavy fall. Sometimes again on account of the scarcity of a commodity, the price tends to become abnormally high, to the loss of the consumer, but the speculator's sales of his holdings at this time prevent an abnormal rise of its price. He therefore prevents the severity of rise and fall of price to a great extent and thus stops its ruinous fluctuation. As he sometimes purchases in one place and sells in another, any abnormal difference in price in these markets is almost levelled out by his operations. Speculation thus reduces the risk run by traders for holding large stocks of commodities by reducing the gradient of price level. The speculator, therefore, is the risk bearer in business to a great extent, but he is a specialist for this purpose. By giving a true value to the commodities by preventing its violent change, he helps to maintain an equilibrium of supply and demand at a normal price level.*

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* *The Report of the Federal Trade Commission on the Grain Trade* (in seven volumes) was the result of an exhaustive investigation of all phases of the grain trade, and is based upon the collection and analysis of information much of which had never before been collected. The Grain Futures Administration, a bureau of the United States Department of Agriculture under the authority of the Grain Futures Act of 1922, has wide supervisory powers over grain exchanges in the United States. This bureau has made investigations of the operation of organised grain markets in the United States, and has published data secured from reports made to the Administration by the members of these markets. The material and studies thus provided form the basis for much more accurate generalisations on the subject of organised produce exchanges than have been possible in the past. This is particularly true of the problem of speculators' profits.

Most discussions of organised markets assume that threre is a class of professional expert traders, who have considerable ability to forecast the direction of price movements, and who, in general, profit from their operations in the market. Their skill is frequently contrasted with the ineptness of the amateur, "lamb," "punter," or "foolish outsider," who knows nothing about the grain market and merely gambles on the course of prices.

Rigging, Short Sale and Corner.

Speculation, however, is not sometimes without its evil effects. As the speculator makes his profit by changes in price, he frequently manipulates it either by direct dealing or indirectly influencing others, when his operations become prejudicial to the public interest in increasing price fluctuations. Sometimes a *syndicate* is formed by some speculators to control the market by manipulation of price generally through fictitious transactions. This is known as *rigging*. The general investing public suffers for these operations.

The operation of the expert trader, it is claimed, stabilise prices by discounting future developments in the supply and demand for the commodity, and by preventing unexpected occurrances from driving prices out of line with the general situation. The question of the effect of speculation on prices has been subject of considerable controversy but the general openion of economists has been that speculation stablises prices—and that this effect is due to the skill of the professional specultor. It is therefore interesting to note that the Federal Trade Commission comes to the conclusion that, "Under existing conditions of speculation in grain futures no such stablising influence has been found."

The problem is far too complex to be considered here, but the conclusion of the Federal Trade Commission raises the queseion whether the failure of future trading to stabilise prices would be evidence that there is no group of speculators profiting consistently from their operations in the market. There are, however, other possibilities. The inexpert speculators may trade in such volume as to overbalance the activities of the more skilful: or the operations of the professional speculator may, at least occasionally, tend to accentuate swings in prices and not to reduce them. As a result of extensive studies of the operations of speculations "Professional speculators may be divided roughly into two groups: (1) Those who trade on the basis of rational appraisement of present and prospective conditions affecting supply and demand, without at the same time trading in a manner or with aids designed to augment or artificially hasten the market results expected. These have been considered as belonging to the constructive group. (2) Those who trade largely on the basis of mob psychology and faith in their ability through heavy trading to bring about temporary market conditions of which they may take advantage to make profit. Their operations and presence in the market are distinctly destructive."

Even the "constructive" group of professional speculators may trade in such a manner as to unsettle price. If, because of sudden developments or demoralisation of the market, their position long or short becomes untenable their hasty liquidation or covering may accentuate the fluctuations of prices. Under these circumstances the failure of speculative trading to stablise prices would be no proof that the professional speculators do not profit, on the whole, from their activity. (Blair Stuart in the *Economic Journal*).

These manipulations are found in the market in the forms of *bear* and *bull* operations. A *bear* operator will sometimes depress the market price of a commodity by its heavy sale, for delivery in the future, expecting to cover his sale by future purchase at a lower price before giving delivery. A *bull* operator will similarly force up price by heavy purchase, expecting to sell at a higher price before forcing up the prices against their natural tendency of normal fluctuation, and hence their actions are causing an undesirable disturbance in the market prejudicial to the public interest. Such operations of the *bears* and the *bulls* are called "Short Sale" and "Corner" respectively. Success in these operations, specially in the latter, is becoming more difficult day by day, for in the case of common commodities, it is no longer possible to control the whole demand and supply, specially the latter, as the consequent increase in price for heavy buying attracts fresh supplies, sometimes from unexpected quarters, which would not have been marketed at the time but for the rise. So "cornering" is almost confined to the supply of a commodity on a particular day and to the control of supply for that day.

Rings and Pools.

Speculations are also indulged in by operators forming "Rings" and "Pools." The former is a combination of some dealers of certain commodities formed for the purpose of artificially regulating their actual supplies to raise the prices of those commodities to make larger profits, and the latter is a combination of producers for the elimination of competition by agreeing to divide the total output or earnings clubbed together on a settled basis. This class of organizations prospered in the U. S. of America during the last portion of the nineteenth century, but as they were considered to be organizations in restraint of trade, they were held to be illegal and suppressed. These organizations which are of speculative nature are however in existence in almost all countries of the civilized world.

Another class of speculators are the *scalpers* or *pit*

traders who buy and sell in large quantities during the trading season on calculation that makes them generally "even" at the end of the season.

Manipulation by False Rumours.

Markets are sometimes manipulated by the spreading of false rumours. When a false unfavourable rumour is spread which tends to create an apprehension in the minds of the people against certain securities or stock held by them, they naturally want to unload them on the market, and the *bear* operator gets his chance to cover his sale with a very fine margin of profit for him. The converse is the case with the *bull operator*. When a false favourable rumour which encourages the purchase of his securities or stock is spread, he finds his chance of unloading them on the market at a highly remunerative price in anticipation of which he made the purchase. The unsuspecting public is thus sometimes coaxed into bargains which ultimately prove costly and sometimes ruinous to them.

Arbitrage Operation.

This is a form of speculation in which the speculator tries to make his profit from difference of prices existing at the same time between different markets at different places. It is therefore distinct from the profit or loss which a speculator expects from movements of price over a certain period. It is necessary for the purpose, to convert the price of foreign markets in their currency, into the currency of the country of the speculator and to conduct the operation on the principle of buying at the place where the price is the lowest and selling where it is the highest.

This difference of price in markets of different countries is generally due to the difference of prices of commodities for sudden changes in their demand and supply in particular centres, and for difference in foreign exchange rates. The speculator takes advantage of this difference to make his profit. Ordinarily normal condition returns and these prices become uniform in a short time as the effect of general economic law. So the speculator has to

make this profit by his swift decision and immediate action, failing which an unfavourable fluctuation may turn events against him causing a loss instead of a profit. Arbitrage operations are favourable to the speculator when there is a wide fluctuation of price in different markets, and unfavourable when the price in such markets is stable. Dealings in these arbitrage operations are generally carried on with great rapidity by wire or telephone for obvious reasons. For this purpose parties, or the equivalent prices in the currency of the speculator, of the rates prevailing in other foreign centres are calculated.

Calculation of Parity.

In calculating the parity, expenses such as commission, insurance charge, freight to and from different markets, etc., are taken into account and a parity table on that basis is prepared, from which the speculator ascertains the lowest and highest prices in different markets and regulates his buying and selling operations accordingly; for instance, suppose the parties in London in terms of sterling of the prices in Paris, New York and Calcutta are 25, 24-18, 25-3 and 24-17 respectively; in this case the speculator will purchase at the lowest market in Calcutta and simultaneously sell at the highest market in New York, the difference in the rates of these two markets being his profit for the arbitrage. The operation may be in stocks as well as in commodities.

Straddle and the Spreaders.

Straddle is another form of speculation in which one tries to make his profit by speculating on the gaps between the prices of different qualities of commodities or between the future prices of commodities with different periods to run. For instance, suppose a speculator buys jute for March delivery at Rs. 10 per *maund* and sells the quantity for April delivery at Rs. 10-4; then no matter whether the price of jute rises or falls as a whole, he makes a profit provided the difference between the two future prices becomes less than 4 annas, but if the difference in the two

prices becomes more than 4 annas, he loses, for in that case he will have to purchase to settle the contract, at more than Rs. 10-4 per *maund* at which he sold.

There is another class of speculators who are termed *spreaders*. They specialise in trading between commodities or between markets, and make their profit out of the change in price relationship between futures of the above. "A *spreader*, for example, may be long the September future and short the December future to a corresponding amount in the same or in different markets hoping to profit by a charge in the price spreads between them."

All the above dealings—straddles and such other operations—are transactions in "futures" and are speculative in nature. They sometimes steady the price level and sometimes prejudicially affect the market by causing violent fluctuation as already explained. Parties to contracts to these "futures" have usually no intention to give or take delivery.

Forward Contracts.

Transactions in "futures" of a less speculative character are also frequent. These are known as "futures proper." In these transactions goods are purchased for future delivery at a price settled at the time of the bargain by a contract and the goods are delivered at the time at that price irrespective of whether the price has advanced or lowered down at the time of delivery. Manufacturers as a rule provide for their future supplies of raw materials by such contracts instead of taking the risk of fluctuation in their price so that they may be in a position to estimate the cost of their production beforehand and to arrange forward sale accordingly, without incurring much risk in the business. The "future" purchase of the manufacturers also make them sure of their future supply of raw materials and thus enable them to intensively devote themselves to the manufacturing operations. These are known as *forward contracts*. These contracts are very common in the market.

Hedging and Terminal Markets.

In the produce markets the merchants and manufacturers who must speculate to some extent by forward purchases have devised means by which they minimise their risks by what is known as "hedging." When they make purchases of "spot" grains, that is, grains for immediate delivery, they sometimes hedge their purchases by selling for the future in apprehension of a fall of the grain market. So when there is an actual fall before his products have been marketed, the second contract covers his loss, for he can then purchase spot grains at a reduced price and save his loss on the product from the spot grains of future delivery, may buy "futures" instead of risking on immediate purchase of raw materials. A manufacturer who wants to hold a large stock can also protect himself against a future fall of price of his stock by hedging, that is, by buying "futures" of raw materials. So the *hedgers* buy and sell futures to offset other sales or purchases. They are generally exporters and manufacturers.

Receipt and Payment of Differences.

The transactions in "futures" in the produce and other markets of the world are specially indulged in by professional speculators who do not generally concern themselves with actual acceptance and delivery of things contracted for. The very common practice in this respect is to settle these "futures" transactions by mutual receipt or payment of "differences" as they are called, between the contracting parties at the time of delivery, when there is a movement in the price of the articles contracted for, the loser paying and the gainer receiving them.

Newspaper Quotations.

Fluctuating prices ruling in the commodity markets are daily quoted in commercial papers and leading newspapers. Some specimen quotations with their explanations are given here :

COMMODITY MARKET IN INDIA.

Bombay, August 8.

Sugar.—Prices of Indian sugar were nominally unchanged during the week. Some second hand sales of the Partappore were made by dealers to outsiders on the basis of Rs. 13-12 per cwt., ex-godown. The prices ruling in Cawnpore are much above the local parity and there is no possibility of fresh business at least for the next few weeks.

Calcutta and Karachi—Both markets were reported steady with prices unchanged. As regards forward positions there were hardly any interest at the present level of Java prices.

Calcutta, August 15.

Wheat.—2 per cent. Cawnpore Quality, Rs. 3-2, per bazar maund nett; Fyzabad Quality, Rs. 3 per bazar maund nett; Chandowsi Quality, Rs. 3-6 per bazar maund nett.

Linseed.—5 per cent. Bold Quality, Rs. 5-2-6 per bazar maund nett; Small Quality, Rs. 5-2 per bazar maund nett.

Rape Seeds.—4 per cent. Cawnpore Quality Rye, Rs. 4-10 per bazar maund nett; Bhagalpore Rs. 4-10 per bazar maund nett; Assam Kajli (Brown Quality), Rs. 4-10 per bazar maund nett.

Castor Seeds.—5 per cent. Loop Line Quality, Rs. 3-6 per bazar maund nett; B. N. W. Quality, Rs. 3-6 per bazar maund nett.

Barley.—2 per cent. Delhi-Cawnpore Quality Rs. 2-12 per bazar maund nett; Fyzabad Quality, Rs. 2-12 per bazar maund nett.

White Peas.—5 per cent. Rs. 3-2 per bazar maund nett.

Lentils.—5 per cent. (Bold) Rs. 3-7 per bazar maund nett.

N.B.—All quotations include new single B Twill bags, Kantapukur delivery.

(*Per cent. in the above means percentage of mixture allowed*).

Castor Oil.—No. 1 Fine Pale Quality, Rs. 9-4 per bazar maund ltose; London Seconds Quality, Rs. 9-4 per bazar maund loose; Liverpool Seconds Quality, Rs. 8-4 per bazar maund loose.

Croundnut Oil.—Calcutta mill make, Rs. 7-14 per bazar maund loose; Madras mill make, Rs. 8-4 per bazar maund loose.

Coconut Oil.—Cochin make, Rs. 8-8 to Rs. 9-0 per bazar maund loose.

Mustard Oil.—Rs. 11 to Rs. 13-8 per bazar maund loose.

Linseed Oil.—European make, raw, Rs. 1-12 per gallon F. A. S.; boiled, Rs. 1-14 per gallon F. A. S.

Shellac:—(Calcutta Shellac Brokers' Association); T. N. Rs. 43-8 S. T. I. Rs 45-8, I.T.N. Rs 39, 12 % Rs 38, S Fine Rs 50, Seedlac Rs. 34-8, Sticklac Rs. 25-8. Shipments—7,950 chests up to August 16. Market quiet but steady. (*All rates per maund*).

JUTE.

Calcutta, Saturday, AUG. 18.

Imports and exports of old crop yesterday were 2,000 mds. and 4,000 mds., stocks being estimated at 657,000 mds. as compared with 202,000 mds. at the same date last year. New crop imports were 5,000 mds. and exports 1,500 mds., stocks being estimated at 30,000 mds. as compared with 48,100 mds, at this time last year.

LOOSE JUTE.

The market is quieter in tone with prices nominally unchanged. There is no business to report to-day but after writing yesterday's report a small business is reported in Indian District LR's at Rs. 4-6 per maund and XLR's at Rs. 3-14 per maund.

PUCCA BALES.

The market is steady but quiet, there being no demand from shippers, and sellers' quotations remain nominally unchanged at Rs. 24-12 per bale for old crop firsts shipment this month and Rs. 25-12 per bale for new crop firsts September shipment.

(*One pucca bale contains* 400 *lbs.*)

GUNNIES.

The Hessian market ruled quiet, and prices are slightly easier and no business reported. Quotations are:— (*per* 100 *yds.*)

	Ready.	Sept.	Oct.	Jan.
9 Porters	Rs. 8-14	8-14	8-13	8-10
11 Porters	Rs. 11-11	11-12	11-7	11-3

Heavy goods remain unchanged. B. Twills were done September at Rs. 24-4 and Stripped Heavy C'ees August at Rs. 25-4.

(*Porters mean the warp, i.e., the threads woven into the weft*).

FOREIGN COMMODITY MARKET.

London, AUG. 17.

Jute.—First Marks Continent Sept. Oct. (old) £14-16-3 sellers. do. Aug.-Sept. £15-3-9 sellers; do, Sept.-Oct, £15-3 9 paid and sellers; do. Oct.-Nov. £15-5-0 paid and sellers; Lightning Marks do. Aug.-sept, (old) £13-13-9 sellers; do. Aug-.Sept. (new) £14-1-3 sellers (per ton). -Market: Quiet with prices easier in sympathy with Calcutta advices. A small amount of business was done.

Hessians (New York).—Calcutta made Hessians 40" 8 oz. 9 porter per yard 4.85; do. 40" 10 oz. 11 porter per yard 6.15; Market Firm. (*The rate quoted is in cents*).

London, AUG. 19.

The following are to-day's commodity market quotations:—

Tea.—Indian Pekoe	11½d. to 2s. 1d.	*(per lb.)*
Indian Pekoe	1s. to 1s. 5d.	*(per lb.)*

Jute.—London 1st Native Marks, C. I. F. Cont. Aug-Sept., (Old Crop)—**£14¾ value (per ton).**

Dundee 1st Marks, Aug. unquoted. Dundee, Lightning, Aug. unquoted.

Liverpool Cotton.—American, Oct.	6.88	*(pence p. lb.)*
,, December	6.87	(*do.*)
Egyptian Sakellaridis, Oct.	8.36	(*do.*)
,, ,, Nov.	8.39	(*do.*)
New York Cotton.—october	13.25 to 13.24	*(cent per lb.)*
December	13.39 to 13.39	(*do.*)
January	13.41 to 13.41	(*do.*)
Rubber.—Spot 7½d.	paid-buyers.	(*do.*)
Oct.-December 7-11/16d.	paid-value.	(*do.*)
Linseed.—Bombay, Aug.-Sept.	£12⅞ sellers.	(*per ton.*)
Calcutta, Aug.-Sept.	£12½ sellers.	(*do.*)
La Plata, Aug.	£12¼ sellers.	(*do.*)

Sugar.—On the New York Terminal there was an advance of 3 points in ready and 3 and 3 points in September and december positions, respectively. On the London Terminal there was an all round decline of 1d. per cwt. Market was reported quiet and featureless, Java in London reported a decline of ¾d. per cwt. Java market was reported quiet with prices unchanged. Sales of about 6,000 to 7,000 tons were reported for India and China on the basis of 3.60 for West and 3.70 for East India and 4.30 glds. per 100 kilos for China. (*Kilogram* = 2½ *lbs.* *About* 55 *Guilders* = *Rs.* 100/-).

COMMODITY MARKETS.

Their Constitution.

The Commodity Markets, as above mentioned, are known as "Exchanges," which may be general or special. The exchanges where a number of commodities are bought and sold are general exchanges and those for dealing in one commodity only are special exchanges. The organization of both these classes of exchange is almost similar and their object is to bring the sellers and the buyers of commodities in close contact with each other with a view to

facilitate transaction of business with the least possible trouble and hindrance to it. All the exchanges have got their constitutions and the condition of membership is rather exacting in the majority of them. The members are required to maintain a high standard of business morality in conducting the transactions in the exchanges.

The commodities in these exchanges are not generally displaced and transactions take place by mention of quality and grade of the different commodities, though samples in some markets are actually produced. The important exchanges have generally got their own halls around which the offices of the members are situated. Business is put through by dealers and brokers either in the halls or in these offices but telephones are also largely used for the purpose.

Though the commodity markets in England are the oldest and were the most important, some American and Continental exchanges have now grown to be very prominent. New York and Chicago Exchanges at present claim a major portion of the cotton and corn transactions of America and some of the Continental Exchanges have become very important centres of business. Some of them are under more or less State control.

Some Important Commodity Exchanges.

The following are the most prominent exchanges in England and India :—

1. *The Corn Exchange* in Mark Lane and the Baltic Exchange in St. Mary Axe, E. C., London, are general Exchanges dealing in grains and oil seeds and other general products including flour, fodder, etc. The former usually deals in *spot* transactions while the latter transacts business by contracts in grains *to arrive*, both through brokers generally. The members of both the Exchanges are common and their practice is to buy cargoes in the Baltic Exchange and to sell *spot* in the Mark Lane Exchange. Contracts are made usually by "grades" and sometimes by samples--the quality guaranteed being stipulated to be

of *fair average* (f. a. q.). If the quality be below the standard contracted for, an allowance is made in favour of the buyer, but no such allowance is permissible when the quality is above the standard. Any difference between the contracting parties must be submitted to arbitration.

Wheat is an important commodity dealt in these Exchanges and its grading is very carefully done. No grading, however, becomes necessary in the case of Canadian or U. S. A. wheats as the Governments of Canada and America issue grading certificates with the consignments from those countries. In corn " to arrive " contracts the goods cannot be rejected by the purchaser, he being entitled to an allowance only if these are not up to the standard contracted for; but in " spot " transactions they may be rejected before 11 a.m. on the next market day following the sale. The purchaser in such cases are bound to state the reasons of rejection. The terms are generally cash against delivery.

2. *The Wool Exchange* in Coleman Street, E. C., London, is a special Exchange for transactions in wool only. Unlike corn, wool is sold by auctions. When wool is imported into England the bales are stored by the importers in wool warehouses and are put to auction by recognised brokers in the next auction day provided they have arrived in time to be listed for the purpose in their catalogues. The samples of the wool contained in the bales are exhibited on the table of the Exchange, on the basis of which the catalogues of the brokers are prepared. On the sale day the bales are kept ready for inspection at the several warehouses between 8-30 a.m. and 2 p.m. and at 3 p.m. the buyers assemble in the sale room of the Exchange and the auction begins. The bids are always in pence per lb. of wool.

The brokers for their labour receive a commission from the sellers and a remuneration of 1s. per lot of the catalogued wool from the buyers. A deposit of 25 p.c. of the price is to be made after the fall of the hammer and the balance to be paid in seven days after the sale. The day fixed for payment is termed the *prompt* in the Wool Ex-

change. The goods are to be removed from the warehouses within fourteen days, on the failure of which the bales are resold and the deposit is forfeited.

3. *The Cotton Exchange* in Liverpool is probably the most important special Exchange in England for transactions in cotton. There is also a Cotton Exchange in Manchester and another in London. Unlike the Wool Exchange the sales in the Cotton Exchanges are by contracts on the basis of grades according to the place of origin, such as Egyptian, North American, etc., the first implying cotton from Egypt and the second that from North America, and according to quality, such as "ordinary," "middling," etc., the first implying the last and the second the average quality.

In the cotton market, "futures" are very freely indulged in, but contracts in "futures" are permissible for one grade only. When the quality is not up to the standard contracted form, then settlement can be made by adjustment in price and the nearest quality available is allowed to be delivered. The price of cotton is by pence per pound as in the case of wool. The market rate is subject to constant fluctuation and hence these exchanges are very favourite places of the speculators for their operation.

4. *The Tea Exchange* in Mincing Lane, London, is the greatest special exchange of the world in transactions in Tea. There is a small market in Manchester also. Tea brought into England in chests is warehoused awaiting auction at the Exchange and the brokers authorised to purchase and sell take samples of different qualities from the warehouses and prepare catalogues according to grades, weights, etc. The sampling and cataloguing being done, the lots become ready for auction.

Except in some special cases the transactions are all between brokers buying and selling for their principals. The auction sales of teas imported from various countries are held on particular fixed week days, for example, Java teas on Thursdays, Indian teas on Mondays and Wednesdays. Ceylon teas on Tuesdays, and so on. The bids are in shilling

and pence per pound. After the fall of the hammer the selling broker sends a *contract* note to his principal stating the name of the buyer, the prices, etc., and a *weight* note to the buying broker with necessary details about price, total amount payable, etc., asking for the required deposit which is usually £1 per chest of about 1 cwt. of tea. The "Prompt Day" in the Tea Exchange is after three months from the date of the purchase wihtin which the balance of the price must be paid and delivery from the warehouse taken, failing which warehouse rent is charged and the deposit becomes liable to be forfeited. There is arrangement for arbitration in case of dispute.

5. *The Metal Exchange* is a special Exchange in Whittington Avenue, London, dealing in tin, lead, spelter and copper only. Other metals are sold and bought outside the Exchange by its members. The transactions are done by "descriptions" such as "good soft lead," "standard copper," etc. The members of the Metal Exchange buy and sell directly from each other, and brokers are not ordinarily employed. Generally there is a good deal of higgling between the buyer and the seller in this exchange, and payment is arranged after the settlement of price.

6. *The Bombay Cotton Market* is a special Exchange for the purpose of dealing in cotton. The Exchange is a limited concern styled "The East India Cotton Association Ltd." which was registered in 1921. The Association has its own hall on the floor of which the members meet to transact business. There are a large number of rooms in the Exchange for accommodation of buyers and sellers besides a good many sampling rooms.

Contracts in "futures" as well as "spot" contracts are entered into by the members of the Association for delivery on a future specified time and immediate delivery respectively. Forward contracts are also made for delivery within a specified period. *Futures* contracts are ordinarily "hedging" contracts which can be transferred to buyers other

than those with whom they were originally made but forward contracts in which actual deliveries are to be made are not capable of being so transferred. So "hedging" contracts are generally for protection of the contractor against future rise of price only; deliveries in them are seldom.

In "futures" transactions the months of delivery for contracts for Bengal and Oomra are January, March, May and July, those for Broach are April-May and July-August and those for southern districts are May-June and August-September. In the former two deliveries the qualities of cotton may be up to half a grade below the basic grade and in the latter two, up to the grade below is allowed. All contracts are made generally through brokers.

7. *Calcutta Tea Exchange* is the biggest special Tea Market in India. It is situated in Mission Row, Calcutta, where sales are effected through brokers. When teas from the gardens in Assam, Darjeeling, Duars and some other places are brought into Calcutta in chests, they are warehoused at Kidderpore. The system of purchase and sale is by auction and almost the same procedure as in London Tea Exchange is followed in this respect. The qualities are mentioned in the catalogues by names of the places from which the teas come and also by the names of the grade, such as, "Darjeeling Pekoes," "Assam Fanning," "Duars Broken Pekoe," etc., etc.

The "Prompt Day" in the Calcutta Tea Exchange is the tenth day after the sale on or before which the payment in full must be made, failing which the purchaser is responsible for all losses on resale. The goods are at the seller's risk up to the Prompt Day, if not taken delivery of before that day. The broker after receiving payments for the goods sends remittances to their respective principals, but deducts his commission from the sale proceeds.

8. *Calcutta Jute Exchange* is necessarily the biggest special market for transaction in Jute, as India, specially Bengal, enjoys a monopoly in production of this valuable fibre. With insignificant exceptions the whole raw jute

produce of the country is brought to Calcutta for manufacture or export and it would therefore be useful for the reader if he forms an idea of the whole process of its movement from the source to the Calcutta bazar, and makes a special study of the constitution and method of operation of the several markets in Calcutta through which it is bought and sold. We have therefore given here a detailed treatment to the jute industry which forms the subject of a very flourishing and extensive business in north-eastern India, specially Bengal, due to the fact that though jute and its products are in great demand throughout the world, no other country than India has succeeded in growing this useful plant.

THE JUTE INDUSTRY.

Sources and Purchase of Jute.

Jute is grown mostly in East Bengal, but Central and West Bengal, Assam, Bihar, Orissa and some contiguous Indian States also grow a considerable quantity. Cultivation of jute involves a laborious process and the growers show commendable energy and patience in transforming the green jute plants into finished raw material. When ready for the market it is generally taken by the cultivators to the local *huts* (market places) for sale where the *Farias* (sub-dealers) or the *Mahajans* (Merchants) purchase it from them. Frequently the *Farias* collect jute by house to house visits to the villages of the cultivators and sell it to the *Mahajans* who have their depots or agencies at important market places generally with railway and/or steamer stations. These merchants when convenient buy directly from the cultivators also by sending out *purchasers* to the big *huts* or the villages of the cultivators.

The Jute is then warehoused by these merchants who have ordinarily got their Presses in their godowns. They assort the jute in various qualities and pack them in 3½ mds. bales known as *kutcha* bales, which are sent to Calcutta mills or presses with whom they generally enter into

"ready" or "forward" contracts. Some of this jute is also packed into 1 md. drums, as they are called, without being pressed, by those merchants who do not possess jute Presses and is sent to Hatkhola, Chitpur and some other places in Calcutta to be sold to the jute mills or to the jute balers of Calcutta, the former using it for manufacture of gunnies and other jute products and the latter baling it for export purpose.

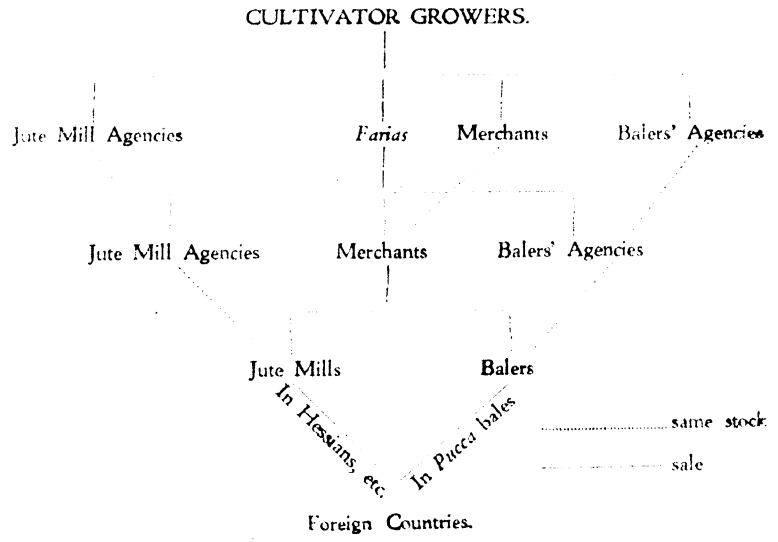
Besides purchasing from the jute merchants, some balers who make *pucca bales*, as they are called, of 400 lbs. or about 5 mds. each for export purpose, and a few Calcutta mills establish agencies in important centres to purchase jute directly in those places and compete with other jute merchants. These merchants, balers and mills sometimes advance money to the *Farias* for purchase of Jute, and the *Farias* similarly advance to the cultivators who often contract beforehand to sell their raw products to them at a stipulated rate.

Transport to Calcutta.

The jute thus collected at the agencies is mostly sent to Calcutta mills—of which here are about 100 around Calcutta—and to press houses when they are in *Kutcha* bales, and also to Hatkhola and some other places in Calcutta when in unpressed drums. Some *pucca* bales are sent from Naraingunge to Chittagong which is now becoming a port of some importance in East Bengal, to be exported to foreign countries. All transports for the above purposes are virtually effected by railway and steamer companies, as transport by country boats and carts is now becoming practically impossible for want of faciliity of insurance, for no insurance company accepts risk on jute sent by country boats or carts. Loose jute from places near Calcutta is however sometimes brought into Calcutta by country boats and carts without any insurance protection. The quantity thus brought is small.

So we find the jute brought into Calcutta market in three forms—*Kutcha* bales of pressed jute in 3½ mds. each,

drums of unpressed jute in 1 md. bundles each and loose unpacked jute—besides the *Kutcha* bales directly sent to the mills and press houses under previous contracts with them. The following diagram will show the movements of jute and its products from its source to ultimate destination :—



Method of Payment.

The drums and loose jutes are ordinarily purchased by the balers and the *Kutcha* bales by the balers and the mills. Business in the former is done mostly at Hatkhola through the *Aratdars* (warehouse men) there, who advance money to the *Beparies* or merchants generally of small means. The amount thus advanced on the jute deposited in their godowns is realised from the sale proceeds of such jute. Payments by the mills or presses for goods directly sent from the agencies under previous contracts are made respectively by their managing agents and the balers in Calcutta on the drafts (*Hundies*) issued by the sellers from their agencies after delivery to the carriers (railway or steamer). These drafts or *Hundies* are always documentary bills of exchange payable on demand and are generally

discounted by the seller with a recognised bank or private banker at the place of the agency or a place near to it. The representative of the banker collects the amount of the bill at Calcutta. Generally 90 p.c. of the price is realised in this way and the balance is paid on receipt of the jute, arbitration being provided for in the event of a dispute. Exports in *pucca* bales are, as a rule, finished by the Exchange Banks in Calcutta with which the documentary bills of exchange are discounted. A documentary bill has been explained hereafter in the chapter on Negotiable Instruments.

The Middlemen.

It will appear from the above that Jute passes through the hands of various classes of middlemen before reaching its ultimate destination. Complaints are generally made in the official as well as uninformed non-official circles that a good deal of profits in jute cultivation is absorbed by these middlemen, leaving not much for the actual growers. Those who know the 'ins' and 'outs' of jute business will not admit that there is a good cause of complaint on the part of the cultivator in this respect. The system has evolved out of necessity and the abolition of the middlemen without a better substitute will bring about a dislocation in the marketing system itself causing injury to the interest of the grower. The Government is making an experiment in this respect by opening Co-operative Jute Sale Societies, but no better result has as yet been obtained.

These is no reason to believe that the middlemen are making huge profits at the cost of the cultivator. The jute market is so sensitive and fluctuating and the change of market is so sudden, that the middlemen frequently suffer heavy losses to meet their commitments, while the cultivator reaps a good harvest for a sudden rise in the market. In the case a sudden fall of the market the cultivator is not so much affected, as the middlemen at that time purchase in competition with each other to cover their forward contracts, and this healthy competition amongst them keeps

the price level in the agencies fairly high. So the middleman system is not an unmixed evil for the cultivator who frequently gets accommodation from the middleman at the time of necessity. The bogey that the middleman is robbing the grower of jute has therefore no good foundation in facts. He is a necessary factor in the economy of marketing of jute, as he is in the case of other commodities.

Brokers.

All transactions between the mill or the baler and the jute merchant are effected through brokers. There are European as well as Indian brokers, but the purchasers, who are mostly European mill agents or balers, usually give preference to European brokers. So many of the Indian brokers work as under-brokers to these European brokers. European merchants also seem to obtain some preference in respect of price and the brokers can secure better price for jutes of European sellers. Some Indian firms whose packings are of very high standard therefore sometimes arrange with some European seller of repute to sell under the ' Mark ' of the latter by making him interested in some way. The influential brokers in the jute market are generally European firms who have got much influence with the purchasers of jute. They naturally give mutual preference and the brokers also give preference for European packing. The Indian Jute merchants are therefore at a disadvantage in this respect.

Quality and Price.

Prices are determined according to quality and grade of the jute and place of origin, such as, Mymensingh No. 1, Jamalpur No. 2, Naraingunge No. 3, Madaripur No. 4, and Rejection. Rejection is the last quality. Nos. 1 and 2 are jutes of excellent and first quality respectively. Not much of these qualities are obtainable. Nos. 3 and 4 are found in abundance. Besides these qualities jutes from some other places which are considered to be of inferior quality are sold at a lower price. These qualities are classified as

Daisee, Deara, Uttariya, etc., according to the part of the country from which they are brought.

Export of Baled Jute.

As mentioned above jute is exported in 400 lbs. (about 5 mds.) bales—known as *pucca* bales—pressed and packed in jute presses. There are about 50 such presses around Calcutta which are engaged in pressing and packing business charging from Rs. 2/- to Rs. 2/8 per bale. The balers get their jute baled in these presses and generally sell to the shippers who export these bales. Many balers as well as shippers have got their own press houses and they undertake the first two or all the three operations necessary for exporting jute. So we find the functions of the press, the baler and the shipper either separately performed or partially or fully combined in the jute exporting business. *Pucca* bales are also graded like the *Kutcha* bales according to quality of the jute and are classed—*first grade, hearts, lightnings, cuttings*, etc. The *cuttings* are the hard stiff portions of the jute fibre which are cut off before the baling operation and are sometimes separately baled and exported. These are sold cheap and are purchased for different sundry purposes. All the jute exported are used for multifarious purposes abroad as strikingly illustrated in the "Tree of Jute" issued by the Dundee Chamber of Commerce and reproduced here for the benefit of the readers.

Baled Jute Market.

The centre of this market for European exporters generally is the Royal Exchange of Calcutta in Clive Street, where purchase and sale of *pucca* bales are effected usually through brokers. The jute market at the Royal Exchange is very important and a huge quantity of baled jute changes hands here almost every day during the exporting season. Many people are found to make or mar their fortune here in a short time.

On the opposite side of the road is the Jute Bales' Association mainly intended for Indian exporters. Though

established in 1909 it was registered as an incorporated company in 1918. The Association looks after the commercial interests of Indian jute dealers, shippers and traders, collects statistical information, undertakes arbitration and endeavours to secure an uniformitv of practice in the business. All transactions here are in ready goods and are for delivery and payment, no "futures" or "hedging" being allowed. The affairs of the Association are managed by a committee of four elected by the members.

Generally the *pucca* bales are exported to London from where the Dundee, Hamburg and other mills in France, Italy, America, etc., purchase their requirements. There is no jute mill in London itself. Calcutta and London market conditions mutually influence the price in both the places. The exporters' price in Calcutta is always C. I. F., that is, the selling price quoted includes the cost (price of the goods), insurance charge and freight which are paid by the exporter. India exports about 250 lakhs of *maunds* of jute every year. A small fraction is consumed in the country by the *Kapalis* (a special sect engaged in jute hand weaving) who make gunnies from it. The export trade in jute manufacturers is generally financed by the exchange banks here in the way explained in the chapter on Banks and Supply of Capital.

The Futures Market.

As in some other commodities, jute has its futures market in Calcutta. A good deal of paper transactions is put through and a heavy amount is gained or lost by speculators in this market. As the transactions in this market were nothing but gambling, the law stood in their way, and to avoid legal complications a limited company under the style of "The East India Jute Association Ltd." was registered in 1927, by the provisions of which some actual delivery and payment were enforced.

The members of the Association and their representatives up to four for each are entitled to admission to the Association. The members are responsible for the business

done by any representative with an admission card. All members are bound by the rules and regulations of the Association. There is an official form of contract which must be used in all transactions. There cannot be any contract for less than 250 bales and it is to be exchanged the next day after the transaction is closed. The contract is generally between members, but a member can contract with a non-member also, in which case it must be submitted to the Association within two days of the transaction. All the qualities of the *pucca* bales are not dealt in this market, only the mark "M" generally and a few other marks are occasionally bought and sold. Sellers have the option of delivering substituted marks at an allowance of 8 annas per bale. When the price is on Sterling basis, the unit is the ton. It is always C. I. F.

Delivery and Payment in the Futures Market.

According to the rules of the Association, September, December, March and May are the delivery months. Buyers may tender instructions for shipping on any working day from the 10th to the 15th of the delivery month and the seller is to place the bales alongside the exporting ship within 7 working days from the date of receipt of the shipping instruction. If the delivery cannot be made for any cause over which the seller has no control, the buyer must allow an extension of a month on request by the seller. If the delivery is not made within this one month, then the buyer can either purchase in the market against the seller, or invoice back the contract at the rate prevailing on the last day of the extended period with a penalty of one rupee per bale, or grant a further extension at the request of the seller with a penalty at a graduated scale.

If delivery is not taken by the buyer within four working days from the date on which the seller places the bales in boats alongside the exporting ship in compliance with the shipping instruction or within two days from the date on which the boats are pointed out to the buyer, then, unless the buyer on written demand by the seller makes full pay-

ment within 24 hours, the seller shall similarly have the option either to sell the jute or the portion of it not taken delivery of, against the buyer, or to close the contract in respect of the jute not taken delivery of, at the 'spot' rate of the day with a penalty of one rupee per bale.

If no shipping instruction is received as above, then the seller between the 21st and 25th of the delivery month shall send the delivery order and the buyer shall immediately tender the price of the goods, failing which the seller shall have the option either to sell against the buyer in the market on the next working day or close the contract at the 'spot' rate of the day. The buyer must also pay the amount due to the seller on production of the dock receipt or mate's receipt. When any dispute arises in respect of a contract, it is to be settled by arbitration according to the rules of the Association.

The Speculation.

Though the above elaborate rules have been made and sellers can be compelled to deliver goods under the contract, actual deliveries in the futures market are rare. The closing rate ruling on each Saturday is the basis on which transactions of the week are settled on Monday next, only the difference being paid or received. The business is in the hands of the brokers who buy and sell for their principals. The outside speculators have to deposit a margin for the safety of the broker against loss, as in the Stock Exchange, and business is transacted on expectation that the loss, if any, can be covered by this margin. So here a big business can be done with a small capital. Speculation is therefore rampant in this market. Deliveries are enforced every three months after adjustment of almost all claims against each other in the above way. So practically these deliveries are of an insignificant quantity, almost the whole lot of the contracts being settled by the "difference" system. Purchases and sales here are therefore known as *Fatka* transactions.

Influence of the 'Fatka' Market on Price.

The rate prevailing in this *Fatka* Bazar, as it is called, is considered as the thermometer of the jute market—the market rate in *pucca* and *kutcha* bales as well as the market rate up-country being greatly influenced by it. The rates ruling in this market are generally quoted in Newspapers, as Opening Rate, Highest Rate, Lowest Rate and Closing Rate of the day. The business hours in this market are ordinarily from 12 mid-day to 5 p.m.

As actual deliveries in this market are conspicuous by their absence, it is considered by many people interested in jute to be nothing more than a gambling association, and representations have been made by them to the Government to close it down, as in their opinion it is putting hindrance to lawful trade by disorganizing the market and causing unnatural and unusual fluctuation in price. But there is another side of the shield and it is claimed by the opposite party that it is on account of the operations in this market that the price level of jute is still what it is, otherwise there is knowing what level downwards it would have touched. Government, however, has refused to interfere in the matter as in its opinion the *Fatka* market is not producing such an effect on the interest of the cultivators or those engaged in the various branches of the trade as to call for an immediate and drastic remedy, though it thinks that the market needs reform.

A negotiation between the several jute interests was in progress for the purpose of this reform. It was proposed that a Board, consisting of representatives from the Indian Jute Association, the Jute Balers' Association, the Calcutta Baled Jute Association, the East India Jute Association, the Calcutta Jute Dealers' Association, the Bengal Jute Dealers' Association, the Marwari Jute Sellers' Association, the Hatkhola *Baniyya Hitaishini Sava*, the Belgachia Jute *Aratdars'* Association, and the Calcutta Baled Jute Shippers' Association, should be formed to exercise control over the proposed reformed futures market. Finally an amicable settlement was arrived at and control of the

Futures Market was vested in a Board comprising all interests in the jute trade.

Clearing Houses.

The futures markets of the world in harvests have grown up to huge dimensions, and produces are sold again and again. The important exchanges have therefore their clearing houses through which the purchases and sales by the members are cancelled against each other as far as possible and only the differences are paid or received. Without these houses such large number of transactions would have been impossible. The clearing house is mainly intended to settle the " differences " caused by changes in price and to bring together the first seller and the last buyer by eliminating the intermediaries connected with each other by a number of contracts.

ECONOMIC FACTORS OF THE MARKET.

Trade Depression, Trade Cycle, Boom and Slump.

Manufacturers often produce in anticipation of future demand. This is more or less speculation. If their production turns out to be in excess of the actual demand, the industry concerned cannot dispose of its products at a remunerative price and becomes depressed, and this depression spreads in other industries depending on the former for the sale of their products. For instance, if the industry of jute manufacture is depressed, the jute mills can not purchase additional plants and the engineering industry making them becomes depressed. The mills also purchase less coal and the coal industry is also affected. The engineering firms and the coal industry, in their turn, purchase less steel and lifting plants respectively and the steel industry and the lift-making industry are affected. Thus the bad trade is passed on from one industry to another and a general trade depression takes place. The trade depression in one country often spreads in other countries also, for a depression in a country means less import there and therefore the depression spreads in the exporting country

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sumers of the commodities in question form themselves into association to force down price by regulating their demands for the particular commodities.

Monopolies may be legal or social. Where a monopoly is created for certain articles by law, as in the case of patented or copyright articles, it is a legal monopoly, and when a monopoly is granted by the State for social services, as is frequently done in the case of water, gas or electric supplies or in postal, tramway or telephone services, it is a social monopoly. These monopolies are granted for obvious reasons, but they are granted mostly under certain regulations about price, charges and various other matters for public convenience.

Artificial and Geographical Monopoly.

There may be monopoly in some other forms also. For instance, an artificial monopoly is created by formation of a mammoth organization which absorbs all the competing similar organizations or ruins them by sheer force of capital, and then fixes a monopoly price for its articles. There may be another type of monopoly where the sole sources of supply of some natural or agricultural products are confined to a particular place. This is geographical monopoly. Bengal is the geographical monopolist for the supply of jute and Chile is such a monopolist for the supply of nitrates. The difference between the artificial and geographical monopolies is that while the former is man-made, the latter is natural; but a geographical monopoly renders easy the creation of an artificial monopoly by limiting the area of its operation.

Absolute and Partial Monopoly.

When the control of the demand or supply is complete, it is an *absolute* monopoly. Monopoly is *absolute* in the case of patented articles, the owner of the patent being the only person having the right to produce the articles, and is *partial* in the case where the monopoly is based on trade reputation only or in the case of control of a part of the supply of some commodities.

Combination of producers can create only partial monopolies, for the monopoly price can not always be maintained by the combinations which are always liable to dissolution on account of the temptation of the members to break away in order to undersell the combination to get more trade than what is possible for them by remaining in the combination. In partial monopolies the control is over a part of the supply only, but such control is not partial.

The presence of certain conditions makes the creation of monopoly easy. They may be stated as follows :—

(*a*) The combination shall be joined by all the suppliers of the particular market.

(*b*) The members shall be amenable to discipline and the combination shall have power to punish any delinquent member.

(*c*) Any substitute for the monopoly commodity will not be available without difficulty of transport or otherwise.

So the essence of all monopolies is the limitation of supply which is regulated by the monopolist.

Price under Monopoly.

A monopolist will generally aim at supplying things in quantity or at price by which his net receipt or earnings for himself will be the largest. His profit may be the highest by selling a small quantity at a high price, instead of selling a large quantity at a low price, as is done by sellers working under competition. But when the difference in profits is not substantially large in these two methods, the monopolist will generally follow the latter course, for even a monopolist has to reckon with the public whom he must cater for. The public may form a compact union to curb the power of the monopolist, or boycott his product, if the price charged by him is exorbitant. There is also the risk of the State interference with a monopoly when it is abused to the detriment of the public interest.

Municipalities and other public bodies are sometimes monopolists of a public service, but as they are not actuated

by motives of high profits, they always take the public convenience into account and do not charge a price yielding a large profit.

Price under Competition.

When however there is no monopoly at work, the price of commodities will be regulated by open competition keeping the market in a normal condition, unless disturbed by highly speculative operations mentioned before. In the case of normal competition, the price will remain within its legitimate bounds, determined by the law of supply and demand. But the supply of some commodities may be severely limited in certain cases, and speculative transactions in them may cause an unusual disturbance in their price.

It is necessary to understand, in the light of the above facts, how the price of the fixed stock, that is, the supply of which can not be indefinitely increased, such as rare books, old pictures or old postage stamps, and that of reproducible things, that is, the supply of which can be increased at will, are determined in the absence of wild speculation. In the first case an open competition will, of course, be the determining factor, the supply of the stock being limited. If the stock consists of one thing, the person paying the highest amount will get it at the price just exceeding what the next highest bidder would have paid for it. But if the stock consists of more than one thing, which are exactly similar, there will be a difference in the mode of their settlement of price, for in that case, the price will be naturally equal to the demand price for the number in existence. The following table will illustrate how this takes place. Let us take the case of old rare pictures, for instance, with the demand prices representable as follows :—

For one	--	Rs.	100/-	would	be paid.
For a second	--	,,	80/-	,,	,, ,,
For a third	--	,,	60/-	,,	,, ,,
For a fourth	--	,,	40/-	,,	,, ,,
For a fifth	--	,,	20/-	,,	,, ,,

Now imagine that there are only four such similar pictures at the same place and same time, in the market, with different sellers competing with one another for their sale. There can be only one price in the market and it will, in the present instance, be more than Rs. 20/- but will not exceed Rs. 40/-, for only three will be purchased at more than Rs. 40/-. It can not be Rs. 20/- or less, for five would be purchased at that price. This will take place because if the price showed a tendency to settle at Rs. 20/-, then the competition of buyers would force it up, and if it showed a tendency to settle at Rs. 60/-, the competition of sellers would force it down.

But the case is different where the supply is not limited. When things can be freely produced, that is, where they are reproducible, the determination of price becomes a little complicated, for the supply depends on the price paid. When the price of such a thing is so high that its supplies are making an unusually high profit, other people will join the business and the supply of the thing will be increased. The profit in the business, in that case, will diminish, for with the increase of supply the price of the thing will come down when again the supply will tend to fall.

QUESTIONS BEARING ON CHAPTER IX.

1. What classes of men are now engaged in commercial work anticipating future demands of the market ?

2. How does this anticipation of demand affect the commerce of the world ? What are "futures markets" ?

3. What is the difference between speculation and gambling and what is their respective effects on the market ?

4. How does speculation prevent fluctuation of price ? What are the evil effects of speculation ?

5. Explain Short sale and Corner and mention their effects on the market.

6. What are the Rings and Pools ? Describe their effects on the market. Explain the operation of the scalpers.

7. How can the market be manipulated by spreading false rumours ?

8. Explain Arbitrage Operation. When is it profitable ?

9. How and why is the parity of different money markets calculated ?

10. What is a Straddle ? Explain by an example. Who are the spreaders ? Describe how they operate.

11. Explain "dealings in futures" and mention their effects on the market.

12. What do you understand by "Hedging" ? Explain receipt and payment of difference in connection with speculation.

13. Explain Trade depression and Trade cycle. How does Trade depression take place ?

14. Explain how good harvests sometimes cause trade depression.

15. Define monopoly and explain legal, social, artificial and geographical monopolies.

16. Explain supply monopoly and demand monopoly. What are absolute and partial monopolies ?

17. What are the conditions which make the creation of monopoly easy ?

18. How is the price under monopoly regulated ?

19. Explain by examples how the prices under competition are regulated respectively in case where the supply of things is fixed and where things are reproducible.

20. What will be the effect of wild speculation on price in case when the supply of things is severely limited ?

21. "Production is carried on ahead of consumption and on an estimate of it." Explain.

22. Describe the chief functions of a Produce Exchange. How far does it help or hinder the development of legitimate trade?

23. Discuss the beneficial as well as the adverse influences of the existing Stock and Produce Exchanges upon industry and trade.

24. Discuss the usefulness of a "Futures Market" in a modern economic organisation.

25. Describe the essential features of transactions in 'futures.' In what ways are the transactions of the kind advantageous to manufacturers and wholesale traders ?

26. Give some account of the rise and growth of India's export trade in jute and jute manufactures and indicate the organization of the jute export trade.

27. Define speculation and show how it differs from gambling. Also carefully examine how far the speculator performs a useful function in the modern economic system.

28. Explain the difficulties experienced by Indian merchants in the Calcutta Jute Market in disposing of their stock to the mills.

29. Distinguish between a Stock Exchange and Produce Exchange. What is meant by dealing in futures ?

30. What is a Produce Exchange ? Explain some of the beneficial points of speculation. In what respect does it differ from gambling ?

CHAPTER X.

ORGANIZATION OF BUSINESS CONCERNS.

BUSINESS concerns are founded with the sole object of making profits by the use of Capital, by the employment of Labour, by utilising Materials and by producing or disposing of Commodities. All of these factors share the profits obtained by their combination. Such a concern can be started by one man only having the requisite ability and power of organization together with a command over the above factors and it may be started by a combination of more than one person, all contributing to the necessary factors for the business or to the capital required to secure them. When only one man is the proprietor of a business, he is called a *Sole Trader*, and when the proprietors are a group of men working in combination and sharing the profits and losses amongst them, the concern is called either a *Partnership business* or a *Company.*

There are ordinarily two classes of sole traders. In the one the individual himself works with his own "land," labour and capital and in the other he hires the labour and owns or hires the land and capital and directs the business taking its risk on himself. The special advantage of this form of business is that greater personal interest is naturally bestowed on it by the owner ensuring the greatest possible economy and efficiency. Such business can not, of course, be as extensive as business done by a combination of persons, but it can more easily meet the fancies of the customers.

Different Forms of Organization.

While no more explanation is necessary of a Sole Trader, who carries on business by and for himself, the several forms of Partnership require explanation. There may be ordinary Partnership among more than one person

when it is called a Firm, and there may be a registered combination of several shareholders, generally designated a Joint Stock Company. Firms and companies have also several classes and forms according to their nature of partnership and legal constitution.

Business may be carried on by any one of the following classes of organizations :—

(a) Sole Trader.
(b) Partnership.
(c) Limited Partnership.
(d) Public Limited Company.
(e) Private Limited Company.

Partnership.

Of these the last two have been dealt with in the next chapter. A Sole Trader has already been explained. Partnership is, as defined by the Indian Partnership Act of 1932, "the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all." A joint Hindu family business or the joint business of a Burmese Buddhist husband and wife is not a partnership business within the meaning of this Act. Registration of Partnership has now been provided for, though not made compulsory by the above Act, and any firm may effect registration of the names and addresses of its partners together with other particulars, with the Registrar of Firms. A firm without such registration has no right to sue any party to enforce a claim except in some petty Small Cause Court matters not involving more than one hundred rupees. A partner also cannot sue the firm or any partner thereof unless the firm is registered. These provisions seem to be very salutary from many points of view. The chief characteristics of a partnership are :

(a) Each partner is personally liable for the whole of the debt of the firm.

(Minors admitted to partnership are liable to the extent of their shares for partnership debts, but they are not personally liable).

(b) The capital is generally contributed by the partners themselves or secured by them at their own res-

ponsibility. Some of them may contribute their expert knowledge of the business undertaken by the firm in lieu of capital.

(c) The profits or losses of the business are shared by them according to an arrangement made beforehand.

(d) If there is no special arrangement to the contrary each partner is entitled to share in the management of the business.

Partnership Deed.

In a properly constituted partnership there is generally a Deed of Partnership signed by all the partners, embodying the terms and conditions of the partnership. Provisions for the following ought to be made in the Deed of Partnership :—

(a) How and in what proportion the proposed capital is to be contributed by the partners.

(b) The amount each partner will be entitled to draw from the business, each month or year.

(c) How the profits will be divided and the losses borne.

(d) What interest, if any, will be allowed or charged on capital and drawings by the partners.

(e) Salary of partners, if any.

(f) The preparations of the accounts of the firm.

(g) Goodwill.

(h) Appointment of an arbitrator in case of any difference or dispute amongst the partners.

(i) The term or duration of the partnership, etc.

When There is no Deed of Partnership.

If there is no Deed of Partnership and no provision is made to the contrary then the provision laid down in Sec. 253 of the Indian Contract Act will apply by which

(i) All partners are joint owners of all partnership properties, original or acquired, the

shares of the partners to such properties being determined by the contribution originally made by them increased or decreased by their shares of profit or loss.

(ii) All partners are entitled to equal shares of the profits and are liable to contribute equally to the losses, if any.

(iii) All partners have rights to take part in the management of the partnership business.

(iv) All partners must attend to the business diligently, but none would be entitled to any remuneration for their services, except shares of the profits, if any.

(v) When there is a difference between the partners about the ordinary business of the firm, the opinion of the majority is to prevail, but no change in the nature of the business of the partnership is to be made without the consent of all the partners.

(vi) A new partner cannot be introduced to the firm except with the consent of all the partners.

(vii) When any member ceases to be a partner for any cause the partnership is dissolved.

(viii) Any partner may retire from the business at any time if the partnership is not for a fixed period.

(ix) If the partnership is for a fixed period, then no partner can retire before the expiration of that period without the consent of all the partners, nor can he be expelled without the order of the Court.

(x) If any partner dies, the partnership whether for a fixed period or not, is dissolved.

In order to avoid any difficulty that may arise in the future, partnership agreement should always be in writing. A deed of partnership is a protection against a good many future complications in the business and a prudent businessman should always be careful to avoid them.

Goodwill.

Besides the Deed of Partnership some other matters are to be understood in connection with partnership. One of them is the goodwill of the business. A goodwill may be *personal, local* or *monopolistic.* It may be in consequence of the popularity of the name of the goods or as a result of reputation of a firm or company or for business capacity and integrity of a businessman when the goodwill is *personal.* A goodwill may be due to the situation of the place of business when it is *local.* Goodwill arising out of monopoly, copyright, pioneering or patent right is *monopolistic.*

The business may be in a prosperous or declining condition and the goodwill of a business may therefore be worth something or worth nothing at all but it is an asset, whatever its value might be, built up by the proprietors and hence in case a partner retires or a new partner joins the firm it becomes necessary to compute the value of the goodwill of the firm at the time. This is a very uncertain asset, being always changeable according to the prosperity or adversity of the business carried on. Hence it is a difficult affair to compute its value. Many circumstances are to be taken into consideration for this purpose. It should always be a point to make some provision in the Deed of Partnership indicating the line on and the method in which this will be done in case any partner retires or dies. Sometimes various complicated methods involving many accounting processes are followed for the purpose. The method generally adopted is to insert a clause in the Deed of Partnership providing for either an arbitration in this respect or a settlement on the basis of average profits of the firm for a fixed number of years. Some other methods may also be provided for in the Deed, for this purpose. When a business is sold, the goodwill is transferred to the buyer, unless there is a contract providing for its retention by the seller or disposal in some other way.

The goodwill of a business is defined by Warrington J. in the following words :—

"The goodwill is the advantage, whatever it may be, which a person gets by continuing to carry on, and by being entitled to represent to the outside world, that he is carrying on a business which has been carried on for some time previously." The term is generally used to denote the benefit arising from connection and reputation.

The reader will understand from the above definition why a value is always attached to the goodwill of a firm. An out-going partner is therefore entitled to receive something, and a new partner is to pay something called a premium, in addition to the capital brought in by him, when the business is worth a goodwill. This premium is generally divided amongst the old partners according to their shares of profits in the business either for their private use or for use as their additional capital in the business. It is not to be confused with the original capital of the firm.

Dissolution of Partnership.

There may be a *partnership at will*, that is, partnership for an indeterminate period which may be dissolved at any time by notice. It may be dissolved with the consent of all the partners, at any time, in all cases. When the partnership is for a fixed term, it may be dissolved on expiration of that time; but a suit may be brought at any time by any of the partners, for dissolution, in the following circumstances :—

(a) Insanity or permanent incapacity of a partner.
(b) Adjudication as an insolvent of a partner, not being the partner suing,
(c) Legal transfer of the interest of a partner, not being the partner suing, to a third party.
(d) Incapacity of a partner to perform his part of the partnership contract.
(e) Gross misconduct of a partner other than the partner suing, towards the other partners or in the management of the affairs of the firm.
(f) The fact that the business can be carried on only at a loss.

The court may order dissolution in any of the above being proved. Death of a partner results in the dissolution of the firm unless there is some provision in the deed of partnership providing for some other arrangement. In case of such dissolution the surviving partners have the power to do every thing necessary for the winding up of the firm.

Losses and Assets after Dissolution.

On the dissolution of a partnership for whatever reason, all losses, as between the partners, shall be paid first out of profits, next out of capital and then, if necessary, out of the partners' personal assets in proportion in which they were entitled to share the profits.

All assets of the firm on dissolution including any sum contributed as above shall be applied in the following order :—

(a) Discharge of debts to outside creditors.
(b) Payment of losses or advances from the partners as distinguished from the capital.
(c) Rateable distribution of capital amongst the partners.
(d) Division amongst partners of the residue, if any, in proportion in which the profits are divisible.

If the assets be insufficient to meet the liabilities under (a), (b) and (c), the deficit must be made up by the partners from their private assets in proportion to their respective share of profits. When the firm becomes bankrupt. the claims of the outside creditors only are to be taken as liabilities against the firm.

Each partner, it should be mentioned here, has a right to have the partnership properties sold on dissolution. The general rule is that on the dissolution of a partnership, all the partnership properties shall be sold and the sale proceeds shall be applied first in discharging the debts and liabilities of the partnership. The balance, if any, shall be distributed amongst the partners in proportion to their capital as increased or diminished by any profit or loss.

Responsibility of Partners

Partners are jointly liable for every act done in the ordinary course of the firm's business by any partner, as each partner is an agent of the firm and of the other partners. This liability is unlimited and this is a great disadvantage of the partnership system. If a partner however goes out of the way and does something which is not in the line of business of the firm, without the consent of other partners, the firm will not be bound by his act and may repudiate it. For example, if a partner of a firm of building contractors makes a contract for forward sale of 500 bales of jute without the consent of the other partners, they will not be bound by it, but if the partner makes a contract to supply 5 lakhs of bricks in the name of the firm, without consulting his partners, they are bound by the contract. Hence inasmuch as the liability of a partner is *joint* and not *several*, a firm should be sued where necessary in its joint capacity, though summons may be served on its partners also at the same time. Every partner, however, is responsible for the whole of the partnership debt and a judgment obtained against a firm may be enforced against any of its partners.

When there is any change in the constitution of a firm by death, retirement, etc., of an old partner or the admission of a new one, the parties forming the new firm are to take over the liabilities of the old partnership and to obtain the express consent of the firm's creditors to the change. This arrangement of substitution of a new party in place of an old one is known as the " Novation " of a contract. If this is not done, then the new partner cannot be held liable for old partnership debts.

Firm's Name.

The name of the firm need not necessarily be the name having something to do with the names of the partners. It may be totally different from any of the names of the partners, who may do business in any assumed name of the firm. No one however can adopt a trade name already

used by any other, when such assumption amounts to deception. The law also forbids firms to include such words as "Royal," "Imperial," "King," etc., in their names without the consent of the Governor General-in-Council. In the United Kingdom no one can do business in an assumed name without registering his true name.

Partners of Different Classes.

All the partners do not always take active part in the business of the firm. There are partners who contribute capital to the firm but do not take any active part in its business. They are called *Sleeping or Dormant Partners* as opposed to *Active Partners*, that is, those who take an active share in the management of the business. There may be persons who do not contribute any capital or possess any interest in the business or enter into any formal agreement with the firm or work for it, but simply lend their names and credit to the firm for various reasons in such a way as to make the outsiders believe that they are partners. They are called *Ostensible* or *Nominal Partners* and are responsible for the debts of the firm to the outsiders they thus mislead. These persons are technically said to be "holding out" as partners.

Limited Partnership.

This class of partnership has not been provided for by the Indian Law. It is found in England where the English Law (Limited Partnership Act of 1907) has made provision for a Limited Partnership. Under its provision a person may, under certain conditions, become a partner in a firm and at the same time keep his liability limited to the extent of his actual contribution. Certain conditions are attached to a limited partnership, viz.,

(a) The Limited Partner must contribute a capital, no part of which he would draw out during his limited partnership. He has, however, the right to assign his shares with the consent of the general partners.

(b) He would not take part in the management of the business or act as agent of the firm, beyond giving advice. He may however inspect the books of the firm. If he takes part in the management of the business, he becomes liable as a general partner.

(c) There must be at least one other general partner, besides the limited partner, responsible for the debts of the firm.

(d) Such partnership must be registered with the Registrar of Joint Stock Companies, without which it shall be deemed to be a General Partnership. The fact that a partnership is limited need not, however, be mentioned in the firm's name or literature as is to be done in the case of joint stock companies, but the public has the right to inspect the register of such partnership in the office of the Registrar of Joint Stock Companies on payment of the prescribed fee.

Advantages of Limited Partnership.

From the nature of this partnership it will be seen that though the limited partner will share the profits of the firm, he will not be liable for the debts of the firm beyond the capital contributed by him and the partnership will not be dissolved by his death, bankruptcy or lunacy.

It is needless to note here that this form of partnership has been devised to help firms in obtaining capital from those persons who though willing to invest are unwilling to take the responsibility of a member of a partnership firm. Big financiers sometimes put capital into a firm and receive a return at a rate varying with the profits of the firm without being liable as general partners. The absence of this advantage in India deters many big capitalists to join firms doing very profitable business or having prospect of good profits, for fear of becoming liable for the debts of these firms to an indefinitely large amount. The operations of such firms therefore generally remain restricted for want

of more capital. The time has come when some legal provision in this respect relieving financiers of their responsibility beyond the amount contracted for should be made in this country.

QUESTIONS BEARING ON CHAPTER X.

1. What is the difference between Sole Traders and Partnership firms ? How is the business of each of them formed ?

2. Name the several classes of Business Organization which are now met with.

3. What are the chief characteristics of partnership business ?

4. Specify with reasons the principal clauses which should be included in a properly framed partnership agreement.

5. When there is no deed of partnership what are the provisions which will govern a partnership of this kind ?

6. Explain what is meant by goodwill in business and how the value of goodwill is computed.

7. How is the premium received by existing partners from a new comer for goodwill is disposed of ?

8. What is meant by partnership at will ? State the circumstances in which a suit may be brought for dissolution of partnership by any of the partners.

9. How and from what funds are the losses, if any, to be met on dissolution of partnership ? State the order of liability in such a case.

10. How are the assets of the firm after dissolution to be applied ? State the order of such application.

11. What is the general rule about disposal of partnership properties after dissolution ?

12. What is the extent of the responsibility of a partner for any act of the firm done in the ordinary course of business of the firm ? When does this responsibility of a partner become personal ? What is meant by 'novation" of contract ?

13. What is joint and several responsibility and what is the extent of liability of a partner for partnership debt ?

14. Is there any significance in assumption by a firm of a name different from the name of any of the partners ?

15. Explain the difference between Active partners, Sleeping partners and Ostensible partners.

16. Differentiate clearly between the Joint Hindu family organization and the partnership organization. In what line of business has the former been a success ?

17. You contemplate starting a business firm in partnership with others and are anxious to get a partnership deed prepared. On what points would you come to conclusions with a view to incorporate the same in the said agreement so as to avoid disputes and litigations ?

18. Discuss fully the rights and obligations of partners in partnership business.

19. What is a limited partnership ? Does it exist in India ?

20. What are the special advantages of a limited partnership ?

21. Mention the conditions which are attached to a limited partnership.

22. Who are generally the persons who would join a firm as limited partners ?

23. Do you think time has come for introduction of limited partnership system in India ? Give your reasons.

24. What safeguards can be adopted to make the working of a partnership smooth ?

25. What is limited partnership and where does it differ from an ordinary partnership ? How are the partnership assets applied in the event of dissolution of partnership ?

26. Write a short note on Good-will of a business.

CHAPTER XI.

ORGANIZATION OF BUSINESS CONCERNS.

(Continued).

JOINT STOCK COMPANY.

AS already noticed, besides partnership there is another important form of combination in business. This is called the Joint Stock Company. It has helped modern commerce and industry to such an extent that its usefulness can not be overstated. This form of business combination has afforded a great opportunity to the general public to have proprietary interest in big industrial and commercial undertakings with capital of crores of rupees, without incurring any responsibility beyond the extent of their holdings. Even the humble workman or the poor clerk can thus usefully employ his savings to acquire something like a partnership in most important business concerns of the day. It is not of course without its drawbacks, inasmuch as when the management is inefficient or dishonest, a disaster may come resulting in the loss of a part or the whole of the joint capital, the share-holders being almost helpless in the matter. But when properly guarded against dishonesty and mismanagement, a Joint Stock Company may generally be expected to give a satisfactory return to the investors in its shares.

Definition.

A Joint Stock Company may be defined as an association of a number of persons united for some specific business under a certificate of incorporation granted by the government authority and thereby formed into a body corporate having a legal entity, capable of holding property and contracting debts and having a separate existence from the persons composing it. These bodies are regarded as *legal*

persons or " artificial " persons and are not affected by the death, insanity or bankruptcy of the persons constituting them. A corporate body may consist of one person only when it is known as a *corporation sole*, as in the case of the King or a Bishop in England. When it consists of more than one person, it is a *corporation aggregate* with which we are concerned here.

The debts of a Joint Stock Company are not therefore to be considered to be the debts of its individual members.

Its Advantages.

The main advantage of a Joint Stock Company which is generally formed on the limited liability basis, is that no member of the company can be called upon to contribute any sum beyond the nominal value of the shares held by him, and in the case of failure of the company he can not be a loser by more than that nominal value in even an extreme case, while in a partnership business the liability of the members is unlimited and each partner is liable for the whole of the partnership debt. Another special advantage of a Joint Stock Company is the facility with which the shares of its members can be transferred to others, without dissolution of the concern, the organization being a legal entity with perpetual succession.

Its Importance.

Joint Stock Companies have effected revolutions in the industries and commerce of the world. All big concerns of importance and, as a matter of fact, all great public utility companies, such as Railways, Tramways, Electric Corporations, Telephone Syndicates, etc., are formed on joint stock system, as the huge capital required for such undertakings can be conveniently secured only by a combination of the resources of the investing public. However rich a capitalist may be, he can not be expected to command or risk a huge sum required for such big undertakings, but even the poorest can conveniently invest his small savings in the shares of these very big companies to the benefit of himself and his

country, without taking any risk beyond the face value of his holdings. The Joint Stock Company is therefore the order of the day.

How to Form a Joint Stock Company.

In India a Joint Stock Company may be incorporated in accordance with the provisions of the Indian Companies Act—a law expressly enacted for the guidance of such companies. To start with, it is necessary to file the following with the Registrar of Joint Stock Companies :—

(a) The Memorandum of Association.

(b) The Articles of Association, if any.

If Articles are not filed, then the regulations contained in Table A of the Indian Companies Act will be automatically taken to be the Articles of the Company.

(c) A notice giving the location of the registered office of the company.

(d) A letter of consent of the directors or the proposed directors to act as such.

(e) A list of persons who have consented to be directors.

(f) A declaration by an Advocate, Attorney or Pleader entitled to appear before a High Court, who is engaged in the formation of the company, or by Manager or Secretary of the company, of compliance with all the above requirements.

Detailed explanation of requirements (a) and (b) will be found hereafter. The requirements in (d) and (e) do not apply to a private company.

On receipt of the above, the Registrar registers the company and grants a certificate of incorporation and the company becomes a body corporate under the name given to it by the memorandum of association.

Registration and Classification.

Under the provision of the Indian Companies Act, partnership of more than twenty persons can not be formed for the object of making profits unless it is registered as a company under the Act, but if the object of the partnership

is to carry on banking business, then it must be registered as a company if it is a partnership of more than ten persons.

Joint Stock Companies are not always companies limited by shares. They may be limited by guarantee or unlimited. In the case of companies limited by guarantee each member undertakes to contribute a certain sum to the assets of the company in case of its liquidation during his membership and one year afterwards. He is not liable for more than this guaranteed amount. Such companies may or may not have capital divided into shares and are not generally trading companies.

In unlimited companies the liability of the members is unlimited and the position of the shareholders is virtually the same as in the case of ordinary *partnership.* Such companies are now practically non-existent.

Public and Private Companies.

There are two classes of companies in India—Public and private companies. Any seven or more persons may combine to form a public company by subscribing their names to the Memorandum of Association and to the Articles of Association, if any; but in the case of a private company only two or more persons can do so.

Where the shares of the company are issued to the public and no restriction is placed on their transfer, it is a public company and a private company is one which by its Articles,

(a) restricts the right of transfer of its shares.

(b) limits the number of its members to fifty excluding those persons who are in the service of the company.

(c) prohibits any invitation to the public to subscribe to its shares or debentures.

A private company has certain exemptions in respect of the obligations imposed on companies by the Indian Companies Act which also provides certain advantages and facilities for a private company. Principal amongst these are :—

Advantages of a Private Company.

(a) Only two persons may form a private company.
(b) It is not required to issue any prospectus or statement in lieu of prospectus before allotment of shares. It has no restriction on allotment of share or commencement of business.
(c) The provision of prohibition of voting by interested directors does not apply to a private company.
(d) The filing of its balance sheet or the statutory report is not necessary, nor a statutory meeting need be held.
(e) Unlike a partnership business, the death or retirement of a partner does not end the company or when it is a limited company the liabilities of its members can not exceed the nominal value of their individual shares.
(f) Filing of the consent of directors to act as such is unnecessary and there may be less than three directors or no director at all in such a company.
(g) Disposal of the whole or a part of the business of a private company is comparatively easier than that of a private partnership.

This class of companies is frequently met with where the business is confined to a family for convenience of future division of property or to a small group of persons combined to carry on business of various types, while keeping their liability limited.

Conversion of a Private Company into a Public One.

A private company may be converted into a public company by altering its Articles by a special resolution filed with the Registrar and by compliance with some other requirements, under sec. 154 of the Indian Companies Act. The Articles containing the restrictions on a private company regarding the transfer of its shares, invitation to the public for subscription and on the number of its members, must be altered in such a case removing the restrictions and

the altered Articles must be filed with the Registrar within fifteen days of such alteration. A prospectus or a statement in lieu of it should also be filed,—the former before any invitation is issued to the public to subscribe to its shares.

Memorandum of Association.

Explanations of the various documents and their purports, which are essential for the student in following the different stages of joint stock companies, are necessary to understand the more important matters of their shares and debentures and their utility and use. First of all may be mentioned the Memorandum of Association, which is the most important document under the Law for the formation of a Joint Stock Company. In fact, it is the charter of the Company in its relation to the outside world. In it must primarily be mentioned the objects for which the company is formed and no deviation from its terms will subsequently be allowed unless and until necessary alterations have been made in it by a complicated process of law. The memorandum of a company limited by shares is to contain in brief the following :—

(a) The name of the company with the word "Limited" at the end, if it is a limited company.
(b) The province in which the office of the company is to be situated.
(c) The objects for which the company is formed, that is, the nature of the business and enterprise to be undertaken by the company.
(d) That the liability of the members is limited.
(e) The amount of capital of the company and its division into shares of a fixed amount with power, if necessary, to divide them into shares of different classes, such as (1) Preference, (2) Ordinary, (3) Deferred, etc.

It is to be signed by at least seven persons in the case of a public company and at least two persons in the case of a private company and they are to state the numbers of

shares they agree to take up. Powers specified in the Memorandum of Association can not be exceeded by a company, hence it is necessary that provisions made in it should be very elaborate and comprehensive. Acts done by a company beyond the power specified in the memorandum are *ultra vires*, even if all the members of the Company consent to such acts. The memorandum can be altered or extended only by a special resolution confirmed by the Court and that only to a limited extent. Specimen memorandums will be found in the third schedule of the Indian Companies Act.

Articles of Association.

Next in importance are the Articles of Association. These are the regulations of the company for governing the internal management of the business. These are to be signed in the same manner as the Memorandum of Association and registered with it, failing which the regulations contained in Table A of the Indian Companies Act will be deemed to have been adopted by the Company. In the former it is necessary to include some of the provisions of the latter as mentioned in the Act, failing which they will automatically apply replacing corresponding provisions, if any. The regulations made by the Articles must not be in contravention of and inconsistent with the statutory provisions as laid down by the Indian Companies Act or the Memorandum of Association of the Company. The articles which may be called the by-laws of the company lay down the procedure to be followed in respect of voting by members, meetings and management, etc., and embody the powers of the directors and officers of the company. Any act done by the company in contravention of the provisions of the Articles of Association is invalid and may be set aside by a Court of law on a suit. Companies generally frame their own Articles or sometimes adopt the Articles in Table A with necessary additions, alterations and modifications.

When the articles have been signed by the signatories to the Memorandum of Association and registered with the

hundred and ninety days, then the directors will be liable jointly and severally to return it with interest at 7% *per annum*, from the day *after the expiration of one hundred and ninety days.*

When First Allotment Fails.

If the minimum number of shares stated in the prospectus is applied for and the amounts fixed by the prospectus are deposited with the applications within these one hundred and eighty days, then there is no difficulty in allotment : otherwise the money received with applications is returned and the operation of the company is suspended unless and until an opportune time comes and a second prospectus is issued mentioning the result of the first issue and inviting subscriptions again. The same provision then will again apply. This mention of the result of the previous issue of the prospectus is only necessary if the second or subsequent prospectus is issued within two years from such previous prospectus.

The above restrictions will have to be observed only in the case of the first allotment and will not be binding in the

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the opinion of the directors must be raised by the issue of capital in order to provide the sums or, if any part thereof is to be defrayed in other manner, the balance of the sum required to be provided in respect of the matters specified in sub-section (2) has been subscribed, and the sum of at least five per cent. thereof has been to or received in cash by the Company.

(2) The matters for which provision for the raising of a minimum amount of share capital must be made by the directors are the following namely:—

(a) the purchase price of any property purchased or to be purchased which is to be defrayed in whole or in part out of the proceeds of the issue.

(b) any preliminary expenses payable by the company and commission so payable to any person in consideration of his agreeing to subscribe for or of his procuring or agreeing to procure subscriptions for any shares in the company.

(c) the repayment of any moneys borrowed by the company in respect of any of the foregoing and

(d) working capital.

(2A) The amount referred to sub-section (1) as the amount stated in the prospectus shall be reckoned exclusively of any amount payable otherwise than in cash and is in this Act referred to as the minimum subscription.

case of a second or subsequent allotment. If however an allotment is made in contravention of the above provisions, it is voidable on an application made to the Court *within one month after the holding of the statutory meeting* or after *allotment* whichever may be later.

Commencement of Business.

After allotment a public company having a share capital can not commence business before certain preliminary requirements are complied with and before the Registrar grants a certificate for commencement of business after such compliance. These amongst others consist of a declaration by the secretary or one of the directors that the shares have been alloted to an amount not less than the minimum subscription, and that every director has paid in cash his dues to the company on shares taken or contracted to be taken by him, payable with application and on allotment, and also of filing of a statement in lieu of prospectus where no prospectus is issued.

Capital and its Classification.

The money received with the applications, on allotment and on subseqent calls, if any, (according to the instalments fixed by the prospectus) forms the paid-up capital of the company.

The total capital mentioned in the Memorandum of Association and registered with the Register of Joint Stock Companies is called the *authorised capital* or *registered share capital.* This is the maximum capital which a company is authorised to raise.

The whole of the authorised capital may not be required for business and hence sometimes a portion is offered to the public for subscription. The whole of the capital offered may not be subscribed. The portion which is actually subscribed by and alloted to the public is called the *issued* or *subscribed capital.* The part of the authorised capital not issued is called the *unissued capital.*

The directors may not require the whole amount of the subscribed capital at a time and therefore may call up such

amounts by stipulated instalments according to their requirements. The amount thus called up is termed the *called up capital* and the balance of the issued capital not called up is called the *uncalled capital.* Sometimes the company may determine by a special resolution that a portion of the uncalled capital shall not be capable of being called except in the event and for the purpose of winding up. Such portion of the uncalled capital is called the *reserve capital.*

The whole amount called up may not be received by the company on account of default by some share-holders. The actual amount received on alloted shares is called the *paid up capital* and the amount remaining unpaid is termed the *calls unpaid.*

A portion of the money thus received may be, and is generally, used for the purpose of meeting the expenses incidental to the formation of the company and for purchase of fixed assets. The amount sunk in fixed assets is called the *fixed capital* and the balance remaining in hand for carrying on the business is called the *working capital.*

It is not uncommon that sometimes a company when taking over an existing business pays a heavier sum to its proprietors for its goodwill, than is warranted by the circumstances of the case. The capital thus used has no tangible assets against it. Sometimes again a company, which is carrying on business successfully giving a high rate of dividend to the share-holders, issues bonus shares to them on the shares already held, thus inflating the capital to the extent of those bonus shares without actually adding to the assets of the company. This results in reduction of the rate of dividend and of the value of the shares in the market. The capital thus inflated in the above cases is called *watered capital.*

Dividend and Interest out of Capital.

Joint Stock Companies can declare a dividend only out of its profits made by its transactions. It has no power to pay any dividend out of the capital. The capital paid up

can not bear even any interest except in certain cases mentioned in Sec. 107 of the Indian Companies Act. These are :—

(a) Where any shares of a Company are issued for the purpose of raising money to defray the expenses of the construction of any works or buildings or the provision of any plant which can not be made profitable for a lengthened period ;
(b) Provided such payment is authorised by the Articles or by special resolution;
(c) And previous sanction of the Local Government has been obtained for such payment.

This payment of interest can be made only for such period as may be determined by the Local Government, such period not extending beyond the close of the half-year next after the half-year during which the works or buildings are completed or plant provided. Such interest in no case shall exceed 4% per annum and the payment of the interest shall not operate as a reduction of the amount paid up on the shares in respect of which it is paid. The accounts of the Company shall show the share capital on which and the rate at which this interest has been paid out of capital.

Assets and Their Classification.

The whole properties of a company including cash, outstanding book debts and goodwill are called the *assets* of the company. The assets of a company may be classified under two heads :

A company besides purchasing the plants and machinery, etc., required to carry on its business, keeps some cash in hand. Book-debts, stores and temporary investments, etc., intended to be converted into cash are also assets. All these taken together are called the *floating* or *circulating assets* of the company, which circulate and feed the company and keep it a going. Cash in hand is considered to be floating assets in as much as it is nothing but assets already realised.

In preparing balance sheets floating assets are taken at their market value or at cost, whichever is the lower. The

price at which these are purchased may not remain the same at the time of balancing the account at a later date ; they may depreciate or appreciate in value at that time. In the latter case, they are not shown at a higher value but ordinarily taken at their book value for a margin of safety.

The necessary tools, plants, machinery, buildings, roads, etc., etc., acquired by the company for the purpose of using them for the business and not intended to be converted into cash are called the *fixed assets*, as distinguished from the *circulating assets* of the company which are nothing but its working capital.

When balancing the account the fixed assets are taken at their cost price less a sum which is written off to the profit and loss account year by year, ordinarily calculated on the basis of an estimated probable period of life of the assets, for wear and tear, any estimated residual value being allowed for. The result is that after that period only the residual value, if any, remains on the books of the company.

Promoters.

In Europe and America there is a class of persons whose business it is to promote Joint Stock companies and they are believed to be experts in company flotation. To deal with the preliminaries of the formation of a company is a little complicated affair and these promoters being experienced in this matter have specialised in this line. They are generally believed to have an intimate knowledge of the investing public, which helps them to successfully place the shares of the company with the investors. For their remuneration for promoting the company they are paid from its funds. Most of the promoters have got detailed lists of investors with them. By approaching them directly and by advertisement in the Press they procure subscription to the shares of the company they promote. After the necessary capital is secured, they frequently make over the company to the directors for management.

In India there is no professional company promoter as such and Joint Stock Companies are ordinarily promoted

by the prospective directors one of whom is generally found to take the lead and to become the managing director, or by firms which become the managing agents of the companies. So, here any person bringing a company into existence by taking an active part in its formation is a promoter. He is in fiduciary relation to the company when obtaining any property for it and is bound to disclose his interest in such a transaction.

Managing Agents.

Managing agency system in India is traced to the time when companies floated in the United Kingdom for doing business here used to appoint some firms as their agents to manage their affairs in this country. At present some new or existing firms appoint themselves the managing agents of the companies floated by them and take such powers by the Articles, generally prepared by them or under their directions, as they think to be necessary and convenient for them. This managing agency system has its merits and drawbacks. They frequently advance large sums of money to the company at the time of necessity when it can not generally be had from the investors in shares or from any other source. Besides when they are firms, the services of at least one of their members always remain available to the company and hence the managing agents are never absent for being " sick or sorry " as is sometimes the case with the manager, secretary or the managing director. Moreover having promoted the company they generally feel for it and, unless greedy or dishonest, do not allow its interest to suffer for self-aggrandisement or other reasons.

On the other hand having assumed some extraordinary powers over the company, they frequently become uncontrollable for the directors who often turn to be almost puppets in their hands. They can appropriate a very substantial portion of the income of the company in the form of office allowance and receive a fixed percentage of the net annual profits subject to a minimum payment in the case of absence or inadequacy of profits. Their position, in this

respect was better under the old order of things and they took advantage of it, under the arrangement made in the Articles. It must, however, be admitted that but for this managing agency system many of the prosperous companies in this country would not have at all been floated or have attained their present position.* The maximum duration of appointment of the managing agent is now 20 years at one time under the Act of 1936, but for those appointed before the commencement of the Act, the maximum term is 20 years from such commencement and their stipulated remuneration also remains intact. No managing agency is permitted to Banking and Insurance Companies and their existing managing agencies automatically terminated after two and three years from the commencement of the Indian Companies Act of 1936 and the Insurance Companies Act of 1937 respectively.

Underwriters and Their Commission.

Another class of persons of no mean importance are those financial agents—called underwriters—who some-

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* The following notes in the Companies Act of 1936 edited by Messrs. N. K. Mazumdar and R. N. Mazumdar will be interesting to the readers in this respect:—

There are two opposite views regarding the managing agency system. The managing agents claim that they possess brains, initiative and executive abilities, and control over funds, and no individual shareholders possesses these characteristics; the shareholders are more investors, and they ought to be satisfied if they get a good return from their investment, and a good return means a dividend at perhaps a slightly higher rate than the ruling market rate of interest. The managing agents *apprehend* that, when they have done the pioneering work and brought the company to a profit-earning and dividend-paying stage, they may be driven out of their office by a clique of intriguing shareholders, unless their position has been safeguarded by an Agreement and by the Articles of the company.

Shareholders, on the other hand, claim that they are not mere investors but they are the proprietors of the business, and therefore masters, and the directors and the managing agents are their servants. The masters have always the right of judging their servants by their actions, and of replacing them, if found inefficient, by more capable executives. They are supported in this view by the enactments, past and present, and the practice obtaining from the middle of the nineteenth century (when the first Companies Act was passed), if not earlier. They also contend that the managing agency system has led to many abuses.

times take up a whole block of a new issue of shares of a Joint Stock Company. They guarantee subscribers for the whole block taken up by them and in case they fail to procure subscribers for the shares, they themselves must hold the shares or the balance of shares remaining unsubscribed. The underwriters receive a commission for the whole shares for which they guarantee subscribers.

In India the practice of underwriting shares is growing apace and there are big financial houses which are ready to take up very big block of shares in a Joint Stock Company of repute, though the tendency of the financiers in this respect is showing some slackness on account of the economic slump after the early twenties. The share market in India is not very brisk now-a-days and the underwriting business therefore, except in certain cases, can not be said to be very promising.

Underwriting in a way is an insurance against failure of a flotation for lack of public support, for through it the company becomes sure of its necessary capital at the start without having to depend on the response of the investing public, and the connection of a big financial house as underwriters of a company infuses confidence in the public to take up its shares. The commission paid to the underwriters need therefore not be considered as an unwarrantable charge on the funds of the company.

It is to be mentioned in this connection that no commission can be paid to underwriters or agents procuring subscriptions to the shares, unless power to make such payment is taken by the Articles and the maximum rate of commission to be paid is mentioned in them and disclosed in the prospectus. This point is to be specially noted by the floaters of joint stock companies when preparing their Articles and Prospectuses.

Directors and Their Liability.

The Joint Stock Companies are managed by the directors, provisions for whose appointment are, as a rule, made in the Articles of Association subject to the statutory

provisions in this respect. Under the Indian Companies Act a public company must have at least three directors. Directors are necessary to manage a company because the share-holders, sometimes numbering a few thousands, have not, as a matter of course, the right to take part in its management. It is to be noted that in a partnership concern all the partners have equal rights in the management of their business unless otherwise settled. This is not the case in a Joint Stock Company, which therefore is managed by the duly authorised representatives of the share-holders and of others interested in the company, termed the Directors, who form themselves into a Board and appoint such officers as may be necessary for proper management of the business. Officers may also be appointed by naming them in the Articles.

How They Are Appointed.

The first directors are usually appointed by the subscribers to the Memorandum, but they may be appointed otherwise, for instance by naming them in the Articles of Association. In case no directors are appointed, the subscribers to the Memorandum of Association are deemed to be the directors until the share-holders formally appoint them.

Under the provisions of the Indian Companies Act, a person can not be named as a director or a proposed director of a public company in the Articles or in the prospectus or in the Statement in lieu of a prospectus unless before the registration of the Articles or the filing of the prospectus, he has signed himself or by his agent authorised in writing and filed with the Registrar of Joint Stock Companies, a consent in writing to act as such director and either signed the Memorandum for a number of shares not less than his qualification shares (if any), or signed and filed with the Registrar a contract in writing to take from the Company and pay for his qualification shares (if any), or made and filed with the Registrar an affidavit to the effect that a number of shares, not less than his

qualification (if any), are registered in his name. It is not however obligatory for a director to be a shareholder of the company unless it is made so by the Articles and the law allows appointment as directors of persons without share qualification.

These provisions, however, do not apply to a Private Company or to a prospectus issued by a company one year after the date on which it is entitled to commence business, when any one having the necessary qualification, if any, according to the Articles of Association or who may consent to acquire the necessary share qualification within two months may be appointed or elected as a director. When a director sits on the Board on the strength of the contract above mentioned or afterwards when no contract is necessary, but fails to acquire his qualification within two months from the date of his appointment, he automatically ceases to be a director, and can not be re-elected or reappointed before he acquires the necessary qualification. When a company is under the management of a firm, at least one member of it is generally allowed by the Articles to sit on the Board no matter if he holds the qualification shares (or any share) or not. But the directors appointed by the managing agents cannot exceed one-third of the total number of directors in any case.

Number, Remuneration, Retirement and Power of Directors.

The maximum and the minimum (not less than three) number of directors is fixed by the Articles. The remuneration of the directors is also generally fixed by the Articles and mentioned in the prospectus. If this is not done they can not draw any remuneration from the company for their services unless and until the share-holders in a meeting settle a remuneration for them.

The first directors thus appointed retire all at one time or by rotation in a certain proportion, according to the provisions made in the Articles provided that in the case of a public company, notwithstanding anything contained

in the Articles, not less than two-thirds of the total number of directors shall be liable to retirement by rotation. The share-holders elect directors for these vacancies at the annual general meeting. If any vacancy occurs in the interval the directors themselves are generally authorised by the Articles to fill up the vacancy by appointing a director to hold office for the unexpired portion of the term of the director whose place falls vacant. All the provisions about election or appointment of directors, managing directors, committees of directors, etc., are always made in the Articles and the company is bound to follow them in all cases.

The powers of the directors are also defined by the Articles and they can not exercise any power in excess of what is given to them therein. If they do anything which they are not authorised by the Articles to do, such acts are invalid. The directors are to exercise their power through resolutions passed in the meetings of the Board convened according to the provisions in the Articles.

Directors may be liable for wrongful acts done in their capacity as directors, specially to the share-holders misled by their false statements in the prospectus to subscribe to the shares of the company, though there are certain statutory defences to action in this respect.

Meeting of Directors.

A quorum of directors as provided for by the Articles must be present in a Board meeting for transacting business. They can not act individually unless any particular director or a committee of directors is empowered by the Board to do any particular act. The principle underlying the restriction is plain, which is that no business ought to be transacted unless the matter has been fully discussed by the directors in a meeting.

It is doubtful if a resolution written by the secretary or the managing agents or any particular director and circulated and signed by all the directors, even if such a procedure is provided for by the Articles, is a valid resolu-

tion, as the discussion contemplated in a Board's meeting is not held in such a case and according to a great legal authority of England (Frej L. J. in Portuguese Copper Mines, 42 Ch. D. 160 of 1889) "Without a meeting the directors can not think." This provision of the law requiring a meeting of the Board is a very salutary one inasmuch as a correct decision is more likely when there has been a regular discussion and exchange of views amongst those who are entrusted with the task of deciding a question. Delegation of powers to a committee which may consist even of one director is permissible only when it is provided for in the Articles, but in such cases the directors retain their power over such a committee.

Application, Allotment and Call.

After the prospectus is issued by the directors inviting the public to subscribe to the shares of the company, applications, termed *letters of application* are generally received from the investing public with the money to be deposited with such applications, according to the terms of the prospectus. This application money can not be less than five per cent. of the face value of shares applied for. If the necessary minimum amount for allotment is received within one hundred and eighty days, in the case of first allotment, from the date of issue of the prospectus, shares are alloted to the applicants by the directors, as already explained, either in full or for any less amount according to the circumstances of the case. The directors are not bound to allot shares to any person and they may refuse to allot any share to an individual without assigning any cause. When the shares of a company are over-subscribed, the directors can not allot the shares for the full amount of the applications and many applicants are refused allotment altogether, in which case the moneys received with the applications are returned, but when allotments are made for less number of shares than what was applied for, the balance of the application money is generally retained against the payment on allotment.

Prior to the date of allotment the applicants may revoke their applications and receive back their money, but as soon as the allotment has been made and the letter of allotment—which from a legal stand point is acceptance of an offer contained in the application and as such stamped two annas--has been posted, the contract is complete and the applicant can not repudiate the allotment and obtain return of the money, except for special reasons, such as fraud, misrepresentation, etc., to be proved in a Court of law, and for variation from the term of the letter of application on the part of the company that can be considered to be a counter offer which the applicant may accept or reject. An application form is generally attached to the prospectus or a separate form is sent with it. The intending share-holder fills up and sends it to the company's office or its bankers according to the arrangement made. When no allotment is made in favour of any applicant, a letter is usually sent to him expressing regret, which is called the *letter of regret.*

When allotment has been made a Return is to be filed with the Registrar of Joint Stock Companies in a prescribed form, *within one month from the date of allotment.* This provision is to be followed not only in the first allotment but in all subsequent allotments.

After allotment, calls are generally made on the shares, if and when necessary, in terms of the prospectus, for which letters are issued by the company to the allotees, which are called the *call notices.*

Forfeiture.

When the amounts due on allotment or on calls are not paid by the share-holders on or before the date fixed by the directors, generally a reminder is sent extending the time for payment and frequently charging an interest. The shares of the defaulting member are liable to be forfeited to the company and then they are actually forfeited after due notice, the money already paid on them is appropriated to the company's own use and he ceases to be

a member of the company, but his liability in respect of the shares continues and he may be sued for any amount remaining unpaid on allotment or calls. The company may also sue without forfeiting the shares of a member to enforce payment of arrears on this account.

The forfeited shares may be re-issued to some body else for the outstanding calls of the shares or for a higher amount as may be agreed upon, in which case the liability of the defaulting share-holders ceases. The directors can however annul the forfeiture before such re-issue. Elaborate provisions are always made in the Articles about the procedure for forfeiture of shares which must be strictly complied with.

Preliminary Expenses.

Under provisions of the Act the amount of estimated preliminary expenses is to be disclosed in the prospectus of the company. It is difficult to ascertain which of the items are to be taken as preliminary expenses and up to what time of the life of a company they will be charged; but generally speaking the expenses incurred under the following heads may be considered to embrace these items :—

(a) Stamp duty and registration fees for incorporation of the company.
(b) Legal fees and stamp charges on documents to acquire properties, if any.
(c) Charges for printing and advertisement necessary to start the company.
(d) Stamps for allotment letters, share certificates and other documents.
(e) Stamps and stationeries and other charges including establishment charge incidental to the floatation of the company.

The above expenses incurred up to the time of commencement of business are ordinarily debited to the preliminary expenses account and the expenses incurred after the certificate for commencement of business is obtained

from the Registrar of Joint Stock Companies, are generally regarded as revenue expenditure. As a rule these preliminary expenses are written off to the Profit and Loss account in a number of years in the beginning of a company's life and they are thus obliterated from its Capital account.

Books and Files.

Under the Indian Companies Act, a Joint Stock Company, in addition to some important books and files for convenience of reference, is required to keep the following books and registers called *statutory books and registers* :—

(a) Register of members containing in a separate part of it the annual list of members and summary of capital and shares under sec. 32 of the Act.
(b) The Index of members.
(c) Register of transfer of shares.
(d) British register of members.
(e) Minute book for directors' meetings and general meetings.
(f) Register of directors, managers and managing agents.
(g) Register of contracts in which directors are interested.
(h) Register of mortgages and charges.
(i) Register of debenture holders.
(j) Account books, under sec. 130 of the Act.

NECESSARY MEETINGS OF COMPANIES.

Statutory Meeting.

As already stated the business of a Joint Stock Company can be started when a certificate for commencement of business has been obtained. Within a period of not less than one month nor more than six months from the date of this certificate a general meeting of the share-holders of the company, called the *statutory meeting*, must be held.

A report, called the *statutory report*, shall be prepared by the directors signed by at least two of them or by the chairman of the Board if authorised in this behalf by the directors, and shall be sent to all share-holders and others entitled to receive it, at least 21 days before the date fixed for the statutory meeting, to give them an idea of what the new company is doing and of the matters to be discussed in the meeting. The directors shall also file a copy of this report with the Register forthwith after they are sent to the share-holders and others. This report prepared under Sec. 77 of the Companies Act, shall contain in brief :—

(a) The total number of shares allotted for different considerations with the particulars as to such consideration.

(b) The total amount of cash received on shares, with particulars.

(c) An abstract of the cash received and disbursed and the balance in hand, if any.

The above three items to be certified by the auditor, if any, of the company.

(d) The names, addresses and descriptions of the directors, managing agents and managers, if any, and secretary and also of auditors of the company and changes in them, if any.

(e) The particulars of any contract entered into by the company, or its modification, if any.

(f) The extent to which underwriting contracts, if any, have been carried out.

(g) The arrears, if any, due on calls from directors, managing agents and managers; and

(h) The particulars of any commission or brokerage paid or to be paid to any director, managing agent or manager.

A specimen statutory report is given at the end of this chapter.

Ordinary and Extraordinary General Meetings.

The company shall hold a general meeting other than the *statutory meeting*, at some date not later than 18

months after the incorporation of the company and subsequently once at least in every calendar year and not more than 15 months after the date of the preceding meeting, in which only the *ordinary business* of the company, namely, election of directors, appointment of auditors, declaration of dividend, consideration of audited accounts and directors' report and any matter arising out of these documents, should be transacted, unless any *special business*, that is, business other than these, is brought before the meeting by previous notice duly given. Any other general meeting held for any other business is called *extraordinary general meeting.* All these general meetings are conducted according to the provisions made in the Articles subject to restrictions imposed by Sec. 79 of the Act. Any proceeding in contravention of these provisions is void in law.

A quorum, meaning a fixed minimum number of members who must be present in the meeting for valid transaction of business, is fixed for all meetings by the Articles, without which the meeting becomes ineffectual. Attendance by proxy is not counted to form a quorum. Votes may be by show of hands or by poll. In the former case each member present in person or by proxy is allowed one vote, but in the latter he is allowed as many votes as he is entitled to under the Articles, besides those of the persons whom he represents as proxy.

Balance Sheet and Auditors' and Directors' Reports.

Every year before the holding of the general meeting the directors shall cause the accounts of the company to be balanced and a balance sheet to be prepared in a prescribed form together with a profit and loss account made up to a date not earlier than the date of the meeting by more than 9 months, and to have them duly audited and signed by its auditors. A copy of the balance sheet is to be sent to the registered address of each member of the company at least fourteen days before the general meeting at which it is to be laid before the members and a copy is to be deposited at the registered office of the company for inspeotion of members during that period. Auditors are

entitled to attend the general meeting in which accounts are laid and to make statements or offer explanations respecting such accounts.

The members have the right at this general meeting not to adopt this balance sheet, as is clear from Sec. 134 (2) of the Indian Companies Act. Under the same Section, in case of non-adoption of the balance sheet by the general meeting, "a statement of that fact and of the reason therefor shall be annexed to the balance sheet and to the copy" required to be filed. But this does not seem to affect the balance sheet as the law does not authorise any body to reject or revise the balance sheet (or any part of it) prepared and signed by the directors according to law. It stands unalterable and its non-adoption by the share-holders in the general meeting cannot legally take away its validity or absolve the company from any responsibility undertaken by it, in any way. But as the law has given the share-holders power not to adopt the balance sheet and thus to show their disapproval of the acts of the directors, though the exercise of this power has nothing but a moral effect so far as *that* balance sheet is concerned it has admitted their supreme controlling authority in this respect. The Registrar can not interfere in this matter of adoption of the balance sheet in any way.

After the balance sheet has been laid before the company at the general meeting a copy thereof signed by the manager or secretary shall be filed with the Registrar with the copy of annual list of members and summary under Sec. 32 of the Indian Companies Act.

The directors shall submit a report to the shareholders of the company with the balance sheet, stating its general position and prospect and the amount, if any, which they recommend should be paid by way of dividend or carried to Reserve funds, &c. The report may be signed by the chairman of the directors if authorised by them in this behalf. The report is also discussed by the share-holders along with the balance sheet, in their meeting. A specimen directors' report is given at the end of the chapter.

Extraordinary and Special Resolutions.

The general meetings (as well as the directors' meetings) act through resolutions. Resolutions passed by a majority of share-holders present, personally or by proxy, are called *ordinary resolutions*, but for some purposes *extraordinary* or *special* resolutions are necessary under the provisions of the Companies Act. An *extraordinary resolution* requires previous notice to propose it as such and three-fourths of the votes of the members present personally or by proxy for its adoption. A resolution shall be *special resolution* when it has been passed by such a majority as is required for passing of an *extraordinary* resolution and at a general meeting of which not less than 21 days' notice specifying the intention to propose the resolution as a special resolution has been duly given. The requirements of these resolutions for the purpose of transacting some important items of business have been specifically mentioned in the Companies Act.

Proxy.

Voting by proxy is allowed by companies and with the notice of meetings proxy forms are generally sent to the members to be filled up, stamped two annas and returned. A proxy is required to be a member of the company himself. The proxy can vote for the member he represents but he is not taken into account as such to form a quorum. The proxy form is to reach the office of the company at least 72 hours before the time of the meeting. General provisions about all public meetings including company meetings will be found in the chapter on Meetings and Secretarial Practice.

Summary.

Let us now summarise in a tabular form, the various forms of Business Organizations discussed in these two chapters. We have not taken any special notice of the unlimited company as it is practically non-existent. Companies may be limited by shares or by guarantee, the latter

being generally for other purposes than making profits. The following table will show the constitution, special features and difference from each other of these business organizations. After it are given some important documents and forms used by companies for different purposes.

TABLE OF DIFFERENT FORMS OF BUSINESS ORGANIZATION.

NO.	SOLE TRADER	PARTNERSHIP	LIMITED PARTNERSHIP	PUBLIC LIMITED COMPANY	PRIVATE LIMITED COMPANY	UNLIMITED COMPANY
1.	Only one person is the proprietor.	2 to 20 partners, but in a banking concern 2 to 10 partners.	1 to 20 general partners, but in a banking concern 1 to 10 partners, and one or more limited partners.	At least 7 members.	2 to 50 members (excluding employees).	Same as a limited company.
2.	Proprietor is personally liable for all debts of business.	All partners are jointly and severally responsible for the full amount of debts of the firm.	General partners liable without limitation but the limited partners are liable to the extent of their contributions.	Liability of the members is limited to the extent of the nominal amount of their shares.	The same as in the case of public limited company.	Same as in the case of ordinary partnership.
3.	The proprietor may sell off the business at any time.	Shares are not transferable.	A limited partner may transfer his share with the consent of the general partners.	Share freely transferable.	Restriction on the transfer of shares.	Same as in the case of ordinary partnership.
4.	Audit of accounts optional.	Audit of accounts optional.	Audit of accounts optional.	Audit of accounts is compulsory.	Audit of accounts is compulsory.	Ditto.
5.	Proprietor finds the capital.	Partners bring the capital.	Both the general and limited partners find the capital.	The public may be invited to subscribe the share capital.	The public can not be invited to subscribe the share capital.	Ditto.
6.	Annual balance sheet not compulsory.	Annual balance sheet not compulsory.	Annual balance sheet not compulsory.	Making and filing of annual balance sheet compulsory.	Making of annual balance sheet compulsory but filing is not necessary.	Ditto.

A PROSPECTUS.

Incorporated under the Indian Companies Act (VII of 1913) as amended by the Indian Companies (Amendment) Act, 1936.

A copy of this Prospectus has been filed with the Registrar, Joint Stock Companies, Bihar (India), London and Rangoon (Burma).

DALMIA CEMENT LTD.

SUBSCRIPTION LIST WILL OPEN ON 1st JUNE, 1937 AND CLOSE ON 8th JUNE, 1937.

Application money may be deposited with the Imperial Bank of India, Bank of Bihar, Ltd., Punjab National Bank Ltd., Central Bank of India Ltd., Bank of Baroda Ltd., and all their Branches and Imperial Bank of India, London.

Authorised Capital :—Rs. 5,00,00,000 (Rs. 5 Crores).

Divided into 2,40,000 Preference Shares of Rs. 100 each, 25,00,000 Ordinary Shares of Rs. 10 each, and 10,00,090. Deferred Shares of Re. 1 each.

Issued Capital :—Rs. 1,00,00,000, (Rs. 1 Crore).

Divided into 35,000 Preference Shares of Rs. 100 each, Rs. 35 Lacs, 6,00,000 Ordinary Shares of Rs. 10 each, Rs. 60 Lacs, 5,00,000 Deferred Shares of Re. 1 each, Rs. 5 Lacs.

OF THE FIRST ISSUE : Shares of the value of 50 lacs have already been subscribed by and allotted to the Directors, Managing Agents and their friends.

OF THE SECOND ISSUE : Shares of the value of Rs. 50 lacs have been underwritten by Messrs. Place, Siddons & Gough.

Of the above 15,000 Preference Shares of Rs. 100 each 3,15,000 Ordinary Shares of Rs. 10 each and 3,50,000 Deferred shares of Re. 1 each of the *total value of Rs.* 50,00,000 (*Fifty lacs*) *have already been subscribed by and allotted to the Directors, the Managing Agents and their friends* and 5 p.c. (being the amount payable on application and allotment), has already been paid and 45 p.c., will be called simultaneously with allotment of proposed issue. The remaining shares of the total value of Rs. 50,00,000 (Fifty lacs), namely 20,000 Preference Shares

of Rs. 100 each, 2,85,000 Ordinary Shares of Rs. 10 each and 1,50,000 Deferred Shares of Re. 1 each are hereby offered to the public for subscription at Rs. 10-1, Rs. 10-4 and Re. 1-4 respectively payable as follows:—

.....	On application	On allotment.
Ordinary Shares	Rs. 2-8	Rs. 2-12
Preference Shares	Rs. 25-0	Rs. 26-0
Deferred Shares	Full amount, viz.,	Re. 1-4

and the balance on Ordinary and Preference Shares as and when the Directors choose to call but at intervals of not less than two months.

The whole of the share capital hereby offered to the public has been underwritten by Messrs. Place, Siddons & Gough of Calcutta, in consideration of a commission of 1 per cent. on Preference Shares, 2½ per cent. on Ordinary and Rs. 2-8 per 100 Deferred Shares. In the opinion of the Directors the resources of the Underwriters are sufficient to discharge the underwriting obligations.

Preference Shares shall confer on the holders the right to a fixed cumulative preferential dividend at the rate of 6 per cent. per annum (income-tax free), on the capital for the time being paid up. They will rank both as regards dividend and claim on capital in priority to Ordinary and Deferred Shares. They will participate in dividend at 7 p.c. in the event of a dividend above 10 p.c. being declared on Ordinary Shares and will be entitled to 7½ p.c. in case of dividend at 20 p.c. and above being paid on Ordinary Shares and also to an additional ½ p.c., rising up to 9 p.c. along with every 10 p.c, further rise in the dividend on Ordinary Shares, but will have no further rights to participate in the profits or assets.

Deferred Shares will not participate in dividend unless a dividend of 10 p.c. is declared on the Ordinary Share Capital for the time being paid up. When in any year dividend is declared at 10 p.c. or above on the Ordinary Share Capital, holders of both Ordinary and Deferred Shares will be simultaneously entitled to dividend at the same rate up to 17½ p.c. of the Ordinary and Deferred Share Capital for the time being paid up and of any surplus amount available for distribution one half will be paid to holders of Ordinary Shares and the other half to holders of Deferred Shares.

On winding up, Ordinary Shareholders will have a prior claim over Deferred Shareholders on the amount of the face value of their shares to the extent they are paid up. The remaining assets after payment of Deferred Share Capital will be divided half and half between Ordinary and Deferred Shareholders.

DIRECTORS.

SETH RAMKRISHNA DALMIA *Chairman*, 7, Narain Babu Lane, Calcutta.
The Rt. Hon'ble LORD RONALDSHAY, Airport, Portsmouth, England.
Raja Sir BRIJ NATH SINGH, K.C.I.E., Ruler of Maihar.
Sir WALTER CRADDOCK of Messrs. Siddons & Gough, Calcutta.
Sir DOUGLAS STEWART, Baronet, Patna.

Mr. ALOIS MIED, Director, Veland Handed Mantschappij (Veland Trading Society Ltd.), Copper Mine Owner, Rouner Visscherstraat, 23, Amsterdam (Holland).

Mr. GOBINDLAL BANGUR of Messrs. Mugneeram Bangur & Co., Stock Exchange Brokers and Dealers and Bankers, 7, Lyons Range, Calcutta.

Mr. DWARKADAS JHUNJHUNWALA of Messrs. Chimanram Motilal, Mill Owners & Bullion Merchants, Bombay.

Seth JAIDAYAL DALMIA, Director, Rohtas Industries, Limited, Dehri.

Mr. SHANTI PRASAD JAIN, Director, Bharat Insurance Co., Ltd., and Rohtas Industries Ltd., Dehri.

Mr. JHABARMAL CHOKHANI, Merchant, Bihta.

AUDITORS.

Messrs. BATLIBOI & PUROHIT (Incorporated Accounts, London), Registered Accountants, Calcutta.

SOLICITORS.

Messrs. KHAITAN & CO., Calcutta.

BANKERS.

THE IMPERIAL BANK OF INDIA.
THE BANK OF BEHAR, LIMITED.
THE PUNJAB NATIONAL BANK, LIMITED.
THE CENTRAL BANK OF INDIA, LIMITED.
THE BANK OF BARODA, LIMITED.

MANAGING AGENTS.

Messrs. DALMIA JAIN & Co., Ltd., P. O. Dehri Sugar Mill,

REGISTERED OFFICE.

P. O. DEHRI SUGAR MILL, DEHRI-ON-SONE, E. I. RAILWAY (SHAHABAD).

BROKERS.

Messrs. PLACE SIDDONS & GOUGH, Calcutta.
Messrs. JIVATLAL PURTAPSHI, Bombay.
Messrs. J. R. PILANI & CO,, Madras,
Messrs. INDIAN BROKERS Ltd., Madras.

PROSPECTUS.

OBJECTS.—The Company has been formed specially for manufacturing and dealing in cement and generally for the purpose and objects set out in the Memorandum of Association.

PROSPECT.—It is well known that the consumption of cement is fast increasing. The fact that the Merger (the Associated Cement Companies Ltd.) is increasing its number of factories is also indicative of the scope for further consumption of cement. The Directors contemplate erecting factories at Karachi. Delhi, Lahore, Maihar (C.I.), Assam or any other place or places. Karachi, Delhi and Lahore are very large centres of consumption and it is expected that large quantities of cement would be locally absorbed at these places and thus a great saving will be effected. At present no cement factory is located in any capital city of India. The proposed factory at Karachi like the cement factory of Rohtas Industries Ltd., will be the biggest single unit factory in India with a capacity of 500 tons. Some of the machineries indented for the Karachi factory have already arrived there and it is expected that this factory will be ready before the end of this year and others will be ready by the beginning of 1938. The factory at Karachi will afford facilities for the transport of cement by sea to major ports like Calcutta, Bombay, Madras Rangoon and other parts at a very low cost. The different markets served by these ports will be accessible by rail.

To ensure supply of electrical energy at cheap rate, the Directors contemplate obtaining supply at Lahore and Delhi from the existing electric companies. This course will substantially lessen the expenditure under machinery block account.

Due to the scarcity of, and rise in price of steel reinforced cement concrete is replacing steel in building and bridge construction. Reduction in prices will generally stimulate the consumption of cement and cheaper supply will save for consumers crores of rupees. It will be the effort of the Directors to lower prices so as to make it cheaper for the Government, Municipalities, and District Boards to lay out and maintain concrete roads which will be superior to the present metalled roads and will last much longer. At the Road Congress recently held at Lucknow and opened by His Excellency the Governor of U.P., the prospects of cheap supply of cement were put forward, with the concurrence of the promoters, by Mr. A. K. Datta, delegate of the Bengal Government (the well-known concrete patentee, under whose supervision the factories are proposed to be erected). The Congress received with enthusiasm the advent of the era of cheap supply of cement to foster developed of concrete reads and which in the result would increase the consumption of cement in large quantities. The Directors consider that the company in co-operation with other sister concerns will be able to supply cement to almost all parts of India. At present cement is being sold at Rs. 40 to Rs. 60 per ton delivery at destination. The Directors expect to produce annually about 425,000 tons of cement through this concern and about 1½ lakhs tons will be produced at Dehri-on-Sone by the sister concern, Rohtas Industries Ltd. Calculating on the basis of the present prevailing rates, the margin of profit is very high. Even on the basis of considerably reduced prices and after taking into account all expenses, commission, depreciation, income-tax, etc., the estimated profits calculated on the basis of even a margin of Rs. 5 per ton will be in the neighbourhood of Rs. 20 lakhs. At anything near this figure, a very handsome dividend on all classes of shares is assured.

Chart showing how profit will be distributed as dividend:—

Amount available for distribution.	Rate of dividend to be declared On Pref. 35,00,000.	On Ord. 60,00,000.	On Def. 5,00,000.
If it be Rs. 2,10,000	6 per cent	Nil.	Nil.
,, Rs. 7,50,000	6 ,,	9 per cent.	Nil.
,, Rs. 8,95,000	7 ,,	10 ,,	10 per cent.
,, Rs. 12,20,000	7 ,,	15 ,,	15 ,,
,, Rs. 13,82,000	7 ,,	17½ ,,	17½ ,,
,, Rs. 17,00,000	7½ ,,	20 ,,	47½ ,,
,, Rs. 20,00,000	7½ ,,	22½ ,,	77½ ,,

The machineries of some of the existing cement factories are far from up to date. This results in increased fuel consumption and manufacturing costs run high.

It is said that the Merger ('Associated Cement Companies Ltd.), has taken some of the old factories at their yield value, i.e., value based upon the profits and not upon their intrinsic value. Assuming a basis similar to that adopted by the Merger, the value of a factory of the size of the Karachi factory only should be about Rs. 1 crore. which is much more than double the estimated total cost of that factory. Consequently the Merger has to provide a comparatively larger sum for depreciation per ton of cement produced. Notwithstanding this fact. the shares of the cement Merger of Rs. 100 have appreciated to Rs. 160.

The price of Burma Cement shares—a new company—has gone up from Rs. 10 to about Rs. 20 and of the very recently floated Rs. 20 shares of Andhra Cement, which has a small manufacturing capacity, are said to be quoted at about Rs. 25.

Due to high margin of profits there has been a spectacular rise in prices of all shares of almost all the Cement Companies:

	Face value. Rs.		Present market quotation. Rs.	
Shahabad Cement Shares	100	above	500	
Katni Ordinary ,,	100	,,	400	
Katni Deferred ,,	40	,,	2,50	(above 60 times the face value).
Okha ,,	75	,,	300	
Bundi ,,	10	,,	40	
Indian Cement ,,	160	,,	500	

The Directors think that the erection of a factory of a capacity of 100 tons is uneconomical except in special cases, both as regards initial expenses and

The Directors wish to discourage speculative purchase by the applicants. They desire that only *bonafide* investors should apply for these shares.

ALLOTMENT OF SHARES.

The Directors will favourably consider applications from persons who are shareholders of Rohtas Industries Ltd. South Behar Sugar Mills Ltd., Shree Krishna Gyanoday Sugar Ltd., Bharat Insurance Company, Ltd., and also applications for both Preference and Ordinary Shares irrespective of the number of shares of each kind applied for. It is not necessary, however, to apply for an equal number of shares of each kind and applicants desiring to acquire a large number of shares of a particular kind may so apply.

Deferred Shares wiill be allotted only to those who apply for both Preference and Ordinary Shares.

The discretion of the Directors in the matter of allotment will be final.

VOTING RIGHTS.

On a show of hands every holder of Deferred or Ordinary Shares present in person or proxy shall have one vote and upon a poll every shareholder present in person or proxy shall have one vote for every Ordinary and Deferred Share held by him.

Cumulative Preference Shares confer the right to receive notice of vote at General Meetings only when the dividend on such shares is in arrear for twelve calendar months or when any resolution is proposed for reducing the capital of the Company or winding up the Company or directly affecting the interest of the holders of such shares as a class as regards dividend, return of capital or voting. Upon any question which entitles the holders of Preference Shares to vote Preference Shares confer one vote for each share held.

DIRECTORS QUALIFICATION AND REMUNERATION.

Qualification for the office of Director is the holding of, in his own name, shares of the face value of Rs. 50,000. The remuneration of a Director shall be Rs. 100 for every meeting of the Board attended by him and he will be entitled to any travelling expenses incurred by him in attending meetings of the Board of Directors and also to any other expenses properly incurred in connection with the business of the Company.

INTEREST OF DIRECTORS.

Sir Walter Craddock is a partner in the firm of Messrs. Place, Siddons & Gough, who have underwritten this issue.

Seth Jaidayal Dalmia and Seth Shanti Prasad Jain are interested as Directors of Messrs. Dalmia Jain & Co., Ltd. (a private limited concern), Managing Agents of the Company. Seth Jaidayal Dalmia is also a party to the agreement for purchase of machinery and quarrying rights mentioned below.

AGREEMENTS.

1. An agreement dated the 16th April, 1937, between the Company of the one part and Messrs. Dalmia Jain & Co., Ltd. of the other part has been entered into for their appointment as Managing Agents of the Company upon the following terms :—

(a) Duration of agreement to be 20 years.

(b) An allowance of Rs. 2,000 per month.

(c) A commission of Rs. 10 per cent. of the net profits of the Company calculated after allowing for depreciation, for all the usual working charges, interest on loans and advances, repairs and outgoings, bounties or subsidies received from Government or from a public body, etc., as defined in Section 87C (3) of the Indian Companies (Amendment) Act, 1936.

2. An agreement dated the 16th April, 1937, between the Company of the one part and Seth Jaidayal Dalmia of the other part has been entered into for the sale of machinery at Rs. 25,25,000 plus port and customs charges delivered Bombay, Karachi, Calcutta.

3. An agreement dated the 16th April, 1937, between the Company of the one part and Messrs. Jaidayal Dalmia & Co. of the other part for the acquisition of the right of quarrying limestone.

For purposes of identification, all the above draft agreements have been signed by the first three signatories to the Memorandum and Articles of Association.

Copies of the above agreements and the Company's Articles of Association may be inspected at the registered office of the Company at any time during business hours.

The minimum subscription upon which the Directors may proceed to allotment is Rs. 50 lakhs.

The Company has entered into agreements for purchase of machinery and acquiring of limestone quarrying rights hereinbefore mentioned and obtained certificate for commencement of business on the 26th April, 1937, shortly prior to the issue of this prospectus. After obtaining the certificate of commencement of business no business has been done.

PRELIMINARY EXPENSES.

Preliminary expenses including registration fee, printing charges and other incidental expenses but excluding commission and brokerage for getting the capital subscribed are estimated not to exceed Rs. 25,000.

BROKERAGE.

Brokerage will be payable to *bonafide* brokers at the rate of 4 annas per Ordinary Share and Re. 1 per Preference Share and Rs. 2-8 per 100 Deferred Shares in respect of applications received through them and bearing their stamp. Applications for less than 10 Ordinary Shares and 100 Deferred Shares shall generally not be considered.

Inspection of the Memorandum and Articles of Association may be obtained at the registered office of the Company and its branches at Karachi, Delhi, Lahore

and at IMPERIAL BANK OF INDIA, LONDON. Copies of the Memorandum and Articles of Association will be obtained on payment of Re. 1 at the registered office of the Company and its said branches.

RAMKRISHNA DALMIA.
RONALDSHAY by F. MUHAMMAD.
BAIJ NATH SINGH.
W. CRADDOCK.
D. STEWART.
ALOIS MIEDL by S. P. JAIN.
GOBIND LALL BANGUR.
DWARKADAS JHUNJHUNWALA.
JAI DAYAL DALMIA.
SHANTI PRASAD JAIN.
JHABARMAL CHOKHANI.

Dated 3rd May, 1937.

NOTE.—Prospectus and Forms of Application can be obtained from and payments (with applications) may be made by cheque, hundies or in cash free of remittance charges at the Registered Office of the Company and to Messrs. Chimanram Motilal, Bullion Exchange Building, Bombay, Messrs. Shreeram Harjimal, 7, Narain Babu Lane, Calcutta, Messrs. Nathuram Mathura Prasad, Cloth Market, Delhi, or to any of the Bankers and Brokers mentioned above. Prospectus and Application Form can also be had at the Bharat Insurance Co., Ltd., Lahore, and at all its branches. It is not necessary that applications should be made on printed application forms. They may be typewritten or written in hand.

Mention should be made here that free issue of capital, public offer of securities, issue of prospectus, etc. inviting subscription are restricted under the Control of Capital Order passed by the Central Government.

The new Defence of India Rule prohibits the following:—

(1) Without the prior consent of the Central Government (a) any issue of capital in British India, (b) any public offer of securities for sale in British India, (c) the renewal or repayment of any security maturing for payment in British India.

(2) Without the prior consent of the Central Government any issue of capital anywhere whether within or without British India, by any company incorporated in British India.

(3) The issue in British India of any prospectus or other documents offering for subscription or publicity offering for sale any security which does not include a statement that the consent of the Central Government has been obtained to the issue or offer of the security.

(4) Subscription for any securities issued by a company in respect of any issue of capital made in British India or elsewhere unless such issue has been made with the consent of the Central Government.

Banks, investment trusts, insurance companies have been brought under the purview of the Order.

STATEMENT IN LIEU OF PROSPECTUS.

Dated.....

pursuant to section 98 of the Indian Companies Act 1913 & 1936.

Presented for filing by.....

The nominal share capital of the company ..	Rs... 10000...
Divided into	shares of Rs. Each. 100 50,0 ,, 200 50 ,,
Amount (if any) of above capital which consists of redeemable preference shares	100 50 ,, ,, ,,
The date on or before which these shares are, or are liable, to be redeemed	9th August 55
Names, descriptions and addresses of directors or proposed directors and managers or proposed managers, *and any provision in the articles, or in any contract, as to appointment of and remuneration payable to directors or managers* ..	
If the share capital of the company is divided into different classes of shares, the right of voting at meetings of the company conferred by, and the rights in respect of capital and dividends attached to, the several classes of shares respectively ..	
Number and amount of shares and debentures agreed to be issued as fully or partly paid up otherwise than in cash	1. Shares of Rs. fully paid. 2. Shares upon which Rs. per share credited as paid. 3. Debenture Rs. 4. Consideration.
Names and addresses of vendors of property purchased or acquired, or proposed to be purchased or acquired by the company .. .. Amount (in cash, shares or debestures) payable to each separate vendor	
Amount (if any) paid or payable (in cash or shares or debentures) for any such property, specifying amount (if any) paid or payable for goodwill ..	Total purchase price Rs. Cash ,, ,, Shares ,, ,, Debentures ,, ,, Goodwill ,, ,,
Amount (if any) paid or payable as commission for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any shares or debentures in the company; or .. .. Rate of the commission	Amount paid Rs. ,, payable ,, Rate per cent.

The number of shares, if any, which persons have agreed for a commission to subscribe absolutely.	
Estimated amount of preliminary expenses.	Rs.....
Amount paid or intended to be paid to any promoter .. .. .. Consideration for the payment	Name of promoter.... Amount: Rs..... Consideration:—
Dates of, and parties to every material contract (except contracts entered into in the ordinary course of the business intended to be carried on by the company *or contracts, other than contracts appointing or fixing the remuneration of a managing director or managing agent,* entered into more than two years before the delivery of this statement).	
Time and place at which the contracts or copies thereof may be inspected	
Names and addresses of the auditors of the company (if any)	
Full particulars of the nature and extent of the interest of every director in the promotion of or in the property proposed to be acquired by the company, or, where the interest of such director consists in being a partner in a firm, the nature and extent of the interest of the firm, with a statement of all sums paid or agreed to be paid to him or to the firm in cash or shares, or otherwise, by any person either to induce him to become, or to qualify him as a director, or otherwise for services rendered by him or by the firm in connection with the promotion of formation of the company	
*It is proposed to acquire any business, the amount, as certified by the persons by whom the *amounts of the business have been audited, of the net profits of the business in respect of each of the three financial years immediately preceding the date of this statement provided that in the case of a business which has been carried on for less than three years and the accounts of which have only been made up in respect of two years or one year the above requirement shall have effect as if references to two years or one year, as the case may be, were substituted for references to three years, and in any such case the statement shall say how long the business to be acquired has been carried on*	

(Signatures of the persons above-named as directors or proposed directors, or of their agents authorised in writing) .. .. ..

18.

A SPECIMEN STATUTORY REPORT.

THE LOWER ASSAM TEA SYNDICATE, LTD.

The Indian Companies Act, 1913 & 1936.

Statutory Report of the Lower Assam Tea Syndicate Limited, to be certified and filed pursuant to Section 77 (5).

Presented for filing by.....

The Directors report to the members as follows:—

(1) The total number of shares allotted is 1417.

(2) Of the said 1417 shares:

(a) The number allotted subject to payment therefor in cash is 1417.

(b) No shares have been allotted as fully paid up.

(c) No shares have been allotted as partly paid up otherwise than in cash.

(3) The total amount of cash received by the Syndicate in respect of the shares issued subject to payment therefor in cash is Rs. 4,792.

(4) The receipts and payments of the Syndicate on capital account up to 31st August, 1920, are as per annexed statement.

(5) The following are the particulars of the Balance remaining in hand on the said 31st day of August, 1920.

Balance with Messrs. Cox & Co., Rs. 100-0-0.

Cash with Managing Agents Rs. 178-2-6.

(6) The company entered into a contract with managing agents appointing them as such for 20 years on the terms and conditions laid down in the Articles.

(7) There is no underwriting contract with any body.

(8) There is no arrear on any call from the Directors, Managing Agents or Manager.

(9) No commission or brokerage has been paid or is payable to any director, managing agents or manager.

(10) Names, Addresses and descriptions of the Directors, Managers (if any) and Secretary of the Syndicate.

DIRECTORS.

NAMES.	ADDRESSES.	
1. The Hon'ble Lieutenant Rai Nagendra Nath Choudhri Bahadur.	Sylhet.	Zeminder, Member, Assam Legislative Council, Proprietor of Tea Estate; Mng. Director, All India Tea and Trading Co., Ltd., & Cachar Native Joint Stock Co., Ltd., (Tea).
2. The Hon'ble Moulvi A. K. Fazlul Huq M.A., B.L.	Calcutta.	Member, Bengal Legislative Council, Vakil, High Court, Calcutta.
3. Rai Mohendra Ch. Lahiri Bahadur.	Serampore.	First Class Hony. Magistrate.
4. J. C. Mitra Esqr., F.S.S. (LOND.),	Calcutta.	Merchant.
5. Kanai L. Roy, Esq., B.L., F.R.E,S, (ENG,),	Mymensingh.	Pleader.
6. Dr. Charu Chandra Das, L.M.S.	60, Lansdowne Rd., Calcutta.	Land-holder & Medical Practitioner.

AUDITOR

J. C. Das Esq., B.SC. (COM.) U.S.A. A,L., A.A. (LOND.).	2 & 3, Lall Bazar Street, Calcutta.	Govt. Certified Auditor (India).

MANAGING AGENTS.

Messrs. Mitra & Sons,	2/1, Mission Row, Calcutta.	Mng. Agents, The Kirtikona Tea Co., Ltd., The Indian Engineering & Motor Co., Ltd.,

Dated..... (Sd.) G. C. Das,

We hereby certify this report. (Sd.) J. C. Mitra.

Particulars of Receipts and Payments as at 31st December, 19.....

Receipts.	Rs.	As.	**Payments.**	Rs.	As.	P.	
Capital account ..	4792		Registration Fee ..	377			
Deposit ..	2		Preliminary expenses	49			
Admissionn Fee ..	101		General charges ..	32	10		
Managing Agents' Advance ..	3500		Advance ..	370	6	9	
			Printing and Stationery	347	3	6	
			Furniture and Fittings	420	9	6	
			Postage and Telegram	66			
			Directors" Fee	110			
			Managing Agents' Allowance ..	2600			
			Establishment ..	1300			
			Selami ..	200			
			Tea Seeds ..	700			
			Commission ..	369	8		
			Advertising ..	231	4		
			Stock ..	370	4		
			Telephone ..	50			
			Fans and Lights ..	10	6	6	
			Law charges ..	4			
			Cox & Co. ..	100			
			Rent & Taxes ..	100			
			Travelling expenses ..	8	9	3	
			Garden remittance ..	400			
			Cash in hand ..	178		6	
							8395
Total Rs. ..	8395		Total Rs. ..				8395

THE LOWER ASSAM TEA SYNDICATE LTD.

(Sd.) Mitra & Sons,
Managing Agents.

I hereby certify that so much of this report as relates to the shares allotted by the Syndicate and to the cash received in respect of such shares and to receipts and payments of the Syndicate is correct.

Dated Calcutta, the.....

(Sd.) J. C. Das, B.Sc. (Com.)
U.S.A., A.L.A.A. (London).
Govt. Certified Auditor (India).

FORMS USED BY JOINT-STOCK COMPANIES.

CERTIFICATE OF INCORPORATION.

I hereby certify that The ..... Company Limited is this day incorporated under the Companies Act, 1936, and that the Company is Limited.

Given under my hand at Calcutta, this tenth day of January, One thousand nine hundred and forty-two.

Fees and Deed Stamps..... Rs.....

Stamp Duty on Capital..... Rs.....

.....

Registrar of Joint-Stock Companies.

APPLICATION FOR SHARES.

.....COMPANY, LIMITED.

To THE DIRECTORS OF : . . . . . Co, LTD,

GENTLEMEN,

Having paid to your Bankers the.....Bank, Limited the sum of Rs..... being a deposit of one rupee per share on the number of shares applied for by me hereunder, I hereby apply for 100 shares of Rs. 10 each upon the terms of the prospectus issued by you and dated the.....day of..... 194 , and I hereby undertake to accept such shares or any less number and to pay all further sums due thereon, and to be bound by the regulations of the company, and I authorise you to place my name upon the register of members.

Signature of Applicant.....

Full Name of Applicant.....

Address.....

Occupation.....

Date.....

LETTER OF REGRET.

.....COMPANY, LIMITED.

To.....

I regret to inform you that the Directors are unable to allot you any of the shares of this Company in compliance with your application for..... shares of the Company.

I enclose herewith a cheque for Rs.....being the amount paid by you on the above mentioned application.

I am, Sir (or Madam),

Yours faithfully,

(Enclo.).

.....

SECRETARY.

LETTER OF ALLOTMENT.

.....COMPANY, LIMITED.

Allotment No.....

DEAR SIR (OR MADAM),

I am instructed by the Directors of.....Company, Limited, to inform you that in response to your application they have allotted you 100 Shares in the Capital of the Company.

The total amount due upon application and allotment on 100 shares allotted you is .. .. Rs.....
You have already paid on application for 100 shares .. Rs.....
leaving a balance due from you .. .. Rs.....
which kindly pay to the company's Bankers, The.....Bank, Limited, Calcutta.

Due notice will be given when the share certificates are ready for issue and they will then only be delivered in exchange for this letter, accompanied by the receipts for deposit paid upon application and other payments made.

I am Dear Sir (or Madam),

Date.....
(Enclo.).

Yours faithfully,
.....
SECRETARY.

CALL NOTICE.

.....COMPANY, LIMITED.

No.....

Notice of First Call of . . . . . , per share of Ordinary shares (making . . . . . per share called up),

.....Calcutta.

Dated.....

DEAR SIR (OR MADAM),

I beg to give you notice that first call of . . . . . , per share has this day been made by the Board in accordance with the terms of the Prospectus. On the . . . . . shares held by you in this Company, the call amounts to Rs. . . . . This amount should be remitted to the Company' Bankers ('The. . . . . , Bank, Ltd,) on or before . . . . .

I am, Sir (or Madam),

Yours faithfully,
.....
SECRETARY.

(Enclo.).

To.....
.....Street.
Calcutta.

RETURN OF ALLOTMENTS.

Filing Fee Rs. 3.

Return of allotments from the.....of.....19.....to the ..... of ..... 19 ..... of the.....

Made pursuant to Section 104 (1)

(To be filed with the Registrar within one month after the allotment is made.)

Number of the shares allotted payable in cash .. ..
Nominal amount of the shares so allotted ....
Amount paid or due and payable on each such share .. ..
Number of shares allotted for a consideration other than cash .. ...
Nominal amount of the shares so allotted .. ..
Amount to be treated as paid on each such share ... .

The consideration for which such shares have been allotted is as follows:—

* * * *

Presented for Filing by.....

Names, Addresses and Description of the Allottees.

Name in full.	Address.	Description.	Number of shares allotted.	
			Preference.	Ordinary.

.....
Managing Director.

DECLARATION BEFORE COMMENCING BUSINESS.

Filing Fee Rs. 3.

Declaration made on behalf of the ..... that the conditions of section 103 of the Act have been complied with.

Presented for filing by.....I.....of..... .....being.....of the.....do solemnly and sincerely declare:—

That the amount of the share capital of the Company offered to the public for subscription is Rs.....

That the amount fixed by the memorandum or articles and named in the prospectus as the minimum subscription upon which the Company may proceed to allotment is Rs.....

The shares held subject to the payment of the whole amount thereof in cash have been allotted to the amount of Rs.....

That every director of the Company has paid to the Company on each of the shares taken or contracted to be taken by him and for which he is liable to pay in cash, a proportion equal to the proportion payable on application and allotment on the shares offered for public subscription.

I declare that the foregoing are true to my knowledge and belief.

K. Raghavalu
Signature.

Date.....

CERTIFICATE FOR COMMENCEMENT OF BUSINESS

THAT

.....

COMPANY IS ENTITLED TO COMMENCE BUSINESS

I hereby that The.....Company, Limited of .....Street, Calcutta, which was incorporated under the Indian Companies' Act, 1913 on the third day of January, 1941, and which has this day filed a statutory declaration in the prescribed form that the conditions of section 103 have been complied with, is entitled to commence business.

Given under my hand at Calcutta this 4th day of March one thousand nine-hundred and forty-two.

Registrar of Joint-Stock Companies.

SHARE REGISTER.

----------CO., LTD.,

Name of Member----------

Address ----------

Occupation ----------

Date of Commencing to be a member--------

Date of ceasing to be a member----------

Shares Disposed of							Shares Acquired								Balance	
Date.	No. of Transfer Deed.	Folio in Transfer Register	No. of Shares	Distinctive Number of Shares		Amount of Capital paid up	Date	No. of Allotment or Transfer	No. of Shares	Distinctive Number of Shares		Details	Folio	Amount of Capital Paid up	Shares	Capital paid up
				From	To	Rs. a. p.				From	To			Rs. a. p.		Rs. a. p.

PROXY FORM.

I.....Mr. 420 C/o Awara, Barsal Road. Allhbd. Bombay.....being a shareholder of THE..Tibet gold Company.....COMPANY, LTD., hereby appoint.....Miss 420.....
of.....Miss India.....
to vote for and on my behalf at the ANNUAL GENERAL MEETING of the above Company to be held on the.....194 , and at any adjournment thereof.

Affix one two-anna Stamp.

Signature.....Mr. 420.....
Address.....Awara Hotel Bombay.....

Witness—
Address—

N.B.—Shareholders are particularly requested to send in their Proxy Forms duly stamped and filled up in proper time in case they are unable to be present personally at the meeting.

SHARE CERTIFICATE.

THE.....COMPANY, LIMITED.

CERTIFICATE NO.....
CAPITAL RS.....
NUMBER OF SHARES.....
This is to certify that.....of.....
is the registered proprietor of.....fully paid up shares of Rs.....each Nos.....to.....inclusive in the .....Co. Ltd., subject to the Articles of Association of the Company.

Given under the Common Seal of the Company this.....
day of.....

SEAL

.....} *Directors.*
.....}

.....*Secretary.*

STAMP.

SHARE-WARRANT.

The Bata Shoe ..... Company, Limited.

Capital Rs. 1,20,000 .....

divided into 1200 shares of 150 Rs. ..... each.

No. .....

This is to certify that the Bearer of this Warrant is the proprietor of .....

..... shares of Rs. ..... each fully paid, numbered from .....

to ..... inclusive in the ..... Company, Limited, subject to the Articles of Association of the Company.

SEAL

Given under the common Seal of the Company.

This ..... day of 194

..... *Director.*

..... *Director.*

..... *Secretary.*

Registered Office .....

DIVIDEND-WARRANT.

The ..... Company, Limited.

Address .....

Date .....

To .....

Dear Sir (or Madam)

Pursuant to a resolution passed in the General Meeting to-day, I beg to hand you warrant for Dividend on your shares in respect of the year ending ....

	Rs.	As.	P.
Dividend of ..... per share			
On ..... shares			
Less Income-tax @ ..... in the Rupee			
Amount of Warrant			

I certify that the Income tax on the entire amount has been paid by us to the Government of India.

..... *Secretary.*

The.....Company, Ltd.
Address.....
Dividend Warrant for the year (~~half-year~~) ending.....
Date.....

No.....

To

The.....Bank, Ltd.
Address.....

Pay to.....or order the sum of Rs.....
only, for the above named Company.

.....
.....
.....

Directors.

.....
Secretary.

SHARE-TRANSFER.

I.....Farmer in consideration of the sum of Rs.....
paid by.....chartered accountant, hereinafter called the said Transfer.

Do hereby bargain, sell, assign and transfer to the said transferee.....fully paid shares of..... each numbered.....to.....inclusive, of and in the undertaking called.....Company Limited.

To hold into the said Transferee, his Executors, Administrators and Assigns, subject to the several conditions on which I held the same immediately before the execution hereof: and I the said Transferee do hereby agree to accept and take the said shares subject to the conditions aforesaid.

As Witness our Hands and Seals, this.....day of.....in the year of one thousand nine hundred and forty-two.

Certificate of the within mentioned.....shares has been lodged at the Company's office.

Signed, sealed, and delivered.....
by the above named.....
in the presence of

Witness's Signature .....
Occupation .....
Address .....

..... SEAL

Signed, sealed, and delivered.....
by the aboved named.....
in the presence of

Witness's Signature .....
Occupation .....
Address .....

..... SEAL

TRANSFER REGISTER.

----------CO., LTD.

Number of Transfer	Date of Transfer Lodged	Date of Transfer Deed	Transferer's			Transferer's Folio In Share Register	Shares Transferred					Transferee's			Transferee's Folio in Share Register.	Number of New Certificate.
			Name	Address	Occupation		Number	Amount per share paid	Capital paid up	Distinctive Numbers From	Distinctive Numbers To	Name	Address	Occupation		

DEBENTURE.

No.....

THE.....COMPANY, LIMITED.

Incorporated under the Companies Act.

REGISTERED OFFICE.....

Issue of.....First Mortgage Debentures to Bearer, carrying interest at the rate of.....per annum.

DEBENTURE.

1. The.....Company Limited (hereinafter called "The Company") will, on the.....or on such earlier day as the principal moneys hereby secured become payable in accordance with the conditions endorsed hereon, pay to the bearer on presentation of this Debenture the sum of.....

2. The Company will in the meantime, pay interest thereon at the rate of.....per cent. per annum, by equal half yearly payments on every 1st day of.....and 1st day of.....in accordance with coupons annexed hereto.

3. The Company hereby charges with such payments its undertaking and all its properties whatsoever and wheresoever both present and future.

4. This Debenture is issued subject to and with the benefit of the conditions endorsed hereon, which are to be deemed part of it.

Given under the Common Seal of the Company this..... day of.....19.....

SEAL

.....
.....
Directors.

.....*Secretary.*

INTEREST COUPON.

THE.....CO., LD.

DEBENTURE No.....INTEREST COUPON No.....

For.....(less income tax) Half year's interest due the.....day of.....and payable at the..... Bank Limited, or at the registered office of the Company.

.....*Secretary.*

NOTICE FOR A DIRECTORS' MEETING.

The.....Company, Ltd.
16, Great India Street, Calcutta.
Dated.....

To
....., Director,
.....Company Ltd.
.....Calcutta.

Dear Sir,

I beg to hereby give you notice that a meeting of the Directors of the above Company will be held at the above registered office of the Company at 5 P.M. on the 7th September 194 , to transact the business mentioned in the agenda below. You are requested to be present.

Yours faithfully,
.....
Secretary.

AGENDA :

1. Confirmation of the minutes of the last Directors' Meeting.
2. Allotment of shares applied for in the last month.
3. Consideration of the proposed agreement with Messrs.....Company.
4. Consideration of a report by the managing agents about increase of share capital of the Company.
5. Consideration of applications from some members of the staff for increments of their salaries.
6. Miscellaneous.

NOTICE FOR THE ANNUAL GENERAL MEETING.

The.....Company, Limited.
Address.....
Dated the.....

Notice is hereby given that the.....Annual General Meeting of the above named Company will be held at.....on the.....day of.....194 , at..... o'clock, to receive and consider the Director' Report, Accounts, Balance Sheet and Auditor's Report thereon to elect Directors and Auditors, to sanction the declaration of Dividends and to transact other ordinary business of the Company.

Notice is also given that the transfer book of the Company will be closed from the.....to the.....194 , both days inclusive.

To.....

By order of the Board.
.....
Secretary.

SPECIMEN DIRECTORS' REPORT TO BE SUBMITTED WITH BALANCE SHEET AND PROFIT & LOSS ACCOUNT.

TO THE SHAREHOLDERS,

The..Brooke Bond Tea Company, Ltd., Calcutta.

GENTLEMEN,

Herewith we beg to submit the audited balance sheet of the Company with the profit and loss account for the year 1936. In March last we issued the Annual Report for the year ended 31st December, 1935, and in the meantime there has been very little change in the state of the Company's affairs.

The tea market continues to be dull but there is an optimistic undertone due to export of 50,00,000 lbs. of tea to Russia a few weeks ago and the prospect of imposition of preferential duty on Empire grown tea in the coming British Budget. If the Russian transaction leads to continued import of tea to Russia, there is great likelihood of the tea industry seeing better days which will be made brighter still for Indian tea industry if a protective duty is imposed on foreign teas.

In 1935 the Company's garden produced a crop of 9,430 lbs. of tea. The expectation for the current year is 12,500 lbs.

No extension of the garden has been made during the year under report, but there are nurseries of 50 mds. of good seeds and the condition of the nurseries is reported to be very fair. In order to increase the output of the garden, extension of the plantation is necessary which is not possible without more paid-up capital. The shareholders are therefore requested to be prompt in their payments of the instalments of share capital lately called up.

As will appear from the attached balance sheet, the company could not make any profit during the year, and no question of dividend or reserve therefore arises.

Under the articles three of the seniormost Directors Mr.....Mr..... and Mr.....retire. They have offered themselves for re-election. Messrs. .....auditors have also sought reappointment.

.....Calcutta.

The.....of April, 1937.

.....

Chairman, Board of Directors.

Other forms prescribed for different purposes for use in connection with the affairs of companies will be found in the schedules of the Indian Companies' Act, 1936.

QUESTIONS BEARING ON CHAPTER XI.

1. Define a Joint Stock Company and mention its advantages and disadvantages.

2. Is a member of a Joint stock company personally responsible for the debts of the company ?

3. How is a Joint-stock company to be incorporated ? What are the principal documents to be filed with the Registrar for the purpose ?

4. Can a joint-stock company commence business after registration ? If not, what further requirements are to be complied with for the purpose ?

5. Explain—Company limited by shares, Company limited by guarantee and Unlimited company mentioning the distinctive features of each.

6. When must a Partnership be registered as a Company ?

7. Differentiate between a Public and a Private company mentioning the statutory provisions of each in respect of their formation.

9. What are the Articles of Association ? Is it compulsory to file them with the memorandum ? If not, what is the effect of their non-filing.

10. What is a Prospectus ? Is it compulsory and when is it so ? What statutory requirements must it meet ? Is there any exception in this respect ? If so, when ?

11. What are the restrictions on first allotment of shares ? When does it become obligatory on the directors to return the money received with applications ?

12. What are Authorised capital, Issued capital, Called up capital, Uncalled capital, Reserve capital and Paid up capital ?

13. Distinguish between Working capital and Fixed capital.

14. When is the capital called to be watered away ?

15. What are floating assets and fixed assets of a company ? How are they valued in the balance sheet ?

16. Who are the Company Promoters and what are their functions ?

17. Explain the advantages of employing underwriters by companies. What are their functions and responsibilities ?

18. How many directors are compulsory for joint-stock companies and how are they appointed ?

19. Discuss about the share qualification of directors and as to when it is necessary and when not.

20. How are the number, retirement, power and remuneration of directors regulated ?

21. How are the directors to act for the conduct of the business of the company ? Can they act individually ?

22. Is a resolution written by the secretary or a director and agreed to and signed by all the directors individually, a valid one ? Give your reasons ?

23. What is a letter of application ? Describe its utility. When is a letter of regret sent ?

24. When are the returns for allotment to be filed ? Is it compulsory ?

25. What do you understand by call on shares ?

26. When and how can a share be forfeited ? What is the effect of a forfeiture ?

27. What are the 'preliminary expenses' of a company ? How are they written off from the capital account ?

28. What are the registers and files to be kept by a joint stock company under the law ?

29. State what you understand by the statutory meeting and the statutory report. What must the report contain and what is to be done wih it for giving facility to members for its discussion ?

30. What are the statutory provisions of general meetings of companies ? What are the ordinary general meetings and the extraordinary general meetings ?

31. What are the businesses that can be transacted with notice in an ordinary general meeting ?

32. Explain special business and the method of bringing it up before the general meeting.

33. What is a balance sheet and what are its contents ?

34. When and in what form is it to be filed ? Is a report of the directors to accompany it compulsory ?

35. What is an extraordinary resolution and a special resolution ? How are they passed ?

36. What are the provisions generally found in Company Articles, for voting by proxy ?

SOME UNIVERSITY QUESTIONS.

1. Differentiate between a private and a public Company.

2. Mention the successive stages in the flotation of a Company. What steps at successive stages would you take to float a Limited Liability Company from the inception to the commencement of Work ?

3. What information would you expect to find in the Prospectus of a Company, and how would you scan it from the stand-point of an investor ?

4. Trace the historical growth of the public Company and point out the dangers of this form of Business Organisation. How far can this be mitigated in practice ?

5. Estimate the services of underwriters to business enterprise.

6. Distinguish between the several legal forms under which working capital is obtained for joint stock undertakings.

7. What are the advantages and disadvantages of converting a partnership into a Limited Company ?

8. Discuss the relative merits of a private and partnership Company as forms of business Organisation.

9. Enumerate the advantages and disadvantages in the organisation of partnership and public Companies. Suggest remedies to overcome or mitigate the disadvantages.

10. Set out the main differences between a sole trading concern, a partnership and a public limited Company.

11. Discuss how to a practical businessman the question of a large scale productions differs from that of combination.

12. Discuss the advantages and disadvantages of large scale production.

13. Discuss how far in India generally the control of directors over the management effective and the responsibility of the directors to the shareholders is real. Refer briefly to the part played by the system of managing agent in the development of Indian Joint Stock enterprise.

14. Discuss the merits and demerits of the system of having the business of a Joint Stock Company conducted by a firm of managing agents.

15. How does a Joint Stock organisation compare with the partnership organization ? Where does the weakness of the latter lie ?

16. Discuss the function of the promoter in relation to Joint Stock Companies. Indicate the motives and effects of stock-watering.

17. Draw up a report of the annual general meeting of a Joint-Stock Company.

18. In the case of a new company which occupies the first two years of its existence in erecting and organising its work, what expenditure incurred during that period do you think might reasonably be capitalised ? What formalities must be gone through before this Capitalisation is in order ?

19. What are the peculiar characteristics of private companies and what advantages do they possess ?

20. Draft notices for the following giving the number of clear days' notice required in each case : (a) Statutory General Meeting, (b) Meeting for the purpose of increasing the Capital, (c) General Meeting for the purpose of winding up a company.

21. Draft an agenda of a meeting of directors of about five items, and then proceed to write minutes on same in proper form.

22. You want to float a Public Limited Company. What steps must you take before you can commence business ?

CHAPTER XII.

MEETINGS AND SECRETARIAL PRACTICE.

Importance of Meetings.

IN the affairs of modern companies as well as of corporations, councils, etc., meetings are of paramount importance, as all matters vitally connected with their business are regulated according to the decisions by the majority of votes of members in meetings. The procedure in company meetings is generally regulated by the provisions made in the Articles, and that in other bodies by the Standing Orders or By-laws as the case may be. But in order to follow these provisions properly and with advantage and for smooth working, some rules of debate, which are more or less uniform in all cases and are of general application, are to be observed. It is therefore necessary for students of business organization to have an idea about the conduct of meetings and the procedure to be followed in connection with them.

The Meaning of a Meeting.

The word "meeting" which is now universally used by all private and public bodies, means "an assembly or gathering for discussion on business." Its conception is traced to the Anglo-Saxon "gemot" or meeting of the freeman. In legal phraseology the word means the same as it does in ordinary language. It is therefore to be understood that the presence of at least two persons is necessary to form a meeting, for according to the ordinary use of the English language one person cannot "meet together" and therefore can not constitute a meeting. A share-holder of a company acting as a proxy for another share-holder is not therefore entitled to be counted as two persons for the purpose of constituting a meeting. A committee, however, may consist of one person and the ordinary

meaning of the word "meeting" is not applicable in the case of a "committee." Lord Justice Cotton defined a committee to be "a person or persons to whom powers are committed which would otherwise be exercised by another body." (The Tourine Co. 25 Ch. D. 118). A committee of one person may therefore be held. Much deviation has however taken place from this meaning of the word in its every-day use.

Representation by Proxy.

Members of bodies—incorporated or not—have no right under the common law, to be represented or to vote by proxy in the meetings of such bodies, but such a right may be given either by Statute or by special Rules or Articles of those bodies. Joint Stock companies generally concede these rights to their share-holders by making necessary provisions in their Articles. Proxies and attorneys are counted for the purpose of forming quorum, unless interdicted by the Articles. To form a valid meeting of a particular class of persons, proxies can only be given to and held by members of that class only, *e.g.*, a meeting of the preference share-holders of a company will not be valid if a member or members on whose presence by proxy the validity of the meeting depends are represented by proxies who are only ordinary share-holders of the company. No proxy is recognised in public meetings or counted in votes by show of hands.

The Quorum and the Casting Vote.

Where there is a statutory provision or where provision has been made by Bye-laws or Articles for a quorum, no meeting will be valid unless that prescribed number of qualified persons, that is, persons qualified to vote, is present. A quorum formed by the presence of a disqualified person, is no quorum and any resolution passed by a meeting with such a quorum is invalid. So the presence of the number of qualified persons fixed for quorum is necessary for valid transaction of business. When there is no special provision to the contrary an

assembly of persons, indefinite in number, duly summoned and present at the appointed time and place, forms the quorum.

Where there is no provision for a quorum and any public trust is enjoined by Statute to be executed by a definite number of persons, "it must be executed at a meeting where a majority of that number is present, unless there be a usage and custom to the contrary." (Mr. Justice Bayley, in Blacket Vrs. Vlizard, 4 M & R 641; 8 L. G. 85). Every member of such a body should be specially summoned to attend by notice in such a case. In the absence of such a notice, there cannot be a regular and good meeting, unless all the members happen to be present or unless they are beyond summoning distance. Even unanimous decision by the members present in such a case would not be invalid. Where there are several constituencies to elect, nominate or appoint members for a public body, there can not be a valid meeting of that body though the required quorum is present, unless all the constituencies have sent their members or have waived their right to do so expressly or by implication.

Where there is provision that the chairman of the meeting, being a member himself, shall have, in the case of equality of votes, a second or *casting vote*, his exercise of this right of voting becomes necessary for the determination of majority. "The casting vote may be given either on the same side as the ordinary or first vote, or it may be given on the opposite side. A chairman is not bound to give either an original or a casting vote. If the voting is equal and the chairman refuses to give a casting vote, the motion is lost. It is often the practice for the chairman always to give his casting vote against the motion, whichever way he has voted originally, or whether or not he has so voted." (*Blackwell*).

Convening of Meetings and Agenda.

In order to make a meeting of a body valid, proper notices to those who are entitled to receive them must be

given by the person or persons required by the Statute or the Rules to give them. Detailed provisions in this respect are made in the Bye-laws or Articles, which are to be strictly followed. The time and place of the meeting are to be mentioned in the notice, which can not be altered except by issuing a fresh notice. It is also necessary to indicate in the notice the nature of the several items of business to be transacted in the meeting in a definite way, so that the members may clearly understand what are the matters they will be called upon to consider and vote upon. So the agenda should be as clear and definite as possible. There are requirements of a particular nature in this respect in certain cases, as for instance, when a special resolution becomes necessary under the Indian Companies Act. Here the provisions of the law about the contents of the notice are to be strictly followed by quoting the resolution *in extenso* or its detailed summary in the agenda to give validity to the decision of the meeting.

In case of public meetings any person or persons may convene them by placards, advertisements, hand bills or other means to make his or their intention public, at any time and any private place which they have a right to occupy for the time being with other persons. It is at the discretion of the conveners to settle every thing in connection with the preliminaries, conduct and control of such meetings and to decide if the meeting is to be open to the general public or to a particular class of persons or to persons paying a prescribed subscription. The conveners have the right to exclude intruders or persons guilty of disorderly conduct, from such meetings and can use necessary force for the purpose when unavoidable. Any one obstructing these rights of the conveners becomes guilty of trespass. The law thus gives necessary protection to the meetings lawfully held.

If the meeting is to be held at a public place, expressed or implied consent of the party in charge of that place is necessary. No public meeting can be held on the public road causing obstruction and inconvenience to those who

have a right to use such road. The persons holding such a meeting are trespassers.

The Chairman.

The most important person in a meeting is the chairman who is elected by the meeting itself except in a case where there is a permanent chairman in which case he takes the chair as of right when present. In the case of many joint stock companies a permanent chairman is appointed either by the Articles or by the members in their meeting. There is a vice-chairman in some cases who takes the chair in the absence of the chairman. If both are absent, then it becomes necessary for the meeting to elect a chairman. This is done by a proposal of one member seconded by another; but if there is any difference of opinion about the person proposed, counter proposals may be made by others in the similar way and the person receiving the support of the majority takes the chair.

Powers and Duties of the Chairman.

On taking his seat the chairman automatically becomes possessed of the power of regulating the business of the meeting in an ordinary way. About points of procedure and some other matters his decision cannot be questioned by any one of the meeting. The chairman puts all resolutions, motions and amendments to vote and declares the result of the voting.

The meeting generally starts with the reading of the notice convening it, and then the proceedings of the last meeting, if any, are read and confirmed. The chairman then opens the meeting with a geneal review of the business to be transacted by the meeting explaining the periodical report, if any, specially in the case of public company meetings.

During the course of the proceeding, the chairman has the power to take necessary steps to enforce order even by causing ejectment of persons not amenable to his request to behave properly, and to adjourn or dissolve the meeting

when he finds it impossible to maintain order, provided the constitution of the body gives him such power : otherwise the consent of the meeting for such adjournment becomes necessary. According to his qualification as a share-holder of the company the chairman may exercise his voting powers with others, in company meetings, and in addition when there is a tie he can give his casting vote to help the meeting to arrive at a decision. The chairman has also to see that no discussion may take place on any matter unless there is a regular motion, properly seconded, before the house and that no irrelevant talk is indulged in. In case of such an irregularity any member present in the meeting may rise to a point of order.

The Secretary.

Companies or other public bodies do not invariably appoint a secretary. Some other officer, say the manager or the managing director of a company, may discharge the function of the secretary which is the conduct of the internal administration of a company or any other public body. So the secretary, by whatever name he may be called, is the instrument to give effect to the wishes of the executive body consisting of the directors of a company or the executive members of any other public institution. Sometimes powers are given to him to dispose of unimportant and routine business without consulting his Board and pending its approval, provided such delegation is authorised by the bye-laws of the association of which he is the secretary. He is supposed to be conversant with the details of all affairs in connection with his concern and is expected to help the members of his Board by supplying all necessary information to them, bringing all questions of importance before them for their decision and pointing out the legal formalities necessary for the conduct of business.

His Duties.

The duties of the secretary vary with the nature of the company or association employing him. The details of

business in different institutions are different; so his duties depend a good deal on the nature of the work he is called upon to do, but in all cases he has got to master all these details. The general duties of a secretary of a joint-stock company may thus be enumerated :

(a) He is to issue all notices of meetings to share-holders, directors and to members of committees when necessary.

(b) He is to attend all meetings of the share-holders and directors and those of committees set up by them.

(c) He is to read the notice convening the meeting and the minutes of the previous meetings for confirmation.

(d) He is to keep the Agenda Book and the Minute Book of the proceedings of all the above meetings.

(e) He is to conduct all correspondence with share-holders and others regarding shares, their transfers, disposal, etc., and general correspondence about other matters.

(f) He is to keep or supervise the keeping of all the necessary books and registers of the company.

(g) He is to submit all returns and statements to the Registrar of Joint Stock Companies as required by law.

He is also expected to be so fully posted in the affairs of the company or any other body of which he is the secretary as to be able to prompt and " coach " the chairman, if and when necessary. His duties are therefore varied and multifarious and only a tactful, resourceful and versatile person with pleasant manners and social qualities can prove himself to be an ideal secretary not only of a public company but also of other public bodies, whether incorporated or not.

The Form of Minutes.

Minutes are taken down with the progress of the meeting and a fair copy is generally made in another book by the secretary. Sometimes only notes are taken of the deci-

sion and they are amplified in the fair copy. The draft book is initialled by the chairman at the termination of the meeting and the fair one is signed by the chairman of a subsequent meeting and the secretary when confirmed. The following is a specimen of minutes recorded in a company meeting :—

"Present :—(Here insert the name of the Chairman first).

"A. B. in the Chair.

"The notice calling the meeting was read by the Secretary.

"The Minutes of the General Meeting held on . . . . of_____, were then read by the Secretary, confirmed by the meeting, and signed by the Chairman.

The report of the Directors, and the Statement of the accounts of the Company were unanimously agreed to on the Motion of Mr.————, seconded by Mr.————

"Upon the Motion of the Chairman, seconded by Mr. ————, it was unanimously resolved that Mr.———— be, and he is hereby declared, elected a Director of the Company in place of Mr.————, who has resigned."

It is customary to pass a Vote of Thanks to the Chairman before closing the business, and this, too, will be recorded. It is not actually necessary, but is sometimes done, to add a note of the time the Meeting has lasted, thus: "Duration of Meeting 1 hour 15 minutes."

If an amendment be moved after the seconding of any Motion, it will appear in the Minutes somewhat as follows:—

"It was moved by Mr.————and seconded by Mr. ————, that the Report and Accounts be adopted.

"Thereupon an Amendment was moved by Mr.———— and seconded by Mr.————, that (then appears the amendment from the terms of the paper handed to the chairman).

"This amendment was put to the Meeting by the Chairman and negatived.

"The original proposition was then put and carried, the numbers being————for and————against."

The various Motions and Resolutions should be entered in the following form :—

"It was moved by Mr.———seconded by Mr.———, and resolved, that" (here follow the terms of the Resolution). If the Resolution is passed with common consent or without any dissentient voice, the word, "unanimously," or the Latin phrase *nemine contradicente* (*nem. con.*), may respectively be inserted.

Directors' Meetings.

In joint stock companies the directors, and in other institutions the committee set up by the general body, are their executives. These executive bodies need not be so formal in their proceedings as the general bodies. The members of these executive bodies speak as frequently as necessary and remain seated while speaking. Unless there are special provisions the resolutions or amendments in their meetings need not be seconded and things are generally done in an informal way, though the rule of majority is observed in deciding questions.

These bodies are generally given the power to add to their numbers with or without restriction. The provisions made in the Articles in the case of companies are to be followed in all matters including quorum, co-option, etc., in respect of the procedure in the meeting of the directors. The minutes of these meetings are taken down and recorded in the same manner as those of the general meetings but in a less formal way.

Confirmation of Proceedings of the Previous Meeting.

About confirmation of the proceedings of the previous meeting, only those members who were present at such previous meeting have the right to vote. When the accuracy of them is questioned by any such member, the decision of the majority prevails, but the member questioning the correctness of the proceedings has the right to demand an alteration of the record by moving an amendment. If it is seconded and passed, the alteration is made

in the record and the chairman then signs the minutes. When, however, the accuracy or otherwise of such proceedings is once supported by a majority, the chance of success of an amendment in this respect is very remote.

Motions and Their Amendments.

After the preliminaries, the meeting proceeds with the formal business when motions and amendments generally in writing are proposed, seconded and dealt with. They must always be in an affirmative form. A motion or an amendment which should be relevant to some part of the business, automatically falls through (if not purely a formal one) unless seconded*, and when once seconded, it can not be withdrawn without the consent of the meeting. Every one has a right to speak only once on the motion or amendment, but the proposer can reply to the points raised in the discussion, last of all. Amendments cannot be direct negative of the original proposal and must be for some omission from, addition to or substitution for the original proposal, but in Scotland an amendment can be moved which is negative or implies mere negation. There may be an amendment of an amendment. The amendment is put to vote first and if passed, it takes the place of the original proposal as amended and put to the meeting†. If it is lost then origi-

*The observance of these rules must not be insisted upon too strictly. For example, in re. Horbury Bridges Coal &c. Co. (1879), 11Ch. D. 109, the appellants took the point that the amendment was not seconded. Lord Justice James asked : "Is there any law of the land that at a meeting of share-holders a motion can not be put unless it is seconded? I am not aware of any. No doubt it is the practice of the House of Commons." Sir George Jessel M.R.: "And that practice is commonly followed at meetings." Osborne Morgan, Q.C., amicus curiae: "In the House of Commons every motion does not require to be seconded, and an amendment does not." Jessel, M.R.: "I think the objection that the amendment was not seconded cannot prevail, it being admitted that it was put and voted upon." The appellants then took the further point that there was no proposer, but Lord Justice James said : "In my opinion if the chairman put the question without its having been proposed or seconded by any body, that would be perfectly good."

†According to Sir Reginald Palgrave (Parliamentary Practice) it is put to the vote as a preliminary step to ascertain whether the original motion or the

nal motion is proceeded with. There cannot be an amendment respecting a question already decided by the meeting.

The " Closure."

When the discussion on any question becomes unnecessarily lengthy, a " closure " can be moved by any member by proposing " that the question be now put." When seconded, it should be put to vote at once. If the closure motion is carried, the original proposal or amendment, as the case may be, is put to vote without any further discussion. A " closure " motion is moved and seconded without a speech, but some " closure " rules give the mover of the original resolution a right of reply.

The Previous Question.

When a proposal or an amended motion which is in order—but the discussion of which is not considered to be desirable in the general interest of the whole body before the decision of another question arising during the discussion of the motion or the amendment—is before the meeting, any member may move the " previous question " proposing " that the question be not now put." If seconded and passed, the original proposal is at once got rid of and the motion is " nipped in the bud " for the time being. It is so called because it is a distinct question requiring a " previous decision," that is, before the main question can be put to the vote. It temporarily prevents the main question from being put. The " previous question " can only be moved when the original motion is before the meeting and not during the time when an amendment is under discussion, though this can be done, when such amendment has been determined. The mover of the " previous question " has no right of reply.

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amendment is to be first put up for discussion. But many others hold that the custom of submitting an amendment to the vote before the original motion is practically universal. The latter method is certainly simpler.

Motion to Proceed to Next Business.

Another form of shelving a proposal is a motion " that the meeting do now pass on to the next item of business," which, when seconded and passed, effectively shuts out the proposal, the merit of which is not considered and voted upon by the meeting. It may be moved even when an amendment is before the meeting.

A motion is sometimes " talked out," as it is called. This phrase is applied to a motion which is debated but not voted upon on account of the time limit, if any, being exceeded or for any other reason. A motion is generally allowed to be " talked out " when the mover and his friends apprehending a defeat do not like to press for a decision though a desiring to ventilate the subject matter of the motion by a debate.

Voting.

This may be by show of hands or by poll. Questions in company meetings are as a rule decided by voting by show of hands, but when the rules provide, a poll may be demanded by members, the minimum number of whom for this purpose is fixed by the Articles. In meetings of other bodies any one member present may demand a poll. This is done where it is believed by the persons demanding a poll, that the exercise of the full voting strength by the members according to the provisions of the Articles, may alter the result of voting by show of hands, as the voting powers of the members are, at least to some extent, in proportion to the shares held by them and as the votes of absent members are also recorded in full by their proxies in the case of a poll. A poll or a division is also demanded where it is believed that the result of voting by show of hands is unreliable.

A poll or a division is to be demanded just after the result of voting by show of hand is declared by the chairman, otherwise his declaration in this respect is to be conclusive. The chairman may at once take the poll or may order it to be taken at a time and place fixed by him. The latter course is taken when it is thought that those who are absent in the meeting should be given an opportunity to record their votes by attending the poll. Voting by poll is

a very effective method of ascertaining the views of the members of a company on a certain matter, specially where the votes are allowed according to the share qualification of the members. The demand for poll need not be in writing.

All questions are usually decided by a majority of votes, but on some occasions, as in the case of an extraordinary resolution and in the case where there are special provisions made in this behalf, a particular majority, for instance, two-thirds or three-fourths, as the case may be, is required for such decision. If on a division or a poll being taken, the votes recorded including that of the chairman, are equally divided, the chairman will have a second or casting vote to help the meeting out of the tie.

Vote by Ballot and "Tellers."

In big and sometimes small election affairs, votes are confidentially recorded in slips of papers supplied for the purpose and the electors record their votes for the candidate or candidates on whom their choice falls and put the papers in a box—called the ballot box—kept for the purpose. This is known as vote by ballot. In the case of ordinary small meetings generally one or more members, called "tellers," are appointed to count these votes, who report the result to the chairman and he declares the result accordingly, but in Council or Assembly elections and elections of other important public bodies, the votes are scrutinised by the appointed authorities.

Rescinding of Resolutions.

After the passing of a resolution, a motion to rescind it can be brought at any time, if there is no provision in the Articles or the Standing Orders putting a bar or time limit to such a motion.*

A requisition or notice by a member or members to the convening authority, with a specification of the motion for

*A country council in Ireland, by resolution of January 13, approved of a proposal by a rural District Council to borrow money for a new road. By resolution of February 24 this resolution was rescinded. By resolution of May 15 that of February 24 was rescinded. An action to restrain the making of the road

such rescission is necessary in such a case. This is to be mentioned in the notice calling the meeting. Where there are rules and regulations made in the Articles or Standing Orders, in this respect, the procedure for rescission should be in accordance with the provision made therein. Ordinarily a time limit is imposed in such cases.

Adjournment of Meetings.

When a meeting is adjourned, only such business can be taken up in the adjournment meeting as was left unfinished in the meeting adjourned, but new business can also be taken up in the adjournment meeting by giving fresh notice of such business to those entitled to it. Articles or Rules of some companies or other institutions provide for automatic adjournment at a fixed interval when the meeting cannot be held for want of quorum, in which case no fresh notice is necessary provided no new business is taken up in the adjourned meeting. In all other cases fresh notice is necessary specifying the date, hour and place to which the meeting is adjourned with the agenda of the new business, if any.

General Rules.

The following general rules for conduct of meetings are culled from Blackwell's Law of Meetings :—

1. If at the appointed hour there be a sufficient number present to make a meeting, the person (if any) entitled should take the chair, but if there be no such person present,

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succeeded on another ground but it was held that, as there was no Standing Order to the contrary, the resolution of January 13 was validly resuscitated by the resolution of May 15. Per Ross, J. (Weir v. Fermanagh C.C., (1913) Ir. Ch. at P. 67): "The resolution of February 24 is not strictly a rejection; it merely rescinds the unqualified adoption. The Country Council was still seised of the resolution, and it was in their power to modify or amend it before sending it back. It seems to me that a resolution so long as it is not acted on can be legally rescinded, and that the order of rescission can be rescinded, and so on unless this Penelopean procedure—undoing at night what is done in the morning—is prevented by Standing Orders.....No Standing Order was then in force to prevent unlimited approval and rescission alternately. Therefore I hold that the resolution of May 15 was as effective as that of February 24." See also Leck v. Epsom R. D. G., ('1922) I. K. B., 383, as to the rescission of an undertaking to perform a statutory duty.

then a chairman for that meeting should be chosen by those present.

2. The general authority of the chairman to manage and control the meeting should be loyally respected, and a person, even if speaking, or desiring to speak, should sit down if the chairman rises to say anything.

3. On taking the chair, the chairman should call for order, and cause the notice convening the meeting to be read or himself briefly state the object of the meeting.

4. The chairman should himself read or cause to be read letters of apology for non-attendance and other correspondence.

5. The minutes (if any) of the last meeting (if any) should be read and put to the meeting for confirmation, and the meeting.

6. If no special resolution to vary the order of proceeding be passed, the rest of the business should be transacted, subject to statutory directions, in the order in which it occurs in the agenda paper, but an amendment should, irrespective of its position on the agenda paper, be taken during the discussion of the question it proposes to amend.

7. To enable the chairman to decide upon its relevancy or propriety, every amendment should be in writing and signed by the mover. It should be in order, relevant to, and show its effect upon, the question or amendment it proposes to amend.

8. The formal motions, viz. "the Previous Question," "that the meeting proceed to the Next Business," "Adjournment," and the "Closure," need not be in writing, but must be moved and seconded and put to the meeting, upon which they become distinct questions. It is, speaking generally, for the chairman to accept or not accept the closure. The Previous Question may not be moved when an amendment is under discussion, but the other formal motions may be moved at any reasonable time. Formal motions should not supervene one upon another, and if any discussion be allowed it should be of a very limited character.

9. By leave of the meeting any motion may be withdrawn before it has been put for decision.

10. Subject to the closure each person should be allowed, as far as practically possible, to make one speech upon each distinct question upon which discussion is allowed except the mover who has a right of reply.

11. In the absence of any rule to the contrary, the mover and seconder of any motion are deemed to have spoken upon such motion, unless they make it clear when moving or seconding that they do so merely formally, thus reserving their right to speak at length at a later stage.

12. The chairman may call upon intending speakers in such order as he pleases ; but the meeting may at any moment, when the chairman is about to exercise his right of call, resolve that, Mr. So-and-So be now heard. In exercising his right to call the chairman ought to call upon the supporters and opponents of a resolution impartially.

13. A point of order is either an alleged irregularity in what a speaker is saying at the moment or an allegation that a motion on the agenda is defective, *e.g.*, *ultra vires*. A person rising to a point of order should at once be required by the chairman to state succinctly the nature of the point. Such a point may be taken, whether the person taking it has already spoken or not.

14. Any person who has already spoken may forthwith, if the actual speaker give way, or, if not, at the end of the speaker's speech, briefly speak again to remove a misconception as to a material part of his former speech, that is, he may make a "personal explanation."

15. The mover of the original question should be allowed to reply briefly to the arguments used by his opponents.

16. Every speaker should rise, address the chair, and stand while speaking. His remarks should be spoken, not read, should be relevant to the question, reasonably brief, neither obstructive nor full of repetitions. He should be deferential to the chairman, respectful to the meeting, and not wantonly offensive to any person present or absent. He

should not use offensive personal allusions, contemptuous, insulting, or threatening language, or impute improper motives to or make groundless charges against his opponents. He should not use disloyal or seditious language, and should avoid referring to cases *sub judice*.

QUESTIONS BEARING ON CHAPTER XII.

1. What is the importance of Public meetings ?

2. How many persons can form a meeting ? How many persons are necessay for a Committee meeting ? Define a Committee.

3. What are the legal provisions of representation by proxy ? Describe the system of such representation in Company meetings.

4. Explain the rules of quorum. How are the quorums in meetings fixed ?

5. Explain the system in vogue about Casting vote of the chairman of a meeting.

6. What are the provisions for convening public meetings ? Who can convene them in different circumstances ?

7. What are the powers and duties of a chairman of a public meeting ?

8. What are generally the duties of the secretary of a joint stock company ? What are the qualifications required for an ideal secretary ?

9. Who are the persons to vote in the matter of confirmation of the proceedings of the last meeting ?

10. How are the motions and amendments put and how are they to be disposed of ?

11. Explain "closure," "the question be now put." "previous question" and "the meeting do now pass on to the next item of business." What are their effects when passed ?

12. What do you understand by "taking out" of a motion ?

13. Explain vote by show of hands and vote by poll. When and how can a poll be demanded ?

14. What do you understand by vote by ballot ? When does it become necessary ?

15. Explain the provisions about rescinding of resolutions.

16. Are all the formalities to be observed in public meetings, necessary in case of Committee meetings or meetings of directors of companies ?

17. Discuss the powers and duties of the chairman of a meeting of the share-holders of a joint stock company. What should be his qualifications ?

CHAPTER XIII.

SHARES AND DEBENTURES.

Holdings in Companies.

WE have already mentioned that the capital of a company is secured by alloting its shares to the public, but money is also secured by it by issue of debenture bonds of different denominations, this being the borrowed capital of the company from the public. Shares and debentures may be held in the form of stocks also. So the holdings in a joint stock company may be in three forms, namely, shares, debentures and stocks, the last being nothing but a converted form of the first two as will appear from their descriptions given in this chapter. The share stock is created by a conversion of the paid-up shares and the debenture stock is created by conversion of bonds for borrowed amounts.

SHARES.

Shares and Share Register.

The members of a company, as they are called, are the share-holders. The share, which is the unit of the capital of a company into which it is divided, determines the rights and obligations of the holder. It is transferable in multiples of the unit. Each holder gets a share certificate from the company as evidence of his holding: in this all particulars of the shares held are noted under the Common Seal of the company. A register of share-holders is kept by the company in which similar particulars are recorded and counterfoils of the certificates with brief information are also kept in the office. The share money is generally paid in instalments and when the full amount of the share is not required by the company, only a portion of it is called up—the balance remaining a contingent liability of the holder, to be called

up if and when necessary. Hence a share may either be a fully paid-up or a partly paid-up one.

Share Warrants.

If provision is made by the Articles of Association of the company, then under the Common Seal it can issue share warrants to bearer for its fully paid-up shares, instead of share certificates, declaring the bearer of such warrants to be the holder of those shares. These warrants are transferable by delivery only and the name of the holder is not on the company's register, but he can at any time demand a share certificate by surrendering his warrant.

These warrants, for obvious reasons, can be issued only for fully paid-up shares. A private company can not issue share warrants, for its shares are not freely transferable and a mere bearer can not be made entitled to them.

Ordinary or Common Shares.

These shares are the common form of holdings in the joint stock companies and unless there are other forms of shares having preferential rights, these shares are entitled to the whole of the divisable profits of the company; but if there are any deferred shares, then the ordinary shares take a fixed percentage of the profits before the participation of profits by these deferred shares over which the common shares take precedence. If the capital of a company be in ordinary shares only, then the whole profits minus any amount appropriated to the reserve fund, if any, are equitably distributed amongst the holders of these shares; but if there are preference shares of any description then the ordinary shares participate after the satisfaction of all preferential claims.

Ordinary share-holders are sometimes given the option of splitting up their holdings into Preferred Ordinary and Deferred Ordinary shares, the former bearing almost the same relation to the latter as the non-cumulative preference shares bear to the ordinary shares, as will be presently explained. The Deferred Ordinary shares do not get any divi-

dend before a fixed rate of dividend is paid to the Preferred Ordinary shares.

Preference Shares.

When some shares are given preference to other shares that is, when such shares participate in a certain portion of the profits before other shares are allowed to participate or/and when such shares have the rights to a preferential treatment in respect of the return of the capital, if available, in case of winding up, they are called preference shares. So there may be preference either in respect of dividend or in respect of the return of capital or in both. Supposing a company has a certain portion of its capital in nine per cent. preference shares allowing preference to the return of capital also, then in any one year the other shareholders will participate in the dividend if there is any balance, after payment at nine per cent. to the preference share-holders, and if there be a liquidation, then the capital of these share-holders must be returned first before any return is made to the other share-holders, provided of course that any return of capital is found possible.

Classification of Preference.

Preference may be of three kinds; (a) Non-Cumulative preference, (b) Cumulative preference and (c) Participating preference. Supposing there is no profit or only a small profit in a particular year, then no dividend or only a portion of the fixed dividend can be paid that year to the holders of the preference shares. In the case of cumulative preference shares such arrears are carried forward and are paid out of any profits of subsequent years, before other shares get any dividend, while in the case of non-cumulative preference shares no such arrear is carried forward. Unless preference shares are expressly made non-cumulative, they are to be understood as cumulative as to dividend, but in the absence of any express provision giving them preference as to the return of capital, these shares do not carry preference in that respect. Preference shares—cumulative

or non-cumulative—may be made to be entitled to share the surplus profits, if any, with the ordinary share-holders in addition to the fixed rate of dividend, upon defined terms. These shares are called participating preference shares, as in addition to receiving dividend at the fixed rate, they participate with the other share-holders in the surplus profits, if any, on a pre-arranged basis. Where authorised by the Articles, preference shares may be made redeemable subject to certain statutory provisions. Such shares are known as *Redeemable preference* shares which can only be issued if there is provision for such issue in the law and subject to the above condition.

Founders' or Promoters' Shares.

Sometimes shares are issued to founders, promoters or vendors, called *deferred* shares. They participate only after a dividend at a fixed rate has been paid to all other classes of share-holders or after the expiration of a stated period. If through sound and skilful management or a windfall the company makes a very good profit, these shares may obtain a dividend at a high rate after payment to all other classes of share-holders at their fixed rate and sometimes even after participation with them in the surplus, as the case may be, according to the terms of their issue.

These shares which are also called *founders'* or *management* shares, are issued to the *promoters* or *vendors* as fully or partly paid-up in return for services rendered in the flotation of the company or in its management.

Shares of "No-Par Value."

In America another class of shares is sometimes issued which are known by the above name. These shares have no nominal value as in the case of other shares described above. They merely represent an agreed share in the assets of the company. An example is necessary to make the matter clear. Suppose a company issues 5,000 such shares, i.e., shares without any "par value"; then the

holders of each of these shares will be entitled to 1/5,000 part of the surplus remaining after deducting the par value of all other shares of the company from its total net assets and will receive 1/5,000 of the profits remaining after satisfaction of all other shares in accordance with the provision made in this respect. These shares are shown in the company's balance sheet at the price at which they were issued with a note indicating their actual value represented by the above surplus of assets.

DEBENTURES.

Definition of Debenture.

Unlike the holdings in shares which participate in the profits, if any, of the undertaking, the holdings in debentures have an interest charge on the company at a rate fixed prior to the ascertainment of profits. While, therefore, the dividend on shares varies according to the success of the company, the income from the debentures is fixed, these being debts of the company on interest. The shareholders are the proprietors and the debenture holders are the creditors of the undertaking and hence the amounts represented by debentures are the borrowed capital of the company on which a definite interest is payable, irrespective of the company making any profit or not. A debenture may be defined as *an instrument executed under the seal of the company sometimes charging the whole or a portion of its assets in favour of the holder as security for a certain sum of money.* All conditions of issue are generally endorsed on the back of the debenture bond. Debentures may be divided into the following classes, according to the different terms and conditions attached to their issue :—

Different Classes of Debentures.

(a) When debentures are issued with merely a promise of payment, without any security for payment of interest or capital, they are called *naked* or *ordinary* debentures.

(b) When they are issued with a charge on the undertakings and assets of the company as security, they are called *mortgage* debentures or mortgage bonds.

(c) When they are issued with a charge on some fixed immovable property of the company as security, they are called *fixed* debentures.

(d) Debentures issued with a floating charge on the movable assets of the company for their security, that is, allowing the company to deal with its circulating assets in the ordinary course of business, are called *floating* debentures.

(e) When by a deed, the legal ownership of the property of the company is transferred to the debenture holders, as security for the loan, they are termed *legal* debentures.

(f) Debentures secured by deposit of title deeds of property with a memorandum in writing creating a charge on it, are called *equitable* debentures.

(g) Debentures payable to bearer and which are transferable by mere delivery, are called *bearer* debentures.

(h) Debentures which are payable to registered holders and the transfer of which is to be registered with the company are called *registered* debentures.

(i) Debentures on which payments of the principal is provided for, on a specified date or in notice, are called *redeemable* or *terminable* debentures.

(j) When the principal of the debentures is stipulated to be paid only on default of payment of interest or on the winding up of the company, they are called *irredeemable* or *perpetual* debentures.

Debentures are generally paid off by stages and sometimes with the proceeds of a new issue of debentures. When the security is good, (j) debentures are much valued for being a permanent sound investment. The money in-

vested in them is not returned, but it can be had at any time through the market where constant change of hands of such securities takes place at the prevailing price. Investors should be well advised to note the different terms and conditions of the various classes of debentures before going in for them.

Difference Between Shares and Debentures.

Unlike the shares which cannot be issued at a discount but only at par or at a premium, debentures may be issued either at a discount, at par or at a premium according to the credit and earning capacity of the company as well as the condition of the money market. While shares also may be issued for cash or kind, debentures are issued always for cash only. Besides, shares are generally issued on the terms of payments spread over a period of time and sometimes the full amount for the shares is never called up, while in debentures the full amount is to be paid. Debenture holders, secured or unsecured, are creditors of the company and they must be paid the stipulated interest irrespective of the company making any profit or not. Share-holders are proprietors of the company and are entitled to a dividend only if and when there is a divisible profit of the company.

The following are some of the other points of difference between shares and debentures :—

DEBENTURES.	SHARES.
Debentures are not part of the capital of a company, though it may be termed borrowed capital.	Shares are part of the capital.
Debentures rank first for capital and interest.	Shares rank next the claims of debenture holders and other creditors.
Debenture interest must be paid whether there are profits or not.	Dividends on share are payable out of profits only.
Debentures are usually secured by a charge on the company assets.	Shares cannot be secured by a charge.
Debenture holders usually have no control over the company, unless have no control is given by special arrangement.	Share-holders are members of the company and have full control over its manangement.

Premium, Par Discount.

When a debenture is issued for a less amount or for the same amount or for a higher amount than its nominal value, it is respectively called issue at a discount, issue at par and issue at a premium. Premiums received on shares and debentures are not treated as profits by the companies and generally transferred to a special reserve account. Discounts on debentures are written off to profit and loss account by annual instalments.

STOCKS.

Difference Between Share and Stock.

If the Articles of a company so authorise, the fully paid-up shares of the company may be converted into stock. In such cases each share-holder gets an amount of stock equivalent to the amount of his shares. Holdings in both shares and debentures may be in the form of stock. When for the convenience of transfer, the capital or loan of a company, which is in one sum, is divided into amounts denoted by their nominal value as in shares, it is called stock, the advantage of the latter being its transferability in fractional parts. While one must be the holder of a share which is to be in its unit, take for instance a share of Rs. 500/-, he may be the holder of stock for any fractional part of that unit, say for Rs. 200/-, when it has been converted into stock for an equivalent amount. Similar is the case of share or shares of other denominations as well as of debentures in units. Stocks may be classified under the following heads :—

Different Forms of Stock.

(a) *Debenture Stock.*—This being for a borrowed amount has the priority of security on the whole undertaking of the company and ranks first over other classes of stock in respect of payment of interest or dividend.

(b) *Guaranteed Stock.*—This means the cumulative preference stock with also a prior right to

return of the capital. This stock is not for any borrowed amount and hence it ranks next in order of security to the debenture stock which is for a borrowed amount. So it has the priority over other classes of stocks except debenture stock, and the interest or dividend on it must be paid before anything is paid on other stocks except stock (a).

(c) *Preference Stock.*—This ranks next to the guaranteed stock and has preference over the ordinary stock in respect of payment of dividend or interest, which is to be paid before any thing is paid on stock (d). If there is nothing left after satisfaction of the claims of stocks (a) and (b) then the holders of this class of stocks receive nothing.

(d) *Ordinary or Common Stock.*—This has no guarantee or preference at its back and is subject to the uncertainty of result in the working of the company and its rate of dividend is therefore variable. If the result of the working of the company is satisfactory, then the holders of this class of stock may receive a very high dividend, but if the case is the opposite, then they may not obtain anything at all. Hence the holders of this class of stock bear the greatest risk in a business.

It will appear from the above that the return on stock (a) is nothing but interest, and returns on stock (b) and (c) are also something like interests, but by the terms of issue, certain participation in profits, if any, may be allowed to the holder of these stocks and any return over and above the interest, in the shape of a share in the profits, is dividend, in which case they are called participating guaranteed or participating preference stocks. The return on stock (d) is purely dividend.

Stocks may have different rights attached to them. Sometimes the company gives the right of conversion to

its stock-holders, that is, to change their holdings of a particular stock for another class of stock that might be in existence at the time or may be issued afterwards. This is sometimes considered to be a valuable right, as the holder may convert his stock to another class of stock of the company if and when he considers the return on the latter to be more profitable or convenient to him. If this right is allowed to the stock, it is called *convertible* stock.

Foreign Bonds in Different Currencies.

The interest and the proceeds on redemption of the Debentures or Bonds issued by a foreign country may be payable in gold or sterling or the currency of the issuing country, by the terms of their issue. Assuming the investors are all British people, the question of exchange arises in the first case; in the second there is no such question, as being issued in Britain, they are payable in British currency; but in the third case, being payable in the currency of the issuing country, they may cause serious loss to the holder if the currency of that country is in depressed condition. These three classes of bonds are respectively called *Gold Bonds, Sterling Bonds* and *Currency Bonds.*

SECURITIES.

Securities in Different Forms.

Everything in the nature of shares, debentures and stocks is called a security. It may be of different forms :

(a) Securities for which a certificate is issued by the company in favour of the holder and recorded in its register are called *Registered securities.* Transfer can be effected only by the execution of a proper deed of transfer signed by the parties and not by mere delivery of the certificate. In these cases, the deed is sent to the company and if it is found to be in order, the transfer is recorded in the company's book, a fresh certificate in the name of the transferee being issued and that in the name of the transferer cancelled.

(b) Sometimes issues of companies (as well as of governments or corporations) are managed by banks. In such cases no certificate is issued but the name of the holder is inscribed in the bank's book. When a transaction takes place a stock receipt is received by the buyer from the recognised broker which is not negotiable. This is to be sent to the bank which inscribes the buyer's name in its books with date and pays the usual dividend to him by generally issuing *Dividend Warrants*. These securities are called *Inscribed Securities*.

(c) Securities may be in the form of *Share* or *Stock Warrants* and debentures may be made payable to bearer. They are negotiable and the securities are transferable by mere delivery for consideration. A number of *Interest* or *Dividend Coupons* are attached to these securities which may be lodged by the holders with their bankers for collection just like cheques. A form is attached to them called a *Talon* on presentation of which fresh coupons can be obtained when the original supply runs out. These securities are called *Bearer Securities*.

Scrip Certificate.

The company may take time to issue the actual bond, stock or share-certificate. Hence for the protection of the investors a provisional receipt is issued to them as evidence that they are entitled to the above when issued and when such instalments on them have been paid as are necessary according to the terms of issue in case of a share-certificate. These provisional receipts, called *scrip certificates*, are exchanged with the bond, stock or share-certificates when issued. These scrips are transferable and the right to the securities can be transferred by the delivery of the scrip. Scrips having the right of substitution of proportional amount of other stocks or shares, at the discretion of the

company or the holder, or on a definite date, are called *Omnium scrips.*

There are different classes of securities which are held by the investors, such as, (a) Government securities which may be of Home Government or Foreign Governments, (b) Corporation stocks of various countries and (c) Public company's shares and debentures.

Difference between Funded and Unfunded Debts.

Government securities are issued on account of the national requirements for various reasons when a government borrows from the public. This is therefore a debt owing by a government. This public debt, as it is called, is of two classes—(a) *Funded Debt* and (b) *Unfunded Debt.* The former is a permanent debt and the government is not under the obligation to repay it, though it has the right to pay off the debt after a specified period on giving previous notice of a fixed time. The holders of this class of securities can therefore claim no repayment from the government and can only sell these securities in the market, if necessary. Some of the British national debts consolidated into one, now bearing interest at 2½ per cent., are called *Consols*, the word being an abbreviation of "consolidated."

In order to reduce the funded debt a sinking fund is generally created to which a part of the national revenue is annually allocated. Incomes from other sources may also be used for the purpose of increasing the sinking fund. Interest on this debt is paid from the national revenue.

Unfunded debts are short term loans of the government which are to be repaid at specified dates. The currency of these loans may be for some months or some years. The interest of course is payable from the national revenue. No sinking fund is created for their redemption and they are generally paid off from the proceeds of new issues.

Treasury Bills, Exchequer Bonds and Debentures of Public Bodies.

Treasury Bills in India and *Exchequer Bonds* in England are other classes of borrowings by their governments.

The former is sold at a discount by tender and no interest is paid, the bill being of 3, 6 or 12 months' tenor. The latter is issued at a stated interest and is repayable on fixed dates to the bearer.

Public bodies like the corporations also borrow from the public by issuing debentures. These carry interest at a stated rate and are repayable on a specified date. They are generally long term loans, the interest for which is paid from the revenue of the borrowing public body. A sinking fund, from the annual allocation of a part of its revenue, is created for the redemption of the debt on the fixed date. The holder in the meantime may deal with the security in the market. First class bearer securities which the banks accept as securities for loan, are called *floaters.*

Railway and some other public companies which according to the provisions of their Articles, can not borrow over and above a certain limit, sometimes issue Bonds for their debts for work done or goods supplied by other people, for a stated period for which interest is paid to the holder. These bonds are called *Lloyds Bonds* after the name of Mr. J. H. Lloyd who first introduced them.

Lloyd's Bonds are special Bonds issued by Railway companies whose powers of borrowing are limited, as security for debts contracted in respect of work done, or supplies furnished. The Bond is an acknowledgment of the debt and states that in consideration of the creditor agreeing to allow the debt to remain for a stated period the Company will discharge the debt on a specified date and in the meantime pay interest at a stated rate per cent per annum.

QUESTIONS BEARING ON CHAPTER XIII.

1. What are the forms of holdings in joint stock company ?
2. What is a share register ? When is a share fully paid up ?
3. When can a share warrant be issued ? What is its difference with a share certificate ?
4. What are the several forms of shares generally met with ? Explain the deferred ordinary and preferred ordinary shares.
5. Describe the several forms of preference shares and distinguish between cumulative and participating preference shares.
6. What are deferred shares ? When do they participate in the profits of the company ? Explain shares of "No Par Value."
7. What is a debenture ? Contrast it with a share.
8. What are mortgage debentures, floating debentures, equitable debentures and irredeemable debenturs ?
9. Mention the distinguishing points about the condition of issue and right to payments, of the shares and debentures.
10. Explain premium, par and discount.
11. What is the difference between stocks and shares ? When can the former be issued?
12. Indicate the differences between stock, shares, bonds and debentures.
13. Explain debenture stock, guaranteed stock, preference stock and common stock giving their order of right of priority to receive interest or dividend.
14. What do you understand by convertible stock ?
15. Differentiate between Gold bonds, Sterling bonds and Currency bonds.
16. What do you understand by the term Securities ?
17. Give the main classes into which securities are divided. Why should a company appealing to the public for capital sometimes offer a choice of different classes of shares ?
18. Explain Registered Securities, Inscribed Securities and Bearer Securities.
19. What are Talons, Scrip certificates and Omnium Scrips ?
20. Differentiate between Funded and Unfunded Debts and state what you understand by Consols and Sinking fund.
21. What are Treasury Bills and Exchequer Bonds ?
22. What is a floater and a Llyods Bonds ?

CHAPTER XV.

ADVERTISEMENT.

ONE of the most important branches of modern business is advertisement. In a way modern business is no longer possible to be carried on without the help of advertisement which has now been scientifically organized. It is therefore necessary to deal with this important branch of business in connection with its organization and methods.

Advertisement in a broad sense has existed since men ceased to be self-contained in every respect and began to exchange their productions, though its growth in modern form can be traced to comparatively recent years. The modern advertiser has made a study of human nature and the requirements of the markets and has utilised the result in a scientific way in regard to his advertisement.

Every Body Advertises.

Some business people assert that they never advertise. This is a mistake. The sign board, the display of their goods, etc., are their advertisements, though such advertisements are old-fashioned. Big business houses besides employ travellers and agents to push the sale of their articles, on whom they depend for the disposal of their goods without coming into direct touch with the consumers and keep an establishment to bring them prominently before the prospective customers in various other ways in addition to employing canvassers.

Advantages of Advertisement.

Manufacturers often manufacture goods for their wholesale dealers on receipt of orders through their agents, with the trade marks of their customers, which only are recognised by the consumers and the name of the manufac-

turer never becomes known to them. But modern advertisement has brought the manufacturer and his trade mark directly before the consumer, and on account of the demand created by it, the wholesaler and the retailer are forced to stock his goods. The manufacturer thus saves the high commission paid to the wholesaler and becomes independent of him. Hence advertisement is now an investment and not an expenditure, as it brings a good result not only for the time being but it builds up a goodwill. The consumers also gain, as on account of the increased demand of the goods caused by advertisement, the manufacturer can reduce his cost of production and can offer them to the public at a lower price.

Advertisement also creates a demand for the goods where there was none, as but for the advertisement the customer who is attracted by it might have remained ignorant of the goods and their manufacturer. Hence in the words of Mr. E. S. Hob, "the modern seller seeks his buyers instead of waiting for the buyers to seek him." The old method of selling through travelling agents, etc., is now therefore gradually being replaced by scientific advertisements, the effect of which is generally visible not merely for the time being but is more or less permanent. It brings the goods advertised to the notice of their users and induces others to use them who are not already their users, creating a field for the consumption of the articles.

Backwardness of India.

Huge sums are profitably spent in Europe and America every year for advertisements and the result of this publicity is visible in all directions. India is still very backward in this matter, and many of our productions which ought to stand successfully a test in the world's market in competition with similar outside products, have remained practically unknown to their possible consumers, for want of advertising enterprises and organizing efforts on our part. The value and utility of modern advertisement can be understood from the admitted fact that even in the case

of goods with established reputation, discontinuance of advertisement is always followed by diminution of sale.

Elements Necessary for Success in an Advertiser.

To be successful, an advertisement should always be attractive and couched in "catching" but sober language. Any one in charge of the advertisement department of a firm must not only be a man of the world but he should have power of observation to enable him to properly survey and understand the current events of the time. The psychology of the human mind should be understood by him so that it might be possible for him to act according to its inner working, in his advertising propaganda. He is to be acquainted with the technicalities of printing, pictures, types, colours and other things through which the advertisement can be made effective by influencing the minds of those for whom it is intended. At the same time he will have to consider the financial aspect of the matter and to try to make his advertisement economically sound by using as little space as possible in the medium of his advertisement, without losing its expected effect on the readers. The drafting of an advertisement is now an art, for it must be so drafted that it may create a strong desire in the minds of its readers to acquire the article advertised.

To be useful, an advertisement should possess certain qualities so that it can appeal to the human mind in an effective way. The following may be mentioned as general requisites of an advertisement :—

Display and Suggestion.

It should be so framed that it may draw the attention of the public. It is necessary to attract the general public in spite of their apathy for advertisement, to the particular advertisement, by its display in an artistic manner. It should be so arranged that the attention of those for whom it is intended may be irresistibly drawn to it by its attractive value. The attention of the public may be drawn to the advertisement by judicial display of appropriate

pictures, attractive head lines, artistic borders, blank spaces, peculiar types, etc.

The advertisement should generally be suggestive. This suggestion may be in different forms for the purpose of impressing on the minds of the readers the advantage of buying the article advertised. For example, if an advertisement of a tonic medicine is accompanied by a picture of a very strong man fighting with a lion, it at once suggests to the minds of the readers that the medicine would make its users as strong as the man in the picture. Suggestion may also be in "catch words," such as, "get a grip on the future," over an advertisement of a life assurance company or, "silence is golden," over an advertisement of a noiseless typewriter, and so on. Extravagant and unusual suggestions however should always be avoided.

Repetition and Language.

An impression can also be made on the minds of the reader by repeating the advertisement again and again and thus helping him to retain the name of the advertised article and its merits in his memory. Attempt should also be made by the language of the advertisement to convince the readers that the article advertised is of the exact quality required by them. The language should always be sober and not vulgar, to bring about the desired effect. Human psychology should be carefully studied in appealing to the class of people for whom the advertisement is generally intended.

Appeal to Sentiment.

Another important requisite of an advertisement is an effective appeal to the sentiments of the reader. This can sometimes be done by attractive packing with appropriate pictures. For instance, if the paper covering of a packet of biscuits contains a picture of a happy mother feeding her contented child with biscuits of the brand advertised, it will appeal to the sentiments of the mothers purchasing biscuits for their children, more effectively than in the case

of the biscuits packed without the picture. The readers might have seen the advertisements of products of different brands which claim to have the power to destroy fleas and other germ-carrying insects. These advertisements are sometimes accompanied by a picture showing innumerable fleas and other insects hovering on a dish of food stuff from all directions to pollute and poison the food, or some other suggestive picture like that. The picture will at once suggest not only the necessity to save the food from the contamination by the insects, but will strongly appeal to the sentiment of the reader about the pollution of food and its prevention.

Studying Habits of the People.

When any new article is to be introduced, it becomes necessary to boom its sale by repeated advertisements skilfully designed. In such cases advantages should be taken of the known habits of the people about the use of the article, or if it be an invention on an entirely new line, the advertisement should be directed to create a habit amongst the public to use it, for once the habit is formed it is not easily altered. The advertisement in such cases becomes useful not only for the time being but for the future also by securing permanent custom. So the advertiser should aim at forming new habits of the people resulting in the demand of his article, along with studying their existing habits and taking advantage of them.

Exploitation of Human Instinct.

A skilful advertiser should also appeal to the several human instincts of the people for whom the advertisement is intended. Different people have different instincts and inclinations, which may be successfully exploited by the advertiser. For instance, human sentiment in connection with the hunting instinct of the people may be appealed to, in the advertisements for guns, rifles, etc., the clothing instinct in advertisements for dresses and wearing apparel, etc., the self-preservation instinct in advertisements for

medicines, sanitaria, etc., the food instinct in advertisements for various brands of prepared food stuffs, etc., the hoarding various brands of prepared food stuffs, etc., the hoarding instinct in advertisements of banks, life assurance companies, etc., the pleasure seeking instinct in advertisements for theatres, circuses, etc., the parental instinct in advertisements for various prepared foods for childrens' health, etc., and so on.

MEDIUMS OF ADVERTISEMENT.

Circular Letters.

There are a good many mediums in which advertisements are displayed. They are even engraved in rocks and other things of a permanent nature at places of public resort. Newspapers and magazines are very frequently used as mediums of advertisements, but many other mediums are also employed for the purpose. Manufacturers and wholesale dealers often advertise their goods by sending circular letters to their existing or probable customers. As this method is a direct one, they are bound to be seen and read by the addressee and to produce a direct effect on him. Such letters can also embrace detailed information about the goods, as such information does not entail any extra charge as in the case of newspaper or magazine advertisements. It is also possible to quote facts and figures in detail with arguments in these circular letters. The names of the parties to be addressed to are generally collected from various Directories or through local agents. Likely parties are also ascertained from the responses of newspaper advertisements.

Placards.

Another popular method of advertisement is by placards in the streets and other public places and public conveyances. Trade marks and trade names are always prominently displayed in these placards. This form of advertisements with appropriate pictures sometimes proves

to be much effective specially in some special lines of business, such as theatres, circuses, patent medicines, war loans, etc. Closely allied with the placards are the moving pictures, switch lights and cards in railway compartments, but these forms of advertisements are rather costly.

Prospectuses.

In cases where a descriptive narrative of the business is required to be communicated to the existing or prospective customers, the device of sending prospectuses is followed with good results. All information necessary to understand the nature of the business advertised are supplied in them and the reader at once becomes possessed of all the facts required to be known to him to arrive at a decision about his patronising the business. This form of advertisement is frequently taken advantage of in flotation of new companies and similar cases. Prospectuses are generally sent in reply to enquiries obtained through newspaper advertisements.

Catalogues.

Book sellers and sellers of miscellaneous goods and tradesmen in some other lines prepare catalogues of their goods with their short or long description, in some cases with testimonials, and send them to different persons in reply to enquiries or to likely customers. They are generally handy and in convenient sizes containing a list of goods handled by the firms. The list of goods, generally with their prices, is arranged according to their classes and sometimes papers of different colours are used for different classes.

Shop Windows, Fairs and Exhibitions.

A very effective form of advertisement now-a-days is the artistic display of the articles to be sold, behind specially contrived glass windows of the shop in artistically designed containers and brackets. The display is so designed as to attract the notice of the people who pass by

the windows, in a forcible manner, riveting their attention to the goods displayed. The prices of the goods are generally marked on them and any reduction of price made is also shown. The goods displayed are also appropriate for the requirements of the public for the time being according to the different seasons of the year and are changed frequently to keep the interest of the public alive by catering to their taste for new things. Artistic decoration with electric lights of various shades and designs is also shown at night to produce effect. This form of advertisement is specially useful for retail sellers but is employed by the wholesale dealers also.

Articles are now largely displayed in Fairs and Exhibitions specially held for the purpose. This is a very useful form of advertisement which draws the attention of numerous people attending them. Exhibitions are arranged in foreign countries also through consular offices, in the Fairs held in those countries. This frequently gives the goods a world advertisement. Artistic display is necessary to make all such exhibitions of goods attractive to the public.

Theatres and Cinemas.

Readers must have noticed advertisements of various goods and business in the drop scenes of theatres and have seen the displays of the advertisements of such things in cinemas. Advertisements are also found in the programmes of the theatre, intended to be read by the audience during the interval of scenes. Restaurant keepers, tobacco sellers, patent food manufacturers, etc., generally make use of these mediums for publicity of their business.

Newspapers and Magazines.

The most important mediums of advertisement used by the business people for the purpose of pushing their business, are the columns of newspapers and magazines. Provided the advertisement is in appropriate form in appropriate papers, this is believed to be the most effective

way of publicity giving a uniformly satisfactory result. Newspapers and magazines are subscribed and purchased not only by the general public but by clubs, public libraries and other bodies affording opportunities to non-subscribers to read them. So they reach a very wide circle of readers. The readers of many of the newspapers may now be counted by millions and prominent advertisements for all sorts of things and propositions generally catch their eyes. The proprietors of these papers and magazines derive a very substantial portion of their income from these advertisements. They therefore give all sorts of facilities to their advertisers.

Advertisement of Specific Character.

General advertisements are always inserted in general newspapers which cater for people interested in all branches of human activity, but advertisements of specific character, such as religious, financial, medical or economical, etc., are ordinarily sent to the papers and magazines devoted to those specific branches of human knowledge, so that they may be read by people specially interested in those matters. Magazines are generally preserved while the newspapers are not. Hence the advertisement in the former is of a more permanent character than it is in the latter. This fact is always carefully taken note of by experienced advertisers. The position occupied by an advertisement in a particular newspaper or magazine is also of importance, as a prominent or an appropriate position occupied by it, more successfully commands the attention of the general or appropriate class of readers, than an obscure or inappropriate position.

Advertising Agencies.

There are a good many firms in America and Europe having specialists on their staffs who arrange all sorts of advertisements for their employers. There are also Advertising Agents in those countries who, besides taking charge of outdoor advertisements, put the advertisements of their

clients to newspapers, magazines, railways, etc., with which they have big contracts for spaces which they profiably use for them. This saves the newspapers from the trouble and expense of having to deal with numerous customers sometimes with a pecuniary loss, and the advertisers from the trouble of dealing with a large number of newspapers and consequent loss of time for correspondence. Besides, any advertiser may avail himself of the expert advice of these Agencies as to the design, get-up, preparation of copies, appropriate artistic drawings, etc., for his advertisement. These Agencies also undertake to distribute, literature, fix placards and such other things. There are besides, specialists in advertisement writing who undertake preparation of drafts of all sorts of literature for the advertisers on payment of proper remuneration.

In India a beginning has been made in this direction and in Calcutta, Bombay and some other important centres, some such Agencies on a small scale have been started.

QUESTIONS BEARING ON CHAPTER XV.

1. Why is advertisement now considered to be an important part of business and what are its advantages?

2. What are the qualifications necessary to be possessed by an advertiser to achieve success?

3. What are the principal requisites for an advertiser?

4. How can the sentiments of people be successfully appealed to in an advertisement?

5. How can the general instincts of the people be exploited by advertisements?

6. What are the several mediums of advertisements generally resorted to by the advertiser? Compare their utility and general usefulness.

7. How are the shop window displays to be arranged to attract the attention of the passers-by?

8. Why much value is attached to the appropriate position of an advertisement in a newspaper?

9. What are the advantages and disadvantages of advertising through Advertising Agents? What do these Agents generally do for their clients?

10. You have opened an Advertising Agency in Calcutta, have engaged experts in its various departments on your staff and have secured spaces on contract in all the leading newspapers in India. Draft an attractive advertisement for newspapers giving publicity to the arrangements you have made for convenience of the advertisers in advertising through your agency.

SOME UNIVERSITY QUESTIONS.

1. What are the chief points to be taken into consideration in deciding the form an advertisement should assume?

2. Discuss the importance of the following for furtherance of modern commerce :—Fairs, Exhibitions and Consular Offices.

3. What do you understand by scientific advertising? Discuss carefully the elements which a good copy of an advertisement should embrace.

4. What do you understand by scientific advertisement?

5. What are the instincts to which a scientific advertiser tries to appeal?

6. Mention the important points you would bear in mind in preparing a good copy of an advertisement.

7. In preparation of an advertisement to be sent to a monthly magazine on behalf of a large leather goods manufacturer, what elements would you try to insert in the copy with a view to make it carry the selling power?

8. Explain carefully and in detail the essential elements which a good copy of advertisement should embrace.

9. What are the main features of a good copy in poster advertisement?

10. What points are to be considered in selecting the media of advertisement?

11. Discuss the possibilities of theatrical programmes and shop windows as mediums of advertising.

12. State the potential value of window display.

13. Draw up an advertisement, for a Life Assurance Company, incorporating appeals to appropriate instincts.

14. Consider the problem of advertisement from the point of view of (a) a single business concern, (b) of the community. Draw up a copy for advertisement in a magazine offering for sale a breakfast food embracing an appeal to self-preservation and parental instinct.

15. Discuss the potential value as media of advertisement of the following—Show room, cinema film, placards and magazines.

16. "Ultimately of course, the public pays for these advertisements in the enhanced price it has to give for the goods so brought to its notice." Discuss the statement.

17. Explain in details the advantages and disadvantages of advertising on a large scale.

18. Discuss the method of publicity lately adopted by the Indian Railways in order to increase their traffic.

19. How far is illiteracy an obstacle in the way of pushing sales by advertisements?

CHAPTER XVI.

COMBINATIONS IN BUSINESS.

BUSINESS once organized requires constant looking-after with care for its profitable existence, and not only efficient management by those in charge of its affairs is necessary for its prosperity but devices are frequently required for the furtherance and protection of its interests. These devices are in the nature of combinations formed amongst business people for their common welfare and advancement.

Cartels.

It is found that trading concerns sometimes run their business with little or no profit on account of unhealthy competition. In such cases, specially in cases where the businesses want to protect their common interest by preventing rate cutting, etc., they combine on some understanding amongst themselves with regard to the sale, manufacture, terms of payment or regulation of output. Such a combination practically effects a monopoly so far as the price is concerned, for under the condition of the combine, none can sell the particular goods for less than a certain fixed price. It is to be noted that in such combinations the firms retain their separate existence, being only bound by the terms of the combination regarding its object, such as price to be charged, quantity to be manufactured, qualities to be maintained, etc., etc. Each of them therefore relinquishes certain functions and places them with the central authority set up, which decides the terms of the combination. So the units of the combination keep their independent existence in such cases, only certain functions being centralised. Combinations of this class are called *Cartels*.

Trusts.

Almost for the same purpose, specially where very large capital becomes necessary for manufacture on improved processes invented as result of competition or for working up important discoveries, combinations are formed of corporations or companies. In such cases the share-holders of these companies agree to combine into a *Trust* and surrender their shares to a newly formed Board. This Board issues Stock Certificates to the share-holders of all the combining companies according to their holdings and distribute the combined profits earned by such companies, amongst them according to the certificates held by them. Though the combining companies in such cases may retain their separate legal existence, all their interests are merged in the central organization which begins to control the whole of their operations, and the units are practically assimilated by the central organization. So all the single enterprises virtually disappear giving place to a bigger entity and effecting a combination of capital, labour and credit of all the units for the purpose of increasing production and sale under a more favourable condition by excluding competition. In such organizations the individual undertakings are practically absorbed in a single concern and they all lose their independence. Such combinations are known as *Trusts.*

Distinctive Features of Cartels and Trusts.

Trusts seem to be a more advanced form of cartels and therefore may be regarded in many respects as a further stage in their development. While cartel is generally a combination of business in the same branch, a trust combines undertakings in different branches of industries, including transport, insurance, etc., and unites the largest possible number of smaller undertakings into a bigger one, securing increase of production and sale, adopting the output to the demand, enforcing regulation of price and preventing over-production. Cartel is a combination of independent undertakings of a voluntary nature without

full surrender of their rights, for the purpose of maintaining their concerns as profit-earning units, formed by contract for such period as may be advantageous to the parties concerned.

Vertical and Horizontal Trusts.

A trust on the other hand is an attempt to become a self-sufficient organization avoiding a dependence on other concerns for supply of raw materials or sale of finished goods. A trust producing steel may open its iron mines and coal mines and may even take to ship building to become independent of other shipping companies in regard to transport of its raw materials or finished products. Sometimes it may acquire a large number of railway shares by open purchase in the market and thus may hold the power of the Railway Company, in regard to its policy about rates of freight to be used in the interest of the trust and against the interest of its rivals. Such a linking up of all the different stages of production and distribution is known as a *vertical combination.* It is not unoften found that a trust corners the market of a particular commodity by an amalgamation of firms engaged in the same line of production to make larger profits by monopolising its purchase and sale. Such an amalgamation is known as a *horizontal combination.* The objects of both, however, are economy in production, creation of monopoly, larger profits, control of the market and self-sufficiency. The former is found in numbers in America, while the latter flourishes in Germany, for difference in industrial outlook of these countries. England follows Germany in this respect. The trusts of India which are limited in number are principally *horizontal combinations.*

Trusts and Cartels Contrasted.

In a trust it is the capital that counts to a large extent, while in a cartel this is not the case. This capital of the trust is generally organized by big banks which are found to be always connected with big trusts. Spirit of enterprise

is at the root of the trust and conversion of many small businesses into a gigantic one is its central idea. Hence while the origin of a trust is ambition for further prosperity, that of a cartel is distress in business, that is, it takes its origin from a condition, when from unrestricted competition, any particular branch of industry is threatened with ruin. It therefore originates at the time of depression in any business, while opposite may be the case in trusts. Sometimes in raising the price, the cartel may run the risk of making successful competition possible by other exporting countries in spite of the import duties. Such cases are sometimes met by *international cartel.*

Drawbacks of Cartels and Trusts.

As the individual members of a cartel retain their independentce its constitution is not as firm as that of a trust, in which such members absolutely lose their independence. Cartels are therefore frequently in danger of being split up on account of the members' not keeping their agreements, the risk involved being secret non-observance of the conditions of the cartel, time limit of the cartel and apprehensions of the members before the end of this time that the cartel may not be renewed, refusal of some in the same line of business to join the cartel and hence outside competition, new promotion outside the cartel of business in the same line, and dissatisfaction of members and consequent severance of the connection with the cartel and thus swelling the number of "outsiders." For these reasons a cartel cannot enjoy a very long life.

In a trust these elements are absent as the units are linked up in indissoluble bond. Unlike a cartel the competition of a trust is directed against outsiders and not its own members. While a cartel fixes an artificial level of price by abolishing healthy competition, the trust by becoming one unit aims at economical management and consequent reduction of price, though both the forms of combination are detrimental to the interest of the general consumers, as they stop the price to reach its economic level by prevent-

ing healthy competition. This artificial price also affects the manufacturers who have got to use the goods of the trusts as raw materials, and the wholesale dealers in their competition in the markets of the world.

Different Forms of Cartels.

As already mentioned, cartels develop out of necessity for restricting competition and preventing the flooding of the market with goods. It may therefore take one or more of the following forms in different stages of its development :—

(a) The first stage seems to be an agreement not to give any preference to customers with regard to time of payment, discount, allowance or mode of delivery. This may be called a *condition cartel.*

(b) There may be a cartel for quality of goods to be manufactured and sold and price to be charged for different standards, the manufacture and sale of superior or inferior quality being prevented. This cartel may be called a *quality cartel.* This form of cartel is necessarily limited to only a certain class of trade only.

(c) The most important form of cartel is the *price cartel* in which none of the members can sell at less than a certain fixed price. This form has good many drawbacks in as much as an evasion by a member is possible through his travellers and agents and by delivering better qualities at the fixed price and thus getting an advantage in the struggle for customers. Though this form of cartel eliminates competition in price to some extent, it introduces competition in quality by a back door.

(d) Another form of cartel is the *area cartel* in which the members combine not to encroach upon the trading geographical areas of other members, under heavy penalties. This form of cartel is possible only in business without much outside

competition, such as railways, shipping, transport, etc.

(e) *Sale cartel* is sometimes formed in which the sale of all goods manufactured by the members is entrusted to a central organization, other functions of the business being retained by them. This central organization generally takes the form of a limited company assuming a legal form capable of performing commercial operations. The individual members in this case being relieved of the most vital function, namely, the arrangement of sale of goods, get opportunity to direct their undivided attention to manufacture, which is greatly increased as a result. But the central organization can not sell *any* quantity. Hence it becomes sometimes necessary to restrict the output of goods by the individual members. This is done by limitation of output. Each member under this system is allowed to manufacture goods up to a certain quantity only. Difficulties generally arise in such cartels with regard to the allocation of output, as the profits of each individual member depend on the volume of his output.

Different Forms of Trusts.

In the trust the above forms of combination are practically absent, as there is no object to be served by such combinations, each unit being subjected to the interest of the whole, though it may retain its old firm name. Some loose forms of trusts however are somewhat like cartel (e).

Trusts may be divided into the following classes according to the stages of their development:—

(a) Sometimes the competing firms agree to club together their profits and to distribute them on a stipulated basis. In these combinations, called *Pools*, the independence of the members is substantially retained and the working expense

is not decreased. So it is an advanced form of cartel and a very loose form of trust which is workable only in some special lines of business, such as, transport, etc. The main drawback of a *pool* is that it removes to some degree the incentive to more efficient production by those who form it.

(b) Another loose form of trust is the avoidance of competition amongst firms by agreement, lending capital to each other and combining profits to be divided afterwards in a certain proportion. One company in such cases may acquire a substantial portion of the shares of another company, may exchange directors with it and be interested in it without completely controlling its policy or affairs, but at the same time securing a common policy. This policy however is not and can not be very stable in the circumstances of the case. Such a trust, generally with an *interlocking directorate*, is known as a *Community* of *Interests* which may therefore be defined as *a form of organization in which the business policy of several companies is under the control of some common directors without any central authority being formally set up.*

(c) There is another form of trust in which the companies forming the trust issue new shares and compulsorily exchange them with each other. This form of trust may be called the "*share exchange trust.*"

(d) The *modern trust is* distinct from the above forms. A new limited company is now formed and it buys the major portion of the shares in the undertakings forming the trust. Thus the control over all the members is obtained and the policy of the trust becomes predominant in the transaction of all business for which it is formed.

The trust at first originated in the U. S. of America in the formation of the Standard Oil Company when a number of competing firms in the line transferred substantial portions of their shares to the central company forming a trust and the members of the trust conferred power of attorney on some trustees who took the entire administration of the combined concern and granted *trust certificates* to the share-holders of these companies and allowed them proportionate shares of profits. This form of trust, however, was made illegal on public policy by the Anti-Trust Law of 1891, and the trusts existing at the time in the U. S. of America had to reconstruct their affairs by converting them into forms of trusts permitted by law. It is no longer possible for people to become masters of a group of companies without acquiring their shares, as such an arrangement is considered to be dictated by a policy in restraint of trade. This class of trusts in England and Germany was also disallowed, specially on the outbreak of the War. The international trusts also met the same fate.

Holding Company.

This is a form of combination in business having practically little difference with a trust described in (d) above. It has evaded the above law by substituting the stock of the *Holding Company* for the certificate of the Trust and the Directors of the Company for the Trustees. The trust relationship is not there, and instead stocks of the several companies have been permanently transferred to the Holding Company. A Combine is formed generally by floating a company which takes over the whole or a major portion of the shares and stocks of the combining companies and thus secures the power of appointing its nominees to the Boards of those companies doing business in the same line. The share-holders of these companies receive in exchange an interest in the newly formed company and these companies—called *subsidiary companies*—are financially merged in it, the whole or major portions of their stocks being transferred to it.

This is not therefore a mere *community of interests* nor a complete *merger*, for it rests on a stronger basis than a loose interholding of stocks and at the same time maintains the separate existence, though formal, of the constituent concerns.

Its Special Features.

So in these combinations the component firms more or less preserve their individual existence, but though they frequently carry on business as separate firms, generally they are financially merged in the Holding Company. The Holding Company always controls financial, manufacturing, marketing and other operations of the group and the members hold shares in it and also receive a bonus on their individual working. Sometimes the buying and selling also remain in the hands of the component companies, but in more compact combinations of this class, the whole thing is done by the central authority and the component firms only act to its orders. A Holding Company may therefore be defined as a *business organization which is formed for the purpose of combining other organizations by owning a controlling amount of their stocks.*

Merger, Consolidation and Amalgamation.

Occasion may arise when it is found necessary to combine one business with another to strengthen the position of both or to save the existence of one. In such cases two or more companies or businesses merge into one and a complete fusion takes place which is technically called a *Merger*. This can be effected by an exchange of shares or purchase of the whole or controlling interest of all by one effecting a complete loss of the independence of the constituent companies. *A merger is therefore a consolidation in which one business is absorbed by another which retains its own existence.* Sometimes the main line of a Railway system may absorb some branch lines in this way when it is called a merger. In *amalgamations* several businesses virtually become one and the

individual independent existence of all but the one created by the coalescence of a group is lost. Here, one big concern may buy up a good many smaller rivals. It has therefore little difference from a *Merger.*

In India Section 208 C of the Indian Companies Act has made legal provisions for amalgamation of companies, under which one company may acquire the assets and liabilities of other companies which go into liquidation for the purpose on terms and conditions settled beforehand between the companies. In such cases the legal existence of the liquidated companies is lost.

We find all these combinations now so complex and interrelated that an accurate classification of them seems to be not easy, specially for the loose terminology used by the Press as well as by some writers on the subject.

Federation Organization.

Sometimes business organizations combine for mutual support by agreement, but they keep independent and autonomous powers about the management of their own affairs, surrendering only such powers which are considered necessary for mutual benefit in relations external, to one another. Except restrictions to this extent the members remain fully autonomous and independent, as in Political Federations. Combination of business in this form is called a Federation Organization. This type of combination is therefore nothing but a form of cartel, though the control of the central authority in the former is much more limited than it is in the latter. The units combining together are always at liberty to break away from the organization unless restricted in this respect by legal provisions as in the case of Federal Incorporations of America. So there is nothing like "consolidation" in a federal organization.

Trade Organization.

Without any of the above objects in view there may be combinations amongst the same or different classes of

business with a view to advance common interest of the community forming the union. The function of such organizations is generally the representation of their interests to other trades and industries or to other public organizations.

There are various similar other voluntary combinations for the protection of interests of the commercial community, such as Chambers of Commerce, Trade Associations, Trade Protection Societies, etc., which work under different systems for different purposes but aiming at the protection of general commercial interests of the members. Many of the industries and trades may be united in a combination which becomes very powerful for the protection of the interests of the members in many directions, such as assisting individual undertakings by procuring information from government or other public institutions, establishing harmonious relation between employers and employed, assisting in the efforts to bring together representatives of capital and labour, encouraging settlement of disputes by conciliation and arbitration and promoting the adoption of equitable forms of contracts in business generally, etc., etc.

Trade associations as a rule are frequently fighting organizations which gaining strength through combination may effectually fight for their common interest in regard to tariff and general commercial policy of the government and may try to influence public opinion in this respect and also in respect of other matters of importance to the commercial community forming the associations.

QUESTIONS BEARING ON CHAPTER XVI.

1. What is a Cartel ? When generally is a Cartel organized ?
2. What is a Trust ? What does occasion the formation of a Trust and in what circumstances ?
3. What are the distinctive features of Cartels and Trusts ?
4. Explain vertical and horizontal combinations in Trusts.
5. What is an international Cartel and when does it become necessary to organize it ?
6. What are the drawbacks of Cartels and Trusts ?
7. Describe the different forms of Cartels.
8. What are the different forms of Trusts generally met with ?
9. What is the difference of a modern Trust with a trust made illegal in America ?
10. What is a "Share Exchange Trust" ? What do you understand by a "Community of Interests" ?
11. When is a combination called a "pool" ?
12. Define a Holding Company. What are its special features ?
13. What is a Consolidation ? How is a Merger formed ?
14. How does amalgamation of companies generally take place in India ? What is the legal procedure in this respect ?
15. What do you understand by Federation Organization ? Differentiate it with a Cartel.
16. Explain how and why other trade organizations than Trusts and Cartels are organized by trades people for protection of their interests.
17. What are the special characteristics of Trade Associations and why are they formed ?
18. Distinguish between the objects underlying the constitution of trusts and cartels.
19. What is the form of combination generally in vogue in England, Germany and India.
20. What is the form of combination envisaged to evade the Anti-Trust Law of 1891, and what are its special features.
21. How can two or more companies or businesses be fused into one.

SOME UNIVERSITY QUESTIONS.

1. Compare the Cartel and the Trust as types of industrial organization.
2. Discriminate clearly between Cartels and Trusts and explain the conditions which favoured the growth of Trust in U. S. A. and Cartels in Germany.

3. What do you understand by pool agreement ? Do you know of any pool agreement in any Industry in Bengal ?

4. Discuss the nature, object and economics of vertical and horizontal combination.

5. Indicate the chief reasons for the modern tendency towards the amalgamation of business undertakings. Point out the effects of such amalgamation.

6. Compare the relative advantages and disadvantages of vertical and horizontal combinations in industry. Illustrate by reference to American and German industries.

7. What is Cartel ? How does it differ from trust and pool ?

8. Briefly explain the general conditions out of which arose the great American trust. To what extent have similar conditions produced similar effects in the United Kingdom ?

9. Discuss the influence of competition on modern industry and trade.

10. Describe the various types of industrial combinations and indicate the strong and weak points of each.

11. What is a holding company, and how does it exert its influence over its subsidiaries ? What advantages are derived from such an organization ?

12. What are the proper functions of Trade Unions ? Would you consider them an unmixed blessing ? Explain your views carefully.

CHAPTER XVII.

INSOLVENCY AND LIQUIDATION.

What These Are.

AFTER having dealt with the various forms and methods of business organization and combinations for protection and improvement of the organized business, we propose to consider about the steps which generally become necessary when a business fails. Success in no form of business is universal, and as in other walks of life, people are liable to constant failure in business in spite of their earnest attempts for success with scrupulous honesty and sound management, on account of various circumstances over which they have no control. When a business, either of a single trade or of a partnership or of a company fails, it becomes necessary to wind up its affairs so that the assets of the concern may be collected in the best form with promptitude and without any further avoidable loss, for the benefit of the creditors and partners or shareholders and to give necessary relief to the latter when necessary.

Law has made special provisions in this respect. When a private firm or for the matter of that any person fails in his business or a Joint Stock Company fails, that is, when they become unable to pay their creditors or can not carry on business except at a loss, it becomes necessary for them to take advantage of these provisions of the law or they are compelled to be brought within the purview of these provisions. In the case of such failures of private persons, firms or companies, they are called insolvents and in the case of the failure of the last it "goes into liquidation."

Provisions made by English and Indian Law.

In England the procedure laid down in the Bankruptcy Act of 1914 is followed in the case of failure of private

persons or firms, while the provisions of the Companies Act of 1908 in respect of liquidation are applicable in the case of registered companies. In India, in the case of the former the Presidency Insolvency Act and the Provincial Insolvency Act apply in Presidency towns and Provinces respectively, while the Indian Companies Act applies in the case of liquidation of registered companies. In England it was the practice formerly to put the insolvent debtor into prison, but the insolvency laws have now given him an opportunity to restart, provided he is not found guilty of fraud or misconduct. The same facilities have been given to the debtors in this country though the law and procedure differ a little here from those in England.

Acts of Insolvency.

Briefly a debtor commits an act of insolvency when he himself petitions the Court to be adjudged an insolvent or when he notifies to his creditors that he has suspended or is about to suspend payment of his debts or when he is imprisoned in execution of a decree or does any other act as enumerated in the law. The insolvency petition may be presented either by the creditor or by the debtor himself, the fromer to save further loss or for proper collection of assets of the debtor and equitable division amongst the creditors, and the latter for his own protection against attachment and imprisonment and for proper management of his assets for the benefit of his creditors and sometimes of himself.

Procedure Followed.

On the admission of the petition for insolvency, notices are issued to the parties affected, and after some preliminaries the debtor is adjudicated an insolvent unless the Court otherwise directs for reasons recorded by it, and then the process of realisation of his assets begins. An official Assignee has been appointed in the Presidency towns and a Receiver is appointed in the districts, who become trustees for the creditors. The affairs of the

debtor are then investigated and his properties managed by the assignee or the receiver. He arranges for a public examination of the debtor in Court and for meetings of creditors, if any, by order of the Court. If the debtor is found to have done any criminal act, he is prosecuted by him. The debtor is also required to swear an affidavit giving details of his liabilities and assets and other relevant matters and submit it for the information of the assignee or the receiver. The debtor has to attend the creditors' meetings arranged by the Court and to furnish all necessary information to them.

Composition or Scheme of Arrangement.

After the admission of the *adjudication* petition the debtor is declared an insolvent in ordinary course, but he may make a proposal for *composition* or submit a *scheme of arrangement* to his creditors, and if the majority of creditors in number and three-fourths in value accept the proposal and it is approved by the Court and the debtor acts up to it, then the adjudication order is cancelled, otherwise the proceedings take the ordinary course. In *composition* the debtor proposes to pay "so much" in the rupee, and in *scheme* some other forms of settlement may be offered. If any criminal act is found against the debtor the Court always refuses to approve of the composition or scheme.

When such an arrangement is not proposed or refused, the assignee or the receiver, as the case may be, proceeds with the matter and converts the estate of the insolvent into cash, by selling the assets including the goodwill, if any, and realising the outstanding dues to the estate by instituting legal proceedings, if necessary. He is to keep proper accounts of the money realised and correct records of the proceedings of the meetings of the creditors. After realisation the creditors are paid *pro-rata* by series of instalments or at a time according as the receipt is in parts or in full. The assignee or the receiver is entitled to his remuneration and expenses before this distribution.

This Scheme of Arrangement should not be confused with a *Deed of Arrangement* which may be entered into by an insolvent person before the commencement of the bankruptcy proceedings. This has been explained hereafter.

Creditors—Preferred and Secured.

Some creditors such as clerks or servants, labourers or workmen are preferential creditors for their dues for a specified period and/or for a specified sum under certain circumstances, and certain other special charges are preferential debts. All these preferential creditors must be paid in full before other creditors receive anything. There may be creditors secured by mortgage, bill of sale or charge or lien on the property of the debtor. These secured creditors may or may not be affected by the insolvency of the debtor for they can realise the full amount of their dues from the mortgage, bill, etc., but if the amount thus realised falls short of the dues to them, they rank with other unsecured creditors for the balance remaining unrealised.

Discharge and Offences.

When the insolvency matter proceeds, the Court after hearing reports about the conduct of affairs by the insolvent, may either discharge him or refuse a discharge or suspend his discharge on certain conditions. When he is discharged, he is extricated from his distressing position and becomes free from all his debts and obligations and to start afresh if he so likes.

In insolvency laws some acts are held to be criminal offences and are dealt with as such. Concealment of property by the debtor, concealment of dues to him, falsification of account books, contracting of debts under certain circumstances, etc., are made penal offences, while culpable neglect of business and rash trading, omission to keep proper books, continuing to trade when insolvent, etc., etc., are held to be not criminal.

Private Settlement or Deed of Arrangement.

Without going through all the cumbrous proceedings of insolvency Courts a debtor may settle affairs privately and may thus avoid an insolvency altogether by surrendering all his assets to be distributed amongst the creditors *pro-rata* or offering them a part of their dues, say "so much" in the rupee, in full satisfaction of their dues by calling them privately, provided that the arrangement offered is accepted by all the creditors, otherwise he may be forced to insolvency by any of the creditors.

Liquidation.

As already stated when a Joint Stock Company fails, that is, becomes unable to continue its operations for any reason, e.g., inability to pay its debts, inability to carry on the business except at a loss, etc., it becomes necessary to wind up its affairs by going into liquidation. A company may go into voluntary liquidation or may be forced into it by order of the Court upon petition. Under special circumstances, such as application by the creditors or the share-holders, voluntary liquidation may be under the supervision of the Court. When forced into it, the liquidation may be the Court or subject to the supervision of the Court.

A company may be wound up voluntarily either by a general resolution or by a special or extraordinary resolution according to circumstances, under Section 203 of the Indian Companies Act. It is called *voluntary liquidation.* The Court may on petition of a creditor and in some other circumstances *order a* winding up which is called *compulsory liquidation.* In either case a liquidator or liquidators are appointed by the share-holders in the former and by the Court in the latter. They are called *voluntary liquidators* and *official liquidators respectively.*

The liquidator has to act and prepare his accounts according to the provision of the law though the duties of a voluntary liquidator are much simpler than those of an official liquidator who has got to follow complicated official

regulations. The duties of these liquidators correspond to those of the assignees and receivers, namely, to realise the assets of the company and to distribute the proceeds *pro-rata* amongst the creditors first and then amongst the share-holders, if there is any balance. There may be secured creditors in the case of companies also as in the case of others and there are preferred creditors of companies in the same way who receive preferential treatment in liquidations.

QUESTIONS BEARING ON CHAPTER XVII.

1. When is a person or a firm or a company is said to become insolvent ?

2. Why is legal protection given to insolvents? What is the principle followed in the legal provisions made for the purpose ?

3. What is liquidation and when does it become necessary ?

4. What are the Presidency Insolvency Act and the Provincial Insolvency Act in India ? Why are there two Acts here while there is only one in England ?

5. When is a debtor said to commit an act of insolvency and who can present an insolvency petition ? What are the purposes of such a petition by the creditor and by the debtor ?

6. Describe the procedure followed on the admission of the insolvency petition.

7. What the Composition and Schemes of Arrangement ? What are their effects if successfully negotiated ?

8. What are the duties of a receiver or a liquidator ?

9. Differentiate between preferred and secured creditors explaining their preference to and security against ordinary unsecured creditors.

10. When and in what circumstances is the insolvent discharged and when is the discharge suspended or refused ? What is the effect of such discharge, suspension or refusal ?

11. What are the acts of an insolvent held to be criminal and what are held to be not criminal ?

12. What is the effect of a private settlement and how can it be effected by an insolvent ?

13. How can a company go into voluntary liquidation ? What are the provisions of Sec. 203 of the Indian Companies Act in this respect ?

14. Explain compulsory liquidation. Why is it ordered by the Court and in what circumstances ?

15. Who are the voluntary liquidators and official liquidators and why are they called so ? What is the difference of their respective procedure in liquidation ?

16. What do you understand by pro-rata distribution of assets.

CHAPTER XVIII.

THE STOCK EXCHANGE.

Exchange of the World.

LIKE all other commodities, stocks, shares and other securities change hands. There are centralised markets for their exchange which are called stock exchange markets. There are such markets in almost all the principal towns of the world where there are securities in abundance with their buyers and sellers. Everywhere different commercial practices have developed in the mode of transactions in securities though some common methods in this respect prevail in all the exchanges. According to the volume of business transacted these exchanges have attained more or less importance. The Stock Exchange of London, New York, Paris, Amsterdam and Berlin are very prominent institutions for dealing in securities. Calcutta and Bombay Exchanges have also attained some importance as markets for such transactions.

LONDON STOCK EXCHANGE.

The London Stock Exchange is probably the biggest and most important Exchange of all such institutions, the city of London being the principal commercial and financial centre of the world, though some other exchanges are now successfully competing with it and growing in importance; but it is still the greatest international stock exchange of the world, the range of its business covering every corner of the earth and every class and type of security. London Exchange has some special features which are absent in other exchanges.

The London Stock Exchange, as a matter of fact, is not a single market, but it is a collection of a good many markets each class of securities being dealt in at a separate

part of the Exchange with dealers in it gathered at that particular place. Of these markets the Gilt-Edged market is the most important. Only absolutely first class securities like Government, Corporation and Railway stocks are dealt in this section of the market. The Exchange is situated in Chapel Court, Throgmorton Avenue, London, E. C.

The House and the Committee.

The building in which the stock exchange business is transacted in London is the property of an incorporated company. The members of the Stock Exchange are its share-holders who elect nine trustees and managers for the management of the property. They are like the directors of a joint stock company. There are about 5,000 members of this Exchange who are all elected by other members, the qualification for a candidate being the payment of a heavy fee, sound financial position and untarnished reputation. The members of the Exchange, or the "House" as it is called, elect a Committee of thirty annually from amongst themselves who form the Stock Exchange Committee. This Committee is entrusted with the conduct and management of the business of the Exchange with almost absolute power of decision in all matters.

The members are precluded by rules to go to law to settle any dispute between them, the Committee being the final arbiter of such disputes. The members of the House are also precluded from advertising their calling like the members of the medical and legal professions. Those members who wish to continue in the Committee are to be annually re-elected by the House by a majority of votes, every member of the Exchange being entitled to vote. Thus new blood is introduced into the Committee every year.

Jobbers and Brokers.

The members of the House are generally of two classes—the Jobbers who deal in stocks and shares, and

the Brokers who act for the public for purchase and sale of securities on commission. The two classes are quite distinct from each other in the London Exchange where they have been placed, as it were, in separate water-tight compartments. This is a special feature of the London Stock Exchange, for in no other Exchange of the world their functions have been kept separate in this way—everywhere one class always acting in the functions of the other at their discretion. Here the Jobber is the principal dealing in securities, buying from and selling to the public through the broker, and the Broker is the agent in these dealings buying from and selling to the Jobber for the public. The Jobber makes his profit by *turn of the market* and the Broker is remunerated by the commission which he charges to the public. A broker can also buy and sell stock for himself if he likes, but he is not authorised to act as principal and agent in the same transaction, as he is allowed to do in other Stock Exchanges of the world. This is a very salutary provision for the protection of the public against interested transactions of the brokers acting as buyers and sellers in the same transaction.* Partnership between jobbers and brokers is also prohibited.

Besides Jobbers and Brokers there are Clerks some of whom are authorised to buy and sell for their employers and some are not authorised to make bargains for them though authorised to enter the House. These two classes may also be members of the Exchange, if they so like.

Besides these members of the Exchange, there are outside brokers who have not joined the Exchange to avoid its strict rules and regulations and to be free from embargo on advertising through which some of them do a big business. These brokers however deal in business mostly

* A broker is in a fiduciary relationship with his client. Therefore a broker without the consent of his client may not sell his securities to another client even at marketable rate, nor he may have any personal interest in the client's bargain without making full disclosure of his position to the client. In the case the client can refuse to indemnify the broker or to carry out the bargain or he can have it set aside by the Court and also charge damage, etc., and also can refuse to pay commission. (Vide Thompson VS: Vellade 7T LR 698).

account transactions are carried over to the *settlement day* following the day on which the transactions take place, that is, the securities dealt in are not delivered or paid for before that day. The *Account* is the period during which transactions take place. British Government securities are generally dealt in on cash basis.

The *Account*, as above mentioned, runs from one *settlement day* to the next. In the London Stock Exchange, ordinarily settlements are made fortnightly—once by the middle of the month and again by the end of the month respectively called *mid-monthly* and *end-monthly* settlements. The settlement occupies three days and sometimes four days. The first day is called the *contango* or *making up* day, the second day the *ticket* or *name* day and the third the *settling* or *pay* day. On the first day settlements can be postponed by arranging to continue or *carry* the bargains to the next account. On the second day the purchasing broker discloses the name of his client to the jobber by naming him on a ticket to be handed over to the selling jobber who is thus asked to deliver the security bought and sold, and on the third day all accounts which are not carried over, are closed by payment and delivery. If the seller fails to deliver, the buyer has the option to buy in through the *Buying-in-Department* against the defaulting seller, and if the buyer fails to pay on the security being tendered, the seller has the option to sell out against him through the *Selling-out-Department* of the Exchange. The loss thus suffered, if any, is charged against the defaulter in either case.

Carrying-Over and Making-up-Price.

The expectations of a speculator for a favourable turn of the market before the settlement day may or may not be realised, in which case it may become necessary for him to defer the settlement from his first *contango* day to the next fortnightly settlement. In such cases the bargains are generally allowed to be *carried over*. When such an occasion arises, an official of the House fixes a price which

is called the *making up* price, being the actual mid-price, on which a *carrying over* is to be based. Thus on the *contango* day the speculator who is not inclined to close his account either by paying for or giving delivery of the securities or paying or receiving 'difference' for loss or profit, as the case may be, may notify his intention to the broker with a request to carry over the transaction, which is generally done, though the parties to the contract are not bound to *carry over* unless there is such provision in it. It is done in the way which will be clear from the following illustration :—

Suppose A, a broker, purchased stock from B, a jobber, at £100/- for the next account and it fell to £95/- by that time. Now the *making up price* is fixed by the clerk of the House at £97½/- for *carrying over*. This will therefore be effected by A's making a new contract for purchasing the same amount of stock from B at £97½/- for the next account and paying B the difference of £2½/- per cent. thus cancelling the original contract. On the other hand if the stock rose to £105/- by that time and the *making up price* is fixed at £102½/-, A can still *carry over* by receiving the difference at £2½/- per cent. and making a new contract for the purchase of the same amount of stock from B at £102½/- for the next account.

Carrying over may be effected in another way if the party willing to do so finds it more convenient. In the above example, A, instead of arranging matters with B, may sell the stock to C, another money lending jobber for cash as the *making up* price and buy from him the same amount of stock at that price for the next account thus cancelling his first contract with a loss of 2½ per cent., the price received from C being paid to B in cash. For this accommodation C charges an interest on the money lent for its being the capital necessary for the *carrying over* of the transaction. Stamp charges and brokerage are also paid by A in such a case. Virtually in such a case C carries through the obligation of A to B and pays to or receives (in the case of rising of the stock) from B the

difference and any extra consideration called *Contango* and *Backwardation* as explained below.

Contango and Backwardation.

As a rule the speculator has got to make an extra payment for the above accommodation for *carrying over*. When there is a fall the buyer, instead of finding the money to take delivery of the stock, virtually borrows from the jobber or the broker in such transactions of carrying over, for the expected rise and therefore pays a premium or interest on the money thus borrowed. This payment is called *Contango*. When there is a rise the seller, instead of finding the stock pays for the expected fall a premium or interest on the value of the stock which he virtually borrows. This payment is called *Backwardation*. The rate of these charges depends on the state of the money market, the soundness of the security dealt in and its quantity in the market. When capital in the market is scarce for briskness of the general trade, the operation of the stock exchange becomes restricted for high rate of interest. Hence the briskness in speculation in stocks is not always indicative of prosperity in general business though in ordinary circumstances such prosperity causes a briskness in the other exchanges.

The Stock Exchange List.

An official list of prices at which transactions are closed for various securities is published by the Exchange authorities twice daily. This list is much valuable to the investor inasmuch as it gives him a clue as to the current market value of the securities which he bought or sold or intends to buy or sell and a facility to compare the price for which he closed his transactions with the price current. It also gives him information about the date on which interest on the particular security is due and whether the interest or dividend is included in the price. But the prices quoted in this list are only fair estimates collected from the dealers. These prices in the list are called *closing quota-*

tions. Here is a specimen official list of the London Stock Exchange :

STOCK EXCHANGE OFFICIAL LIST.

SPECIMEN EXTRACT.

Amt.	Present Amount.	Int. Due.	When x. d. or x. in.	per cent	Name.	Quotation 14th July.	Business Done.
....	£276,225,755	5th Jan. 5th July. 5th April. 5th Oct.	3rd June.	2½	2½ per cent. Consolidated stock Redeemable on or after 5th April 1937.	55¾ 56¼	55⅞, 56, 56¼, 56, 55⅞, Etc.

Close and Wide Quotations and Different Prices.

In some securities the transactions may be numerous and the quotations about them are more reliable than the quotations about the securities which do not very often change hands. In the former naturally the difference between the jobber's buying and selling prices is very small, hence the quotation in such cases is called *close quotation.* The quotation for securities which have no great demand and in which therefore the difference between the jobber's buying and selling prices is considerable, is called *wide quotation.*

The prices in the Exchange are classified under three heads—*mid-day price,* that is, the price ruling up to 3 p.m., *closing price,* that is, the price between 3 and 4 p.m. and the *street price,* that is, the price quoted after 4 p.m., when the doors of the Exchange are closed.

There are of course constant fluctuations of prices, which are communicated to those who subscribe to an exchange of a mechanical contrivance called *tape machine* which automatically registers all information and fluctuations communicated by the Central Exchange, in the paper tapes in the machines of the subscribers. The price thus communicated is called *tape price.*

Bulls, Bears and Stags.

It is not the case that people always purchase securities for the purpose of investment but very frequently they do so as speculators. A person may buy not to take delivery of the securities but in the hope that they will rise in value enabling him to sell them at a profit. Such a person is termed a *Bull.* Again a person may sell securities which he does not possess, on the expectation that he will be able to buy them at a lower price before delivery. He is termed a *Bear.* Sometimes a person applies for a new issue of shares of a company not with the view of investment, but in the hope of the issue being over-subscribed and consequent profit to him by sale of the shares allotted, at a premium. Such a person is termed a *Stag.* Market conditions are affected by preponderance or scarcity of these classes of speculators and the Bull and Bear operations determine to a great extent the rate of payment of *contango* and *backwardation,* for they mean postponement of payment for and avoidance of delivery of securities respectively.

Bull operators very often secretly combine to force up prices of stocks artificially, for their own profits. Such combinations are called *rings.*

Options—Call and Put.

Securities are not always dealt with in the ordinary way explained above but very often transactions take place under a highly speculative system known as *option dealings.* These options are purchased for specified sums. When a speculator purchases the right of buying from the seller a definite amount of stock at a specified price at an agreed future time, he is said to have purchased a *call option.* When he similarly purchases the right of selling to the buyer, he is said to have purchased a *put option.* He may also purchase both the *put* and *call* options, called double options, of course at a higher price. He may moreover purchase the option of buying or selling further

stocks or shares on the terms agreed upon for the *call* or *put*, respectively called *call of more* and *put of more*. Such transactions are generally combined with *Bull* and *Bear* transactions with an option to double the quantity bought or sold.

An example will make these methods of dealing clear and show how and why they are followed. A, a speculator, thinks that the shares of a certain company which are quoted at £100/- on a certain day will rise above £100/- before the next settlement day, but he does not wish to take the risk of a fall. He goes to jobber B to purchase a *call option* at that rate and the *option* money is settled at £1/- per share. A purchases options for 10 shares for £10/-. Now suppose the shares go up to £110/- on the settlement day as A expected. In that case he exercises his option and makes a profit of £100/- at the rate of £10/- per share on 10 shares for which he purchased the *call option*. But as for this option he had to pay £10/- to B, the net profit of A in this case is £90/-. Now suppose the particular share does not rise as A expected, but falls to £90/-. A will in that case not exercise his option and will escape with a loss of only £10/- which he paid for *call option*. Had A purchased a double option at a much higher price which is generally double the usual premium, he would exercise his *put* option and would sell the shares to B at £100/- though they have fallen to £90/- making a profit of £100/- at the rate of £10/- per share. But for this double option A had to pay £20/- for the *put* and £20/- for the *call* as premium to B and so his net profits would be £60/-. Hence the profits in option transactions depend on the rise and fall of the particular security to a limit sufficient to compensate for the loss of the option money paid.

The Stock Exchange rules do not recognise operations taking more than two account periods to complete in the case of these option transactions and when extending beyond such period they can only be enforced by legal process, if necessary.

Margin or Cover.

Speculators when doing business through the brokers make a deposit to them on the security of which the brokers enter into contracts on their behalf. If there is a loss in the transaction and the deposit is swallowed by it the broker closes the transaction without reference to the speculator. If there is a profit, this deposit is returned with it. This deposit is called the *margin* or the *cover*. It is not to be confused with the *option* money which is paid as premium and is not returnable.

"Buying in" and "Selling out."

The "buying in" and "selling out" departments of the Exchange act as mediums to buy or sell against defaulters who fail either to pay or deliver. The opposite party has the right publicly to buy in or sell out securities against the defaulter and to change him for the loss, if any. This is done by the broker through the officials of the departments. These operations exercise considerable influence on the prices of securities, for they mean changes in their demand and supply.

The Committee of the Exchange, however, has the right to extend the time for delivery of the securities when they are out of control of the seller for collection of dividend, registration of transfer, etc., on the application of such defaulter, in which case *buying in* shall be suspended until the securities come under his control. The seller on the other hand can exercise his right of *selling out* if he does not receive the *ticket* by 2-30 p.m. on the *ticket day*. If the issuer of the ticket does not exercise his right of *buying in* within 13 days from the ticket day, all the intermediaries will be released from all liability, but the original seller will remain responsible to the buyer.

Defaulting Member.

Where default through his failure to fulfil his obligations is made by any member he is declared to be a defaulter by the Committee, when an official of the House

calls out the name of the defaulter by striking the desk with a hammer—known as *hammering*. His affairs in the transactions of the Exchange are then settled by the Official Assignee of the Exchange, as he is called, who fixes the correct prices of the securities in which the defaulter had dealt, and all members who had transactions with him are required to close their accounts with him by selling to or buying from the Assignee acting as the liquidator of the affairs of the defaulter, according to the contracts made by him and to become either creditors or debtors to the estate of the bankrupt, the debtors paying their loss to the estate and the creditors having a claim on the estate for the profit.

Ex-Dividend or Ex-Interest.

At the time when a security is sold in the market, the time for payment of dividend or interest on it may either be distant or near at hand. In the former case the purchasers get sufficient time to effect necessary registration of transfers, for the issue of dividend warrants or cheques in their names, but in the latter case the matter might be a little complicated, for the companies prepare their periodical dividend lists about this time. They therefore, in apprehension of the warrants and cheques being issued to wrong persons, keep their books closed for some days against any transfer just before the payment of dividend or interest and issue the warrants and cheques in the names of the persons then entered in their books, though the securities might have changed hands by that time. The price of securities naturally increases in value when any interest or dividend has accrued to them. Who is entitled to this extra amount which may be inclusive or exclusive of the quoted price of the security? The seller or the buyer? In order to avoid confusion and difficulties in this respect the Exchange has framed rules for quotations with or without these dividends or interests according to which "Government and Corporation inscribed or registered securities are to be quoted *ex-dividend* on the day after that on which the books close for the payment

dividend, and securities deliverable by deed of transfer on the account day following the date of the closing of the books for the payment of dividend, or on the account day following the date on which the dividend may have been declared, provided the dividend be made payable to the holders then registered." The Committee fixes the date for making the securities *ex-dividend* in the case of companies on receiving official intimation of the rate of dividend declared or about to be declared. The effects of the above rules are :

(a) That when the security is transferred immediately before the closing of the company's books, in good time for registration, and before it is marked *Xd* or *Xin*, that is, without dividend or interest, the dividend or interest will go to the purchaser, as the interest of the seller has already been protected, for he must have received an increased price for his security for the accumulation of dividend or interest.

(b) That if the transfer takes place when the company's books have been closed, but before the security is marked *Xd* or *Xin*, the dividend or interest will be paid by the company to the seller, as the name of the purchaser has not been registered by the company at that time, but this will have to be handed over to the purchaser by him for he has already got it in the shape of increased price which he must have received for its accumulation.

(c) That if the transfer takes place when the company's books are closed but the security has been marked *Xd* or *Xin*, the dividend or interest will be retained by the seller, as the price for which he had sold did not include the dividend or interest.

Cum-Dividend or Cum-Interest.

Further, dividend or interest begins to accrue to a security after it is marked *Xd* or *Xin*, and dealings in it

are always *Cum-dividend* or *Cum-interest*, that is, with dividend or interest and not without it.

Ex-Rights or Ex-New and Cum-Rights or Cum-New and Ex-All.

Some companies issue their shares or stocks with certain rights attached to them; for instance, the holders are sometimes given the option of being allotted on some particularly advantageous terms more stocks of the company which the directors might afterwards issue. These rights are also marketable and they may be sold with the security or not. When these rights are not sold and retained by the seller it is an *ex-rights* or *ex-new* transaction and when these rights are also sold with the security it is a *cum-rights* or *cum-new* transaction. When a security is transferred without all rights to dividend, interest or bonus accrued or right to take up new shares and without any other advantage, if any, attached to the security, it is called an *ex-all* transaction.

Other Names.

There are a good many other terms used in the London Stock Exchange, in connection with the dealings there, for instance, the securities of the Canadian Pacific Raliway are called *Canpacs*, the stocks of the Buenos Ayres Great Southern Railway are called *Bags*, the deferred stocks of the Autofagasta and Bolivia Railway Company are called *Fags* and so on.

NEW YORK STOCK EXCHANGE.

The New York Stock Exchange which is technically known as the "Wall Street," on account of its being situated on a thoroughfare of that name, is the principal Exchange of the United States. Unlike the London Exchange it deals principally in American securities, though non-American securities also sometimes find place in it. Speculation is indulged in on a huge scale in this Exchange as in the London Exchange.

Routine work of the Exchange is supervised by standing sub-committees of the Governing Committee, while special or temporary matters may be handled by special sub-committees of that body. Where circumstances have rendered it more convenient and desirable, certain regular routine functions of the market have been organized in the form of subsidiary corporations, all the stock of which is held by the governors as trustees for the members; for example, the Stock Clearing Corporation handles and supervises the work of clearing and settling Exchange contracts, etc., the New York Stock Exchange Building Company holds title to the physical assets of the Exchange; and the New York Stock Exchange Safe Deposit Company provides safe-keeping facilities for the securities held by Exchange members.

Membership.

The Exchange consists of eleven hundred members made up of the representatives from different parts of the United States representing about 600 firms and besides brokers and dealers, includes a small number of big capitalists speculating in securities. The membership of the capitalists gives them the advantage of being charged a lower rate of commission by the brokers. They themselves never work as brokers whom they employ for their transactions.

The legislative and judicial powers of the Exchange are vested in its Governing Committee of 42 members; each governor holds office for four years and each year ten governors come up for election. In addition to the governors, the officers of the Exchange consist of a president, a treasurer, an assistant to the president, a secretary, an assistant secretary, an accountant and an economist.

Dealers and Brokers.

The Exchange is a private Association and is not an incorporated body like the London Exchange, but its

membership is very much restricted and is confined to a privileged class of high position and great wealth with unquestionable integrity. Some broker members who, unlike the London Exchange members, are generally dealers as well, sometimes work as under-brokers under some brother brokers receiving a minimum commission of two dollars per 100 shares. They are generally termed "Two Dollar Brokers." There are some members who transact business on their own account and do not work as brokers. They are termed "Room Traders." The majority of the members are however dealers and brokers combined.

Transactions.

There is no fortnightly or monthly account transaction in the New York Exchange and all accounts are settled daily. All dealings are generally on the *margin* or *cover* system, that is, the speculator has to deposit a margin of 10 to 50 per cent. according to the nature of the security to be purchased, to the broker who advances the balance either from his own fund or through a short term loan arranged by him. The security remains with the broker who, in case of a rise as expected by the customer, makes over the sale proceeds to him after deducting his advance with interest, commission and other expenses. If there is a fall against the expectation of the speculator and the margin can no longer cover the consequent loss, the security is at once sold by the broker if the customer does not furnish further margin. Business is transacted in the Exchange from 10 a.m. to 3 p.m. Any one doing any business outside these hours is liable to a fine of 50 dollars. In all other respect the Wall Street Exchange is similar to the London Exchange.

PARIS STOCK EXCHANGE.

Two Sections.

Next in importance to the London Exchange stands the Paris Exchange in Europe commonly known as *Bourse*.

Unlike the New York Exchange, it has large dealings in international securities. The Exchange here not only does business in securities but also in commodities, though actual commodities are not exposed for sale in the Exchange rooms. Hence the Exchange is divided into two sections—the Commercial Exchange dealing in commodities and the Stock Exchange dealing in securities.

Business begins on the Paris Bourse at 11 a.m. and lasts until 3 p.m. It is usually opened on Saturdays, but in the summer months it remains closed on that day. Unofficial business may be conducted outside the official hours, and at times many transactions are entered into after the *Bourse* has been closed.

Members.

The Exchange specially the Stock Exchange section unlike many other exchanges of the world, is under more or less Government control. The number of brokers who constitute the Exchange proper is limited to 70. They are all licensed by the Government and they enjoy a monopoly of the business, under State protection. The members who are brokers and at the same time jobbers have to deposit with the Government 1,25,000 Francs each, on which an interest at 4 p.c. is paid. On retirement the broker is allowed to sell his office and to transfer his deposit to the purchaser. These brokers and their quotations are officially recognised and the French Courts generally appoint them as Trustees for sale of securities.

Bankers.

Besides these recognised stock market and recognised brokers, there are other stock markets and brokers also. These brokers are called *bankers* who deal in securities in a separate market. There is no restriction as to their number and any body can set up as a broker of this market. They make their own rules and regulations for their guidance and protection in transacting business.

Account Sale.

As in the London Exchange, account and forward delivery transactions are also allowed in the Paris Exchange though a minimum has been fixed in the amount of securities dealt with in such transactions, while in cash transactions there is no such restriction.

In all other respects the Paris Exchange transacts business on a similar line to the London Exchange and the *contango*, *backwardation*, *option* and *margin* systems are followed there almost in the same way.

BERLIN STOCK EXCHANGE.

The Berlin *Bourse*, like the Paris *Bourse*, is subject to the Government control and to legal enactments. It does not enjoy the freedom of the London or New York Stock Exchange, as speculation is frowned upon and discouraged in the German *Bourses*. The official hours of the *Bourse* are from 12 to 2 o'clock and on Saturday from 11 to 1 o'clock. Dealings, however, are allowed to take place for 30 minutes after the official closing hour, and the prices are published in the papers. These quotations, however, are not official, and are not subject to the control of the *Bourse* Committee. During the months of July and August, which are regarded as holiday months, no session of the *Bourse* is held on Saturdays. There is no entrance fee for a new member, and no fixed annual subscription is charged. The finance committee of the *Bourse* fixes the annual payment of a member according to the amount and volume of business of each firm. Certain fees are charged in respect of the partners who wish to visit the stock exchange, and as in London, fees have to be paid for each authorised clerk and employee. The application of a new member is to be supported by three members of the *Bourse*, and the members proposing the candidate have to guarantee him in the sum of 5,000 Reichsmarks.

Government Control and Method of Business.

Members of the Berlin *Bourse* are not necessarily rich men; membership may be granted to men of relatively

small resources. The brokers are appointed more out of regard for their character than for their resources. They carry on business under the conditions laid down by the Government, and it is subject to the supervision and control of high State authorities. In 1896 legislation was passed which severely restricted business on the Berlin *Bourse*. It was intended to put a check on speculation in stocks for future payment and delivery. This forced speculators to transfer their business abroad, especially to London, Brussels and Amsterdam. Conditions however became easier after the last Great War of 1914-1919.

The method of doing business on the Berlin *Bourse* is peculiar. Orders to buy or sell securities are settled at official prices which are fixed every day. The fixing of these prices is determined by the relation of the current demand to the supply. The public have no trouble therefore, in checking the price they pay or receive, as the case may be.

AMSTERDAM STOCK EXCHANGE.

The Amsterdam *Bourse* as it exists to-day was founded in 1876, and up to quite recent times its members, like those of the London Stock exchange in earlier days, had to transact their business in a building which also housed persons engaged in commercial business. The Bourse consists of at present about 800 members; the entrance fee charged is 2,000 guilders, and the annual subscription is 80 guilders. The *Bourse*, the members of which must be Dutch or nationalised Dutch, remains open from 1-30 to 2-45 p.m. (Amsterdam time). There are members and authorised clerks, as in London, but there is no line of demarcation between brokers and jobbers. Some firms combine broking and jobbing, and others work as bankers and brokers. The bankers are all members of the *Bourse*, and have their clerks, who also do business through other members. Transactions are all for cash, except those in the shares of the Netherlands Trading Company, in which there is a monthly settlement. Three quotations are made

during the day in less active stocks on the basis of which business is done.

Securities in the Exchange.

The Amsterdam *Bourse* is particularly interested in Oil shares and specially deals in the shares of various Dutch East Indies trading and planting companies, the securities of one or two leading Dutch industries, and one or two Artificial Silk shares. Before the World War of 1914-19 it was an important international market which disappeared during the War. After the War a number of Belgian, French and German industrial shares have been introduced, and for some of these there is an active market. The American Railway securities, however, which before the War were very active in the *Bourse*, have now dwindled to small proportions. A large number of foreign bonds are now dealt in, and a part of many of the placings of German and other foreign bonds in the United States has also been issued in Amsterdam, and they are quoted on the *Bourse* there.

CALCUTTA STOCK EXCHANGE.

The Calcutta Stock Exchange is an Association registered in 1923 as a limited company under the name of "The Calcutta Stock Exchange Association Ltd." It was an unincorporated Association like the New York Exchange before its registration which used to do the same business in the same way as it is doing now. It owns its bulidings and other assets. The Committee of the Association is the controlling executive body and it manages the affairs of the Exchange.

Constitution and Membership.

The capital of the Association is Rs. 3,000,00/- divided into 300 shares of Rs. 1,000/- each. Under its Articles of Association no member can hold more than one share. The number of members can not therefore exceed 300. These

members elect the "Committee" every year. The Committee shall consist of sixteen directors of whom four should be Europeans, four Bengalis, four Marwaris and four of other Indian communities. Half of each of these classes of directors longest in office must retire every year but shall be eligible for re-election. Not more than one member of any firm which is a member of the Association, shall be a member of the Committee at any one time. The Committee has the power to expel or suspend any member under certain circumstances. The Committee can also refuse to register the transfer of any share of the Association in certain cases. There are standing sub-committees to help the Committee in hearing complaints, and appeals from the decision of these sub-committees are heard by the Committee the decision of which is final and binding on the disputing parties. All complaints and appeals are to be filed with a fee of Rs. 16. The Committee ordinarily sits every week. The President of the Association is elected by the Committee and on election he becomes the chairman of the Committee also.

The Exchange remains open on all working days from 11-30 a.m. to 5-30 p.m. when business is to be transacted by the members or authorised partners. Authorised agents are not allowed to enter into contracts on their own behalf. All members and their authorised agents or representatives are required to pay a subscription of Rs. 4/- a month.

Jobbers and Brokers.

Here the brokers can act as jobbers and *vice versa*. So practically there is no distinction between these two classes. Outsiders except partners or agents authorised by the Committee, are not allowed to enter the Exchange buildings. These partners or agents are required to pay an entrance fee of Rs. 500/- each for the privilege. The members are not allowed to deal with outsiders except as brokers, all contracts being made in the names of the members only.

System of Transaction of Business.

Here there is no system of account dealings and as in New York Exchange, the transactions are based on daily settlement system, but "Forward Delivery" contracts are allowed along with cash delivery contracts.

Option dealings in the Calcutta Exchange are not officially recognised though this practice is indulged in by the members on the *floor* of the House. Cover system prevails and *Bull* and *Bear* transactions are carried on on a large scale. Ex-dividend, Cum-dividend, Ex-all and Cum-all and such other transactions here are regulated on the line similar to that in London. Daily Stock Exchange lists are published by the Exchange as in London for the benefit of the customers.

The transactions are always between brokers acting for their principals who remain undisclosed in the contracts exchanged between the brokers who make separate contracts with their principals. So the broker is also the principal in the same transaction and by his buying and selling operations can generally make a profit over and above his brokerage. This point of its difference with the London Exchange is specially noticeable and should not escape attention of the reader.

Other Rules.

Cash transaction in the Calcutta Stock Exchange means delivery on the second day or the day after at or before 4 p.m. from the date of the contract, but if the due date falls on an Exchange holiday, the security is to be taken up on the preceding day. In the case of default, the failure of the seller must be reported to the Committee which shall decide if there was a proper reason for non-delivery. The Committee in such cases generally gives him time not exceeding 7 days, but after that, on two days' notice, may allow the buyer the option to cancel the contract or buy the securities in the open market at the risk of the seller. In the case of default by the buyer, the seller is to apply to the Committee for auctioning the shares

at the risk of the buyer. If the Committee is satisfied about the *bonafides* of the proposed auction, permission will be given for such sale by public auction, but generally the Committee allows the buyer time not exceeding 7 days on reasonable grounds, to take delivery of the securities, before permission for auction is granted. When a member becomes defaulter he is declared to be so by the Association and dealt with accordingly.

A member failing to deliver or pay for the securities contracted for or failing to pay his subscription or any other dues may be declared to be a defaulter when his name is posted on the notice board. In such a case the member can not exercise his privileges during the period for which his name remains so posted. There is a schedule of brokerage varying from $\frac{1}{2}$ to 6 per cent. to be charged by the members, according to the nature of the security, to which the members are bound to conform. In all other respects the practices and regulations of the Calcutta Stock Exchange are *mutatis mutandis* almost similar to those of the London Stock Exchange, as attempts have been made to model the former on the latter.

Market Quotations.

Rates at which business is done in the Calcutta Stock Exchange are quoted in the Newspapers in the following way :—

Calcutta, July 14, 1942.

Govt. Securities :—3 p.c. Govt. Paper—Rs. 79-2, 3 p.c. Defence Loan (1949-52)—Rs. 99-13. (99-15 s.lot), 3½ p.c. Govt. Paper—Rs. 92-8, (92-12 9-10 s.lot), 92-10 s.odd lot. 92-7-6, 92-8, 3½ p.c. Loan (1942-50)—Rs. 102-1, 4 p.c. Loan (1960-70)—Rs. 107-15, 5 p.c. Loan (1945-55)—Rs. 108-5 s.lot, 108-5, 4 p.c. Punjab Bonds (1948)—103-8, 3 p.c. C. P. (1952)—Rs. 97-6 s.lot.

Bank:—Imperial Bank (Fully paid)—Rs. 1508 s.lot, 1509.

Cottons :—Benares Cotton and Silk—Rs. 5-12. Bengal Nagpur (Ordy.)—Rs. 23-6 s.lot, 23-7, 23-6. Bowreah—Rs. 405, (395, 400 s.lot), 410. Cawnpore Textiles—Rs. 9-10, 9-11, 9-12. Dunbar—249. Elgin Mills (Ordy.)—Rs. 32-12, (32-12 s.lot), 32-15, 33. Kesoram—Rs. 10-2. Muir Mills (Ordy.)—Rs. 302. New Victoria (Ordy.)—Rs. 6.

Coal :—Ghusick and Muslia—Rs. 4-12.

Jutes :—Agarpara—Rs. 18-8. Auckland (Pref.)—Rs. 126. Clive (6 p.c. Pref.)—Rs. 118, 121. Craig (Pref.)—Rs. 56. Empire—Rs. 25-4 s.lot. Gourepore—Rs. 635. Hukumchand—Rs. 12-6, 12-8, 12-5. Indian—Rs. 323 s.lot. 326, 323. Kankinarrah—Rs. 365 s.lot, 365. Kelvin (Pref.)—Rs. 147. National—Rs. 21-4 s.lot.

Minings :—Burma Corpn.—Rs. 2. 1-15, 2. Indian Copper—Rs. 2-2, 2-3, 2-1, 2-2. Rhodesia Copper—As. 11.

Eng. Companies :—Burn & Co. (6 p.c. Pref.)—Rs. 123 ex-div. Indian Iron & Steel—Rs. 26-14, Jessop & Co.—Rs. 17-4. National Iron & Steel —Rs. 10-8. Steel Corpn. (Ord.)—Rs. 17-15.

Miscellaneous :—Aluminium Corpn. (Ord.)—Rs. 11. Bararee Coke—Rs. 25-11, 25-8, 25-10. B. I. Corpn. (Ord.)—Rs. 5-1, 5. Indian Cables—Rs. 20-2, 20-4.

Paper Mills :—Orient Paper (Ord.)—Rs. 19-10.

Sugar Shares :—Balarampore—Rs. 13. Dyer Meakin Breweries—Rs. 11-4. Purtabpore—Rs. 12-25. Sree Krishna Gayanoday—Rs. 19-8. Sree Sitaram—Rs. 12-15, 13-2.

Tea Shares:—Bishnauth—Rs. 27-12. Banarhat Chamong—Rs. 11 p.c. Dimakusi—Rs. 28-4. Dessai & Purbuttia—Rs. 253 s.lot. New Dooars—Rs. 1,100. Poobong—Rs. 21-8, 21-4. Pussimbing—Rs. 8-9, (9 s.odd lot).

Debentures :—4 p.c. (2915-75). Calcutta Port Trust Debs.—Rs. 95, 6 p.c. (1955-85). Ditto, Rs. 117-8, 117-12, 3½ p.c. (1956-66). Howrah Bridge Debs.—Rs. 89.

BOMBAY STOCK EXCHANGE.

Membership.

The designation of the Bombay share market is the "Indian Share and Stock Brokers' Association." Its membership is restricted to four hundred and fifty one, each of whom has got to deposit securities for Rs. 10,000/- withdrawable when the member ceases to do any business in the share market, though continuing as a member of the Exchange, with option to resume it on re-deposit. There are authorised clerks to help the members in transaction of business but they are not members. Every member is to pay an annual subscription of Rs. 5/- in addition to a rupee for the purpose of charity. There is a Managing Committee of 16 persons elected by the members every two years. The Exchange is not a limited company like that of Calcutta and London, but it is recognised by the Government under

the Bombay Securities Contracts Control Act. It has its rules and regulations according to which its affairs are directed and controlled.

Rules and Regulations.

Unlike Calcutta and New York Exchanges, the settlement in the Bombay Exchange is monthly, giving a premium to a reckless speculation. Forward transactions are settled through a Clearing House, which is under the management of the Bank of India, Ltd. of Bombay. The Clearing House acts as the common agent of the members in settling transactions by clearing the differences and making and accepting payments, but its main object is to facilitate the delivery of securities. There is an Arbitration Committee of the Exchange consisting of 16 members to settle disputes among the members in connection with transactions and also a Defaulters' Committee of 6 members to take charge of the affairs of those members who are declared to be defaulters in the open market.

Here there is no division between a jobber and a broker and any of them can act in the other's capacity. Partnership between a member and a non-member is not allowed and no member can deal with a non-member except in the capacity of a broker. When any member becomes a defaulter, he is allowed six months' time to pay his debt failing which his membership card which indicates his rights as a member, is sold by the Managing Committee and his rights are transferred to the purchaser who becomes a member in his place. The debts of the defaulter are paid out of the sale proceeds of the card. In all other matters the rules of this Exchange regarding the system of business are almost similar to those of the Calcutta Exchange.

PUNJAB STOCK EXCHANGE.

This exchange is of very recent date. It was only in 1934 that a few brokers who were so long dealing with Calcutta and Bombay Exchanges, established a private

Association called the "Lahore Stock Exchange." This was registered as an incorporated company in January 1936, under the name of "The Punjab Stock Exchange Ltd.," which took over the affairs of the "Lahore Stock Exchange."

Rules and Regulations.

The capital of the registered company is Rs. 1,00,000/- divided into 100 shares of Rs. 1,000/- each. The rules and regulations of the exchange are modelled on those of Calcutta and Bombay. The Committee consists of 7 members and the entrance fee for membership is Rs. 500/-. Partners and assistants have to pay Rs. 50/- each as admission fee and Rs. 10/- per mensem is the amount of their subscription. The local members have got to pay Rs. 15/- per month as their subscription, but the out-station members have to pay only Rs. 5/-.

Rules Of Business.

The Exchange remains open from 10-30 a.m. to 5 p.m. As in Calcutta there is no account system in the Exchange and all contracts are on cash basis, delivery being fixed on or just after the next working day of the contract. On failure of the seller to deliver the securities within 30 days, and within 14 days in the case of Government securities, the buyer may report to the Committee asking for the cancellation of the contract or for buying in the market against the seller. All complaints are to be referred to the Committee, with a fee of Rs. 5/- each. There is a scheduled rate for brokerage. The Exchange is a small one and only about 60 companies are included in its list. As practically the whole of Northern India will have to be served by this Exchange, its prospect is assured with increasing industrial activity of the provinces around it.

MADRAS STOCK EXCHANGE.

The province of Madras was industrially backward so long and a few brokers there used to carry on share and

stock business mostly with Calcutta and Bombay. In recent years, however, the Southern Presidency has shown commendable enterprise in her organization of some sound industrial concerns. The shares of these companies are now available in the Madras market and a properly organized stock exchange under the style of Madras Stock Brokers' Association has been established to deal in them and do forward business.

Each member is required to deposit with the Association Rs. 5,000/- on admission, and to pay a monthly subscription of Rs. 25/-. There are 12 founder-members each of whom will pay an admission fee of Rs. 500/- besides the deposit money. Working hours of the Association are from 12-30 to 1 p.m. subject to alteration by the Committee of the Association.

Official quotations of the Association, which are published in newspapers, give operators security of transactions. The outcome of organizing such an association is that the market arouses wider interest, transactions are more frequent, and sale and purchases are freely effected.

QUESTIONS BEARING ON CHAPTER XVIII.

1. Which are the important Stock Exchanges of the World?

2. Why is the London Stock Exchange considered to be the most important of the similar Exchanges?

3. Describe the constitution of the London Stock Exchange and explain the functions of its "House" and the "Committee."

4. Explain the functions of the jobbers and the brokers of the London Stock Exchange. What are the special restrictions on their occupation there?

5. Who are the other members of the London Stock Exchange than the jobbers and the brokers and what are their functions?

6. What do you understand by the terms, "turn of the market" and "even up the book"?

7. How do the jobbers "make price" when asked to do so by the brokers and how is business closed?

8. What do you understand by cash bargains and account transations of the Exchange?

9. Explain "settlement day" and state what you understand by "Contango," "Ticket day" and "Pay day."

10. What do you understand by "carrying over?" When does it become necessary? Explain the system of carrying over by an example.

11. Explain Contango and Backwardation. When and why are they paid?

12. "The briskness in speculation in Stock is not always indicative of prosperity in general business though in ordinary circumstances such prosperity causes a briskness in the other Exchanges." Explain why.

13. What is a Stock Exchange List? Explain "closing" quotation.

14. What do you understand by "close quotation" and "wide quotation"? Under what circumstances are they occasioned?

15. What are the different "prices" quoted in London Stock Exchange?

16. Explain "Bulls," "Bears," and "Rings" of the Stock Exchange.

17. Explain "put" and "call" options and state what you understand by "call of more" and "put of more," explaining such transactions by an example.

18. What do you understand by "Margin" or "Cover?" Why is it necessary?

19. State the functions of the "buying in" and "selling out" departments of the London Exchange and the procedure followed in case of defaulting members.

20. Explain Ex-dividend quotation. What are the rules of the Exchange about such quotation ?

21. Explain Cum-dividend, Ex-rights, Cum-rights, Ex-new, Cum-new and Ex-all transactions.

22. What is the special feature of the New York Stock Exchange ? Explain its constitution.

23. Differentiate between the dealers and the brokers of the New York Stock Exchange and those of the London Exchange.

24. Explain the system of transactions of the New York Exchange showing its difference with that of the London Exchange.

25. State the constitution of the Paris, Berlin and Amsterdam Stock Exchanges with their special features.

26. Who are the members of the Paris Exchange ? What are their special privileges and responsibilities?

27. Who are the "Bankers" of the Exchange markets of Paris ?

28. How is the business of the Paris Exchange transacted ? Differentiate its system with that of New York and London Exchanges.

29. Explain the constitution of the Calcutta Stock Exchange.

30. Compare the functions of the Jobbers and Brokers here with those of the jobbers and brokers of London and New York Exchanges.

31. Explain the system of transactions in the Calcutta Exchange showing its difference with that of London Exchange.

32. What are the rules of the Calcutta Stock Exchange regarding delivery of securities, cancellation of contracts, default by a member and brokerage ?

33. Explain the constitution of the Bombay Stock Exchange. What is the special restriction about its membership ?

34. What is the difference of rules of Bombay Exchange regarding settlement, partnership between membebrs and functions of jobbers and brokers, with those of Calcutta and London Exchanges ?

35. What is the general utility and importance of a Stock Exchange and how does it influence the financial situation of the countries?

SOME UNIVERSITY QUESTIONS.

1. How would you connect the trade condition of a country with the prices on Stock Exchange ?

2. Give a short account of the constitution, method of election and functions of the committee of management in the Calcutta Stock Exchange.

3. Describe the principal features of the working of the Calcutta Stock Exchange.

4. Describe the nature of the working of the London Stock Exchange and compare it with the Bombay Stock Exchange.

5. Explain cum-dividend, put option, carrying over, jobbers, bulls, bears, contango, and settlement day.

6. What do you understand by constructive speculation ?

7. How do the leading stock exchanges of the world deal with the evil of speculation and how far do they succeed in checking it ?

8. Discuss the services rendered by the stock exchange clearing house.

9. Compare the organisation of the London, New York and Bombay Stock Exchange.

10. Define contango, ticket day, carrying over and tape price as used in the Stock Exchange.

11. Explain the nature of the jobbers' business on the London Stock Exchange.

12. What is the difference between brokers and jobbers ?

13. Describe the importance of Stock Exchange List in commercial transactions. Enumerate and explain the different column headings used in the list.

14. Explain the close relationship that exists between Banks and the Stock Exchange.

15. Write a short note on the working and constitution of the Stock Exchanges at London and Calcutta or Bombay.

16. Describe the nature and working of the London Stock Exchange and compare it with the Bombay Stock Exchange.

17. Discuss the organization of Calcutta Stock Exchange and compare it with that of London, bringing out the merits and defects of each in the course of your discussion.

18. What are stocks and shares ? What are the functions of Stock Exchange or Share Market ?

CHAPTER XIX.

NEGOTIABLE INSTRUMENTS.

Definition.

A "NEGOTIABLE Instrument" means a promissory note, bill of exchange or cheque expressed to be payable to a specified person or his order or to the order of a specified person or to the bearer thereof. (Sec. 13 of the Negotiable Instruments Act). It is an instrument of contract, by the delivery of which the legal rights to the money represented by it, can be transferred from one person to another, in contrast to an instrument of contract, by the mere delivery of which the legal rights attached thereto cannot be transferred from one person to another without following the other procedures prescribed by law

So while the debt under a negotiable instrument is assignable by endorsement and delivery only, other debts are assignable only by the execution of a document required by law.) In the former case the assignee who takes the instrument in good faith for value, takes it free from any claim against the assignor and free from any defect in his title, and in the latter case the assignee takes the debt subject to such claims as might be brought against the assignor on the grounds of his want of title or defective title to the subject matter of the assignment. The *bona-fide* possessor of a negotiable instrument is to be presumed to be its owner and entitled to enforce all claims under it in his own right.

What are Negotiable Instruments.

By the Negotiable Instruments Act of 1881, Promissory Notes, Bills of Exchange and Cheques only have been made Negotiable Instruments, but some other documents, such as Treasury Bonds, Dividend Warrants, Debentures

payable to bearer, Share Warrants to bearer, Exchequer Bills which come within the definition of the Negotiable Instrument, are also negotiable. Some more documents such as Foreign and Colonial Bonds, Scrip Certificates, etc., are recognised in England but they are not necessarily negotiable in India. Whether a foreign bond is or is not a negotiable instrument here, depends on its form. If it is a mere promise to pay to bearer or if it is in the form of an unconditional order on some individual or individuals to pay, it will come within the definition of a negotiable instrument; if it is not in either form, it will not. A debenture is a negotiable instrument if it comes within the definition of a promissory note, otherwise it is not. A *Hundi* payable to bearer or order, is a bill of exchange and is negotiable. Share certificates, bills of lading and postal orders, though transferable, are not negotiable.

BILL OF EXCHANGE.

A Bill of Exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument. (Sec. 5, Negotiable Instrument Act).

The Drawer, the Drawee and the Payee.

So there are three parties to a bill of exchange—the maker called the *drawer* of the bill, the addressee called the *drawee* of the bill and the person to receive the proceeds called the *payee* of the bill. The drawer and the payee may however be the same person, for it generally happens that the maker of the bill requires it to be paid to himself not to a third person. Any other person signing a bill usually on its back, is the *indorser*. The drawee becomes the *acceptor* when he has " accepted " the bill by consenting to comply with the order by his signature. The payee is not a party to the bill, but on his indorsement he becomes liable as an *indorser*.

Requisites of a Bill of Exchange.

It will appear from the above definition that a bill of exchange must satisfy the following conditions, failing even one of which a document is not a bill of exchange :—

(a) It must be in *writing*. A verbal order will not do.

(b) It must contain an *order* to pay. A mere request is not an order, though courtesy in an order will not make it a request.

(c) The order to pay must be *unconditional*. An order of payment depending on a contingency is not an unconditional order and therefore is not a bill, but an order to pay on the happening of an event which in the ordinary expectation of mankind is certain, is an unconditional order. For instance, an order to pay one year after the marriage of the drawer is conditional as the marriage may or may not take place, but an order to pay one year after the death of the drawer is unconditional as the death is an event which must take place.

(d) The order must be for payment in *money*, that is, legal tender. An order to pay in G. P. Notes is not a bill. Even an order to pay in G. C. Notes is not necessarily a bill, as in some cases they are legal tenders only in the circles to which they relate.

(e) The sum ordered to be paid must be *certain*. An order to pay the proceeds of the sale of goods consigned by the drawer to the drawee, valued at a given sum, is not a sum certain. The order to pay an amount however with interest, in instalments or according to an indicated rate or according to the course of exchange may be a sum certain.

(f) The order to pay must be directed to a *person*. An order directed to no one is not a *bill*.

(g) The bill is to be payable (1) either to a certain *person* or (2) to the order of a certain *person* or

(3) to the *bearer*. The payee may be "certain person" designated by description only, provided that it is clear that he is meant. When the "certain person" is fictitious or "non-existing," the bill is payable to the bearer.

(h) The order must be *signed* by the drawer. Without his signature no claim for payment of the bill is established, but a bill may be accepted before it is signed by the drawer.

Tenor and Term of a Bill.

A bill is usually made payable either

(a) on demand or presentation or at sight,

(b) on the expiration of a given time after sight, demand or presentation, or

(c) at a determinable future time, that is, on the happening of an event which is certain to happen.

The time within which a bill is payable is called its *tenor*. A bill may be payable either to bearer or to order. It is payable to bearer when it is expressed to be so payable or if the last indorsement on the bill is in blank. In all other cases they are payable to order.

A bill usually bears a date and a statement that it is for value received, *i.e.*, for consideration. The absence of a date or no mention of the fact that it is for consideration does not invalidate a bill though an undated bill is an irregular one.

Prohibition.

Sec. 25 of the Indian Paper Currency Act prohibits a bill of exchange, *hundi* or promissory note to be made payable to *bearer* on *demand*, but it does not prohibit the drawing or making of one of those instruments where a person is named as the payee, or where a time is specified, that is, the section prohibits the drawing or making of a bill, *hundi* or *note* with both the conditions—"on demand" and "to bearer"—the function of issuing such an instru-

ment being the monopoly of the Government, or the Reserve Bank in its issuing the currency notes. There is no restriction however in this respect in the matter of cheques which are issued against deposits with the bankers. A promissory note expressed to be payable to the *Dhani*—that is, the owner or the lender—on demand is not a note payable to the bearer as the word *Dhani* does not mean a bearer. So the restriction does not apply in such a case.

Amounts in Words and Figures.

Under Sec. 18 of the Negotiable Instruments Act, "if the amount undertaken or ordered to be paid is stated differently in figures and in words, the amount stated in words shall be the amount undertaken or ordered to be paid." If necessary the bill may be returned to the drawer for correction when there is such a discrepancy. Inadvertence in this respect sometimes causes much confusion and delay in the realisation of debts, and drawers and acceptors should always be careful to examine the bill before parting with it.

Settlement of Internal and International Obligations.

Bills of exchange are not only largely used for the purpose of settlement of international obligations (foreign bills), but are frequently used within the country (inland bills) for making payments in inland trade in place of cheques, when the former is found to be more convenient than the latter, according to the circumstances in particular cases. Like the cheque it obviates the necessity for employment of specie for the purpose of settlement of inland obligations. Inland bills are largely used in India in her inland trade, in the form of *Hundies* which in most cases come within the definition of a bill of exchange.

As regards settlement of international obligations, the value of the billl of exchange is unique. Without it, international payments would have been most tedious affairs. How it works for this purpose will be clear from the following typical description of its advantages given by Prof. Taussig :—

"A merchant in New York who sells goods to a merchant in London has a claim to receive money from the latter; he can draw on the Englishman for the price. He can draw directly or he can transfer his right. It is the exporter who has bills of exchange for sale. On the other hand, a merchant in New York who has bought goods from a merchant in London, has an obligation to pay money to this Englishman; he must remit in some way the price, and as an importer needs to buy bills of exchange. We are supposing here again for simplicity that both transactions are carried in New York, the exporter sells his bill on London in New York, the importer buys his bill on London in New York. Suppose now that the two obligations are for the same amount, say £1,000. The importer can buy from the exporter the latter's bill, drawn on his London debtor for that amount. The importer sends his bill to his London creditor; the latter collects the sum from the London debtor. The New York creditor gets his money from the New York debtor, and the London creditor gets his money from the London debtor. By one payment in New York and another in London, the transactions are liquidated without any sending of specie from one country to the other; through the mechanism of the bill of exchange, the exports serve to pay for the imports."

It will appear from the above that only one bill in the above example settled all the transactions in connection with the payments for the imports and exports made by two different persons in two distant parts of the world, and no money actually passed between them. The transaction in money was between two persons of New York and two persons of London. In fact it is the export which paid for the import. Of course the two countries have got different currencies, but this difference is settled through the usual Exchange Market.

Immediate Recovery of Capital.

Another and the most important advantage of the bill of exchange is its convertibility to immediate cash through

the discounting system of the bankers. Goods are not frequently sold for cash but generally on a credit of a month or months. It is disadvantageous and very often impossible for the buyer to pay the seller before he has disposed of the goods or their parts and hence the credit system is almost universal. At the same time the seller can not be expected to go on granting credits to his buyers without being reimbursed for the cost incurred by him for securing the goods sold, before the arrival of the due date of payment. The bill of exchange removes this difficulty by facilitating the recovery of the capital by the seller immediately on the sale of goods.

This is effected by the discounting of these bills with the bankers who advance the amount of the bill in full or sometimes in part deducting the discount. Thus the capital spent for the goods sold is at once placed at the disposal of the seller to be used for securing more goods to be sold again. These bills are drawn on the buyers who by accepting them obtain the advantage of delayed payments, that is, credit for a certain stipulated period. It may be discounted either after the acceptance by the drawee or before such acceptance, specially in the case of documentary bills, (explained hereafter), according to the nature of the credit of the party concerned.

Consolidation of Debts.

The debtor may at any time in ordinary credit transactions call into question the account rendered by the seller and deny liability of payment, but once he has accepted a bill of exchange by his indorsement across the face of the bill, he has admitted the debt by his signature and also the authority of the drawer to draw on him, and afterwards can not raise any question denying them. The account is taken to have been settled on such acceptance, and on the bill being dishonoured the creditor can take immediate action for recovery of the amount of the bill with interest and other expenses, if any.

These bills, being negotiable instruments, frequently change hands before the amount secured by them are

actually realised, and hence the backs of the bills are often found to be covered by indorsements. These indorsements are sometimes so numerous that it becomes necessary to paste a slip of paper, of the same width as the bill, with it to secure additional space for indorsements. This slip is called an *Allonge*. The party who indorses first on the Allonge makes his signature appear partly on the bill and partly on the slip, for obvious reasons.

Documentary and Clean Bills.

Besides other different kinds of bills secured bills are often drawn with which documents for goods in respect of which the bill is drawn, are attached. When shipments are made by exporting firms they frequently draw bills for the value of the shipment against documents, that is, the invoice of the goods, the insurance policy and the bill of lading are attached to the bill. These bills are called *documentary bills* as distinguished from *clean bills* which are without any document attached to them. The bills of course may be made payable either at sight or after an interval according to the arrangement previously made. The documentary foreign bills are in triplicate, each with copies of the above documents. It is endorsed to the collecting banker with separate instruction about the delivery of the shipping documents, that is, if they are to be given up against acceptance or against payment of the bill. The acceptor in the latter case has the option to retire the bill before due date to obtain possession of the goods earlier, and to obtain a rebate at variable rates per cent. on the amount of the bill, for its unexpired period. This *retiring under rebate*, though frequent, is not very common.

There is generally a letter of hypothecation attached to a documentary bill empowering the collecting banker to sell the goods in case of dishonour of the bill, specially when the seller has got an advance from the banker or has discounted the bill with him. When no advance has been taken or the bill has not been discounted, the collecting

banker or his agent would act after receiving instructions from the consignor about the disposal of the goods. In the former case the loss incurred by the banker, if any, after selling the goods, must be borne by the drawer of the bill who is the party responsible for the transaction.

Council Bills.

There was a system of issuing bills by the Secretary of State for India on the Indian Treasuries. As currency in India was in silver, these bills were drawn in Rupees and were offered for sale in London to those requiring to make remittances to this country to meet their obligations on account of their imports. They were sold by the Secretary of State for sterling to the highest bidder after receiving tenders from the prospective purchasers who were generally bill brokers and bankers purchasing these bills for making remittances to India, on behalf of their customers.

These bills, which were called *Council Bills*, served two purposes. They paid the Home Charges which this country had to remit to England and made payments to the merchants here for their exports abroad. The following description of the Council bill by Prof. Anderson is a very clear exposition of it :—

" Indian exports exceeds the imports by a considerable amount; and this involves a debt to India by the outside world, which is liquidated by purchasing bills on India issued by the Secretary of State. These bills are paid out of the Indian revenues. By this means two objects are attained with a minimum of trouble and expense. The debt of India to England for charges referred to above is paid, as also that of the European merchants to India on the excess of Indian exports over imports. Sometimes the balance in favour of India exceeds the amount of the Home Charges. The Secretary of State then issues bills in excess of what is required for Home Charges and India benefits to the full amount by means of currency accommodation, or by an increased reserve to meet future liabilities."

It should be noted here that the merchants in England did not always take the help of the Council bills for

meeting their obligations to the merchants here. They can purchase other bills in England on India for the purpose and in case of necessity of speedy despatch may have remittances sent by telegram. Persons in India or as a matter of fact in almost all commercial centres may likewise make their remittances in that way. The general practice of merchants in this respect is to purchase bills from their bankers or other bill brokers when they require remittances to be sent abroad, as it is not always possible for them to find debtors in those countries, on whom they can draw in favour of their creditors. When remittances are arranged by wire in the above cases, the transactions are termed " purchasing telegraphic transfers," abbreviated " T. T's."

Bank Post Bills.

Sometimes one branch of a bank issues 7 days bills on another branch, free of charge when the former is in need of drawing money from the latter. These bills afford a convenient way of remitting money from one place to another, to those requiring same. They are called Bank Post Bills (B. P. B's.).

Accommodation Bills and Inchoate Bills.

A bill which is signed by the drawer, acceptor or indorser without consideration, that is, without receiving the value for same, for the purpose of lending his name and credit to another is called an accommodation bill. Such drawer, acceptor or indorser is called an *accommodation party*. These bills are known as *fictitious* bills not being based on any commercial transaction. Unless value has been paid for an accommodation bill by any one, no party is liable to pay the amount of the bill, but when any value has been given for the bill, the holder in due course has the right to enforce payment against any of the signatories, who in their turn can claim compensation from the drawer, who in such a case is generally a man of straw.

When the signer delivers only a stamped paper to be converted into a bill, the holder has the *prima facie*

authority to fill it up for any amount the stamp will cover. Similarly when some material particulars are wanting in a bill, the holder has the *prima facie* authority to fill up the omission in the way he thinks fit. Such bills are known as *inchoate* bills.

Kites and Windmills.

Sometimes bills are accepted without consideration to enable the drawer to raise money by discounting it, on the credit of the acceptor, but sometimes both the drawer and the acceptor are worthless persons and a substantial third party is found to back the bill by his indorsement. These bills in slang terms are sometimes called *Kites* and *Windmills.*

Letters of Credit.

The letter of credit, abbreviated L/C., is sometimes issued by one banker to another asking him to honour the cheques of the party in whose favour it is issued, or to honour his bills, for a specified period upto a specified amount. More frequently, however, a letter of credit is issued by a banker as an undertaking that bills drawn on him in compliance of the terms of the Credit will be honoured by him. Such a letter is generally issued by a banker at the request of an importer in favour of an exporter enabling the latter to negotiate the bills drawn by him with ease and a *fine* rate of discount. The acceptance of bills by the banker issuing letter of credit may either be made unconditional or conditional, termed a *clean or open* letter and a *conditional* or *documentary* letter of credit respectively. In the latter case the acceptance by the issuing banker is generally made subject to receipt of the documents of title to the goods for which the bill is drawn, with the bill for acceptance. Cheques and bills can be drawn by the party for the full amount of the credit at one time or by instalments, but he can not exceed the amount of the credit. When cheques and bills are drawn, the amounts drawn are always indorsed upon the letter of credit so that

it could be understood from it how much of the credit still remains available for use.

Their Classification.—Such credits may either be confirmed or unconfirmed. When the issuing banker definitely undertakes to accept and in due course to pay the bills drawn in compliance with the terms of the Credit, it is a *Confirmed* or *irrevocable Credit.* But when the banker gives no such undertaking and merely intimates his readiness to honour the bills drawn under the Credit unless it is cancelled in the meantime, it is an *unconfirmed* or revocable Credit. These Credits sometimes take different forms according to their nature, such as, *Omnibus Credit* meaning credit granted to shippers for the purpose of drawing bills against the security of their goods, *Fixed Credit* meaning a credit available for a total fixed amount and *Revolving Credit* meaning a credit which is automatically renewable from time to time on fulfilment of certain conditions.

Non-commercial letters of credit are issued by the bankers to enable travellers to avoid the risk of carrying large sums of money to foreign countries. Such a Letter may be, (a) a *Circular* or *World Wide* one, that is, available with any of the issuing banker's agents or correspondents, (b) a *Limited* one, that is, addressed to a certain of the banker's agents or correspondents or (c) a *Traveller's Commercial Letter*, that is, a Letter enabling the holder to purchase goods at different centres.

Rules About Exchange.

As different countries have different currencies, question of exchange is an important factor in the case of bills for settlement of international debts. The amount to be paid is generally in the currency of the drawing country and the paying country is to pay in its own currency the equivalent of the amount drawn. It is necessary for the drawee or others in our country who may become parties to the bill to know how much is to be paid exactly. The practice in this respect in England is that such bills are

payable at the rate of exchange specified in the indorsement made on them for the first time. These indorsements are generally of a London banker or bill broker who fixes the rate of exchange according to the rate prevalent on the day of such indorsement and orders payment at that rate per £1/- sterling in the indorsement. A conversion to the foreign currency is made at the rate and the amount arrived at is shown on the bill, the foreign drawee being advised accordingly. By this arrangement the English seller is fully protected about his exact amount in sterling while the speculative part of the transaction is shifted on to his foreign buyer who takes all risk for the fluctuation of exchange, which might be favourable or unfavourable to him. When the bill, however, is not sold and is sent for collection at maturity, this *first indorsement* system is not followed and it is collected at the exchange rate of the day of collection. Generally bills which are not at the rate of *Exchange per indorsement,* are made payable at other different rates as explained in the chapter on Foreign Exchange.

When the acceptor is required to bear the banker's charges for collection, the words "with banker's charges added" are inserted in the bill. When a foreign bill is to be collected at such a rate of exchange as shall produce the full value of the bill, terms like "payable at Bank's selling rate," "payable without loss in exchange," etc., are used.

Sans Frais and Sans Recourse.

Sometimes the collecting banker is instructed not to incur any expense for *noting* and *protesting* (explained hereafter), when the words "Sans Frais" are written on the bill. This instruction to the banker ought to be in a separate paper as the drawee should not be apprised of the fact that the drawer apprehends dishonour, for it is only in such cases that this instruction is necessary. When the indorser of a bill wants exemption from liability in the event of the bill being dishonoured, the words "Sans Recourse," that is, "without recourse" are put before the

indorsement. An indorser with these words alongside his indorsement is not liable for any future non-payment of the bill.

HUNDIES.

Hundies are extensively used in India specially by the mercantile community. They are bills of exchange except some classes of them which are also in use. These documents were in use in this country before the Negotiable Instruments Act was passed, but are now governed by the provisions of the Act provided it comes within the purview of the definition of a negotiable instrument. This Act, it should be remembered, is in force in British India only and *Hundies* of Indian States are taken as *Hundies* from places outside British India and treated as foreign bills.

Demand Hundi and Period Hundi.

Like other bills of exchange the *Hundies* may be either payable on demand or on presentation or on sight, called *Darshani Hundies* (Sight Drafts), or they may be payable on expiry of a specified period after their date of presentation, called *Muddati Hundies* or *Miadi Hundies* (Usance Bills). The practice in India is to draw these *Darshani* and *Muddati Hundies* singly, specially when they are drawn in the vernacular, no duplicate being issued unless the original is lost or destroyed, before payment is made. This duplicate is called a *Paitth* and is expressed to be issued on the loss of the original. A third copy or even a fourth copy termed *Parpaitth* and *Mejurnama* respectively, may be issued in case of loss of destruction of the succeeding copies. All these future copies of the *Hundi* are not identical with the first either in form or signification and are not in any case issued in sets along with the first like the bills of exchange in European languages.

Shahjog Hundi and Dhanijog Hundi.

There is a custom in India of drawing a *Hundi* expressed to be payable to a *Shah* or *bonafide* holder only.

Such a *Hundi* which is an order *Hundi* must be indorsed over by the payee or any subsequent holder to a respectable person in the opinion of the acceptor or drawee, that is, the *bonafides* of the payee is to be unquestionable in such *Hundies*. Such a *Hundi* is therefore an unconditional order and is a bill of exchange within the meaning of the law, for though the word *Shah* means only a respectable person, who is to be recognised as such by the drawee and who must indorse his name on it, he is generally understood to be a man with his *bonafide* claim. This is the most ordinary form of *Hundies* in this country.

Another form of *Hundi* is the *Dhanijog Hundi* or *Hundi* payable to ordinary people dealing in money. These *Hundies* are taken to be bearer Hundies and are payable to any person presenting them. These are therefore unconditional orders within the definition of a bill of exchange and are negotiable instruments within the meaning of the law. Though convenient these *Hundies* are not very common except in some inland commercial transactions.

Namjog Hundi and Jokhmi Hundi.

Namjog Hundi is another form of Hundi written in vernacular in which the descriptive roll of the payee is generally given. It is payable to the payee named in it with the roll and hence is not negotiable. It is not therefore a bill of exchange, but when issued without the roll it is negotiable according to the prevailing custom of the payee's place. In that case it is a bill of exchange, according to law.

Another form of commercial *Hundi* written in *vernacular*, called *Jokhmi Hundi*, was in vogue in this country while the trade routes were not without dangers and trade was therefore very risky. With improvement in this respect and the establishment of a stable Government, it is now almost obsolete and is used only in exceptional cases. This *Hundi* is a conditional order to accept or pay in case of safe arrival of the goods covered

by the document. It is not accepted or paid if the goods are damaged or lost. Such a *Hundi* can be discounted only by paying an interest at a very high rate, for the discounter takes a great risk in such a transaction, as the drawee is not responsible to the holder for acceptance or payment of such a *Hundi* unless the goods safely arrive and the discounter is to depend solely on the credit of the drawer. Such a *Hundi* is therefore not a bill of exchange.

Zickri Hundi.

Sometimes a *Hundi* is issued in the vernacular to which a letter of protection, called a *Zickri Chitthi*, is attached. An indorser may also attach such a letter to it. Such a *Hundi* may be accepted for honour by the addressee of the letter in case of dishonour by the drawee. Instead of writing such a letter the recent practice seems to be to give the name of a person of the place of the drawee in the bill to be resorted to in case of need, that is, when the *Hundi* is dishonoured by the drawee, in which case the *Hundi* becomes a *Zickri Hundi*. This is an imitation of the practice of the West where in such cases a person is named in the bill called "drawee in case of need," (as explained hereafter). Such *Hundies* are negotiable instruments, for they do not contravene any of the legal provisions necessary to bring them within the definition of such an instrument.

FORMS OF BILLS.

Bill of Exchange in Sets.

A bill of exchange is generally drawn in a certain form. Inland bills are issued singly but foreign bills are drawn in duplicate and sometimes in triplicate according to practice grown up, in consideration of the risk of transit for bills drawn on different countries. This is known as drawing bills in *sets*. Where a bill is drawn in duplicate, the second copy is generally sent by the next mail, and if it is in triplicate, then the third copy is sent by the mail

next to the one by which the second copy is sent. Payment is of course to be made on one only.

Inland Bill and Bill in Duplicate and Triplicate.

A bill of exchange when accepted will appear as follows :—

ACCEPTED
ROY MARTIN & Co.
18-8-37.

STAMP.

No. 390 Patna, January 16, 1937.
Rs. 1000-0-0.

One month after date pay to S. C. Singha or order the sum of one thousand rupees. Value received.

To Messrs. Roy Martin & Co.,
53, Simla Street,
Calcutta.

Belawariar & Sons.

In this bill the word "accepted" written across it at its left side over the signature might have been written anywhere on the bill or omitted altogether without any injury to the bill, provided the signature was in order, for the signature itself implies acceptance, and the word "accepted" is superfluous.

The following are the forms of foreign bills in duplicate and triplicate :—

STAMP.

No. 139
£500-0-0

43-2, Clive Street,
Calcutta, January 19, 1937.

Thirty days after sight of the First of Exchange, Second of the same tenor and date unpaid, pay to the order of Messrs. Aukland & Co., the sum of Five Hundred Pounds. Value received.

To Messrs. James, Wallis & Co.,
50, Sidney Avenue, London.

Ghosh & Midland.
H. Ghosh.

The only change in the duplicate of this bill will be "Thirty days after sight of this Second of Exchange, First of the same tenor and date unpaid" in place of "Thirty days after sight of this First of Exchange, Second of the same tenor and date unpaid."

If the bill be in triplicate the first will appear as follows :—

STAMP.	No. 139	43-2, Clive Street,
	£500-0-0	Calcutta, January 19, 1937.

Thirty days after sight of this First of Exchange, Second and Third of the same tenor and date unpaid, pay to the order of Messrs. Aukland and Co. the sum of Five Hundred Pounds. Value received.

To Messrs. James, Wallis & Co., 50, Sidney Avenue, London.

Ghosh & Midland.
H. Ghosh.

The only change in the Second Exchange will be "Thirty days after sight of this Second of Exchange, First and Third of the same tenor and date unpaid" in place of "Thirty days after sight of this first of Exchange, Second and Third of the same tenor and date unpaid."

The third exchange will have the wordings 'Thirty days after sight of this Third of Exchange, First and Second of the same tenor and date unpaid" in place of "Thirty days after sight of this First of Exchange, Second and Third of the same tenor and date unpaid."

The words "value received" are superfluous though it is usual to insert these words.

When a bill is drawn, a letter is generally issued by the drawer to the drawee intimating the issue of the bill, giving the drawee an idea of what the bill is drawn for and commending it to his protection. This is known as a *letter of protection.*

When a bill is lost of which no duplicate or triplicate has been issued, the drawer is bound to draw another bill before it has become overdue, on the payee's giving security to indemnify the drawer for any loss in case the bill is found again. Only one part of the set is to be accepted or indorsed. When a drawee or indorser accepts or signs more than one part, he is liable on each part to a holder in due course.

ACCEPTANCE OF BILLS.

Signature.

Before a bill is accepted by the *drawee* he is not liable for its payment, as he becomes a party to it only on his acceptance. So this acceptance is a material part of the bill and without it the bill is of no use as against the drawee. The acceptor of the bill must sign the bill properly and the signature is the vital part of an acceptance. Signatures by mark, stamp, lithograph or print are valid signatures. Another person may also sign by authority known as "signature by procuration." It is not material that the word "accepted" should be written on the bill, the signature itself being the indication of acceptance. The drawee also must not indicate in any way by his acceptance that the bill is payable by any other means than the payment of the money. The drawee is entitled to 48 hours time to consider whether he will accept the bill and the holder is bound to allow him the time.

Where Signature is Forged—Forged indorsement or indorsement without the authority of the person whose indorsement it purports to be, on the bill does not confer any right in the bill on the indorsee, as a forged signature has no value and is inoperative. But when a bill has been accepted with the forged signature of the drawer, the acceptor is not allowed by law to deny the genuineness of the signature of the drawer to the bill already accepted by him.

General and Qualified Acceptance and Domicile of a Bill.

The acceptance of the bill may be *general* or *qualified* When the acceptor assents to the order of the drawer without any qualification, it is a general acceptance.

When the effect of the bill as drawn is varied by the acceptance, it is a qualified acceptance. The qualification may be, (a) *conditional*, that is, when the payment is made dependent on the fulfilment of some condition, for instance, "on safe arrival of S. S. *Mandevilla*," (b) *partial*,

that is, when it is accepted for only a part of the amount of the bill, (c) *local*, that is, when the amount is made payable at a specified place only, for instance, " payable at the National Bank of India, Ltd., Calcutta, only," (d) *time*, that is, when the tenor of the bill is changed, and (e) *party*, that is, when all the drawees mentioned in the bill do not accept.

In qualification (c) the acceptance to pay at a particular place is a general acceptance unless the bill is expressly made payable *only* at a particular specified place, and not elsewhere. This place of payment is termed the *domicile* of the bill. In this case the bill is said to be *domiciled* at the National Bank of India, Ltd., Calcutta. The holder of the bill must present it to that bank for payment. It is of course necessary for the acceptor to make arrangement with the bank for such payment. The bank will generally charge a small commission for this service called the *domicile* commission.

The drawer or holder of a bill has always the right to demand an unqualified acceptance and may treat a bill as dishonoured when that is not obtained; but when a holder accepts a qualified acceptance without the consent of the drawer or an indorser, both the drawer and the indorser are discharged from any liability on the bill. A bill may be accepted before it is signed by the drawer.

Examples of Forms of Acceptance.

The following are some of the forms of acceptance which are generally to be found, but different forms with the same significance may also be adopted without interfering with their implications in any way. All the acceptance except (a) and (b) are *qualified* in these examples :

(a) Accepted Roy Martin & Co.	(a) Simple general acceptance.
(b) Accepted, payable at the National Bank of India Ltd. Roy Martin & Co.	(b) General acceptance.

(c) Accepted, payable at the National Bank of India Ltd. only. Roy Martin & Co.	(c) Local qualification, being payable at a particular specified place.
(d) Accepted, payable on arrival of S. S. *Mandevilla*. Roy Martin & Co.	(d) Conditional qualification.
(e) Accepted for Rs. 800/- only. Roy Martin & Co.	(e) Partial qualification, the bill being drawn for Rs. 1,000/-.
(f) Accepted, payable in three months. Roy Martin & Co.	(f) Time qualification, the bill being drawn at one month.
(g) Accepted. Roy Martin & Co.	(g) Party qualification, the bill being drawn on Roy Martin & Co. and Jaharlal Nagarmal.

INDORSEMENT OF BILLS.

Effect of Indorsement and Its Forms.

Indorsement is an essential element in the negotiation of a bill of exchange as well as other negotiable instruments. It transfers the ownership of the property in the bill and the indorser takes a liability in the matter by his indorsement.

An indorsement may be

(a) Blank

(b) In full or special, or

(c) Restrictive.

A *blank* indorsement means the mere signature of the name without any express direction on the bill. Such an instrument is payable to the bearer. When the indorser adds any direction to pay the amount to or the order of a specified person, who becomes the indorser, it is the indorsement in full or *special* indorsement. A *restrictive* indorsement is one in which further negotiability of the in-

strument is restricted or excluded by the indorser or where the indorser constitutes the indorsee an agent to indorse the instrument or to receive the effects for him or some other specified person. The instrument in such cases ceases to be negotiable.

As instances of the effects of several kinds of indorsement, the following will be illustrative :—

A, the holder of the instrument, merely signs his name on its back. This blank indorsement makes the instrument payable to the bearer.

A writes on the back of the instrument "pay to B" and then signs. The effect of this indorsement in full is that if B wishes to negotiate it, he must either simply sign his name or add a direction on it to pay it to another or to his order and then sign.

A makes the following restrictive indorsement on the instrument :—

Pay effects to B only, or
Pay B for my use, or
Pay B or order for my account, or
Must be credited to B.

The effect of these indorsements is the exclusion of all right of future negotiation by B.

Conversion of Indorsements.

The holder of an instrument with blank indorsement, may convert it into an instrument with indorsement in full, by adding a direction over the signature of the indorser, to pay the amount to a specified person or to his order. The holder may also make a special indorsement following the indorsement in blank, without interfering with the indorsement of the indorser. A bill with blank indorsement may therefore go round from hand to hand without any further indorsement until that *indorsement in blank* is converted into an *indorsement in full.*

Liability of the Indorser.

The indorser of a bill undertakes liability in reference to its acceptance and guarantees its payment; but, as

already stated, when he indorses with the words "without recourse" or words to that effect, his liability is excluded.

The indorsement must be on the bill or on a slip of paper called "allonge" attached to it, as sometimes additional space becomes necessary for the indorsements where they are too many to be accommodated on the back of the bill. The first indorsement on the "allonge" must begin on the bill and end on the "allonge" for obvious reasons.

NEGOTIATION OF BILLS.

Holder and Holder in Due Course.

When a bill has been transferred from one person to another it is said to have been negotiated. Bills of exchange are always negotiable unless by clear instruction over indorsements, it is made "not negotiable," that is, its transfer is forbidden. The payee or the person to whom the bill is negotiated, that is, indorsed over and who is in possession of it or the bearer of the bill is called its holder.

A *holder* however is not always the *holder in due course* though he is presumed to be so by law and is the person entitled in his own name to the possession of the Instrument. The holder, other than a holder in due course, has not a better title to it than that of the person from whom he received it and if it is afterwards found that the conditions necessary in this respect were not complied with, the holder can not have the protection and advantages given to a negotiable instrument. When the bill was received under the following conditions, the holder is the holder in due course and enjoys the protection and advantages, as already mentioned, given to a negotiable instrument by law :—

(a) That the bill was taken before it became overdue and without notice that it had been dishonoured.

(b) That it was taken for value and in good faith without any notice of any defect in the title of the person from whom it was taken.

(c) That the bill was a regular one on the face of it.

In addition to other advantages such a holder holds the bill free from any defect of the title of the person from whom he took it. He has the absolute right to sue on the bill in his own name when necessary.

PRESENTMENT OF A BILL.

Time and Place of Presentment.

When a bill is formally brought to the notice of the drawee for acceptance or payment, the act is called *presentment* of the bill. The holder or his duly authorised agent must make the presentment at a reasonable hour on a business day and at the proper place which is

(a) the place specified in the bill for payment.

(b) where no place for payment is specified in the bill, the address of the drawee as given in the bill.

(c) when no place is specified for payment and no such address is given, then the place of business of the drawee, if known; if not, then his place of residence, if known.

Proper Presentment and Effect of Default.

As there is always an address of the drawee on the bill, his place of business or place of residence may be unknown only in the case of shifting, in which case the presentation of the bill to the address as given by the drawer or to his last known place of business or to the place where he is personally found, is a valid presentment. Delay in presentment is excused when it is not due to the default or negligence of the holder. After exercising due diligence, if no one authorised to accept, pay or refuse payment, is found at the place of presentment, no further presentment is required. In default of proper presentment the drawer and acceptor as a rule are discharged from liability. If authorised by agreement or usage, presentment through the post office is a valid presentment. A bill

payable at a fixed time requires no presentment for acceptance though it is generally presented in commercial circle. If so wished, such a bill may be presented for payment only. A sight bill must be presented for acceptance to fix the date of payment, for the specified time after which it is payable begins to run from the date of sight.

DISHONOUR OF A BILL.

Notice of Dishonour.

A bill of exchange is dishonoured when proper acceptance or payment is refused or can not be obtained, and where no presentment is necessary, when the bill is overdue and unpaid. Notice of dishonour must be given in such cases within reasonable time and failure to give notice or to *note* and *protest* (as explained below) in the case of foreign bills absolves the drawer and indorsers from their liability on the bill. A notice of dishonour given by the holder or his agent benefits all the prior indorsers and subsequent holders whose right of recourse against the party to whom the notice is given remains in force by such notice.

Noting and Protesting.

When a promissory note or a bill of exchange has been dishonoured, the holder may cause such dishonour to be *noted* and subsequently *protested* by a notary public, upon the instrument, or upon a paper attached thereto, or partly upon the former and partly upon the latter. Such a *note* must be made within a reasonable time after dishonour and must specify the date of dishonour, the reasons (if any) assigned for such dishonour, or, if the instrument has not been expressly dishonoured the reasons why the holder treats it as dishonoured, and the notary's charges. *Noting* is only preliminary to *protest.*

From the particulars *noted* a formal *protest,* if necessary, is prepared by the notary attesting the dishonour of the bill and declaring the intention of the holder to recover the amount of the bill. When a bill has once been

noted, it can be *protested* at any subsequent date. The procedure for *noting* a bill by a notary is to present it himself or through his clerk after its dishonour and to "note" the above particulars on the bill.

These *noting* and *protesting* are admitted as evidence in Law Courts, of the presentation and dishonour of the bill. It is not imperative to *note* an inland bill, but a foreign bill must be duly *protested* when such protest is required by the law of the place where it is drawn, failing which the drawer and the indorser are discharged.

A protest contains :

(a) The bill in original or a copy.
(b) The names of the parties for whom and against whom the bill is protested.
(c) The place and date of the dishonour and protest.
(d) A statement that payment or acceptance has been demanded by the notary public and the answer (if any) received.
(e) If the drawee or the acceptor could not be found, a statement to that effect.
(f) Reservation of rights against all parties liable on the bill.
(g) The subscription and seal of the notary public.

When the services of a notary public are not available any householder of the place may certify the dishonour of the bill in the presence of two witnesses attesting such dishonour under their signatures. Such a certificate is known as a *householder's protest.*

Days of Grace.

All bills payable on demand are to be presented for payment within a reasonable time after issue. Other bills are to be presented for payment on the day on which they fall due, called the day of maturity. This day is after three days of the calculated time for payment of the bill, which are allowed as days of grace and on the last day of which the payment is to be made. When this last day is a Sunday, Christmas Day, New Year's Day, Good Friday

or any other day declared to be a public holiday by the Local Government, the bill shall be deemed to be due on the preceding business day; but in England if the last day of grace falls on a Bank holiday or on a Sunday and the second day of grace is a Bank holiday, the bill is due on the succeeding business day. In some continental countries no days of grace are allowed. When the day of payment is definitely fixed in the bill, no days of grace can be claimed.

Mode of Calculating Maturity of the Bill.

In calculating the date at which a bill, made payable a stated number of months after date or after sight or after a certain event, is at maturity, the period stated shall be held to terminate on the day of the month which corresponds to the day on which the instrument is dated, presented on the event happens. If the month in which the period would terminate has no corresponding day, the period shall be held to terminate on the last day of such month. Thus a bill dated 31st August 1942 made payable three months after date will be at maturity on the 3rd December of that year as the period terminated on the 30th November, for want of a 31st day of the month. In calculating the day of maturity, the day from which the time is reckoned is not counted, but the day of payment is counted. Months are taken as calender months and no account is taken of "lacking" days.

LIABILITIES OF PARTIES.

Liability of a Minor and a Corporation.

Any person competent to make a contract may bind himself or be bound, by drawing, accepting, indorsing and delivering a negotiable instrument. The capacity to contract is determined by the personal cases. A minor can not bind himself personally, though he may by becoming a party to a negotiable instrument bind all other parties to it. A corporation has no power to become a party to a

bill unless empowered by the law which regulates its incorporation.

Liability of an Agent.

As in other contracts, a person may employ an agent to act on his behalf in respect of a negotiable instrument, and the principal will be bound by the act of his agent to the same extent and under the same circumstances as he is in respect of other contracts. A general authority to transact business and to receive and discharge debts, does not confer upon an agent the power of accepting or indorsing bills of exchange so as to bind his principal. An authority to draw bills of exchange does not of itself impart an authority to indorse. An agent who signs for his principal, without intending to incur personal liability, should be careful to indicate on the face of the instrument that he signs as an agent only, or with no intention of incurring personal liability. If he does not, he becomes personally liable, except to those who induced him to sign upon the belief that the principal only would be held liable. When any person signs in his trade name or any other name assumed by him, he is liable in the same way as if he had signed his own name. If a partner acting within the scope of his authority, signs the name of the firm, the firm is liable. When there is no clear indication in the signature by an agent that he is signing for his principal, the agent is liable and not the principal. This position is not altered even if the agent gives his descriptive title to the signature, such as, "S. N. Gupta, agent Roy Martin & Co." or "S. N. Gupta, Director, Patna Tanneries Ltd.," but if he signs "Roy Martin & Co., S. N. Gupta, agent" or "Patna Tanneries Ltd., per pro. S. N. Gupta, director," he is absolved from any personal liability and his principal Roy Martin & Co., or Patna Tanneries Ltd., as the case may be, is liable.

Liability of Acceptor, Indorser and Drawer.

When a bill has been accepted the primary liability on it rests on the acceptor. If he has accepted the bill without

consideration, that is no defence in any claim brought against him by any holder in due course. In case of dishonour such holder can hold any of the indorser liable to him who in his turn may hold any other previous indorser liable, but neither any indorser nor the drawer is liable before the dishonour of the bill by the acceptor. When a bill is dishonoured, it is the acceptor who is responsible first, then the drawer, and then each of the indorsers according to the order of their indorsements. As between the indorsers themselves, the liability is determined according to the order in which they have indorsed, but the holder of a dishonoured bill can sue any of them for the amount of the bill, in which case of course such indorser has the right to realise the amount from any other indorser above him. In this way the liability is forced back to the drawer who is held liable by any of the indorsers for the payment which he has made on the dishonoured bill. The liability ultimately shifts on to the acceptor who is to compensate the drawer. In the case of a bill payable to bearer negotiated by mere delivery unaccompanied by any indorsement, the holder is not liable as a party to the bill, provided the negotiation is in good faith. Before acceptance the drawer is ultimately liable and the indorsers are sureties liable in the order of their indorsements.

Discharge from Liability.

The party liable on a bill of exchange is discharged from his liability thereon,

(a) to a holder thereof who cancels such acceptor's or indorser's name with intent to discharge him and to all parties claiming under such holder,

(b) to a holder thereof who otherwise discharges such maker, acceptor or indorser, and to all parties deriving title under such holder after notice of such discharge,

(c) to all parties thereto, if the instrument is payable to bearer, or has been indorsed in blank, and

such maker, acceptor, or indorser makes payment in due course of the amount due thereon.

(d) if the holder of a bill of exchange allows the drawee more than forty-eight hours, exclusive of public holidays, to consider whether he will accept the same, all previous parties not consenting to such allowance are thereby discharged from liability to such holder,

(e) by acceptance of a qualified acceptance without consent of the parties intended to be charged,

(f) by material alterations of the bill by the holder,

(g) if a bill of exchange which has been negotiated is, at or after maturity, held by the acceptor in his own right, when all rights of action thereon are extinguished.

Acceptance and Payment for Honour.

When a bill of exchange has been *noted* or *protested* for non-acceptance or non-payment, any person may accept or pay the same for the honour of any party liable on it. The person so paying has previously to declare before a notary public the name of the party for whose honour he pays, and such declaration has to be recorded by such notary public.

Any person so paying is entitled to all the rights, in respect of the bill, of the holder at the time of such payment, and may recover from the party for whose honour he pays all sums so paid, with interest thereon, and with all expenses properly incurred in making such payment. All parties subsequent to the party for whose honour he pays are discharged in such a case.

An acceptance of a bill for honour of any person liable on it is called *acceptance* for honour *supra protest* and a payment for honour of any party liable on a bill is called *payment* for honour *supra protest*. The person not being already a party to it who intervenes is generally named on the bill by the drawer, acceptor or an indorser. He is of course a person intimately known to such drawer, acceptor or indorser.

Drawee in Case of Need.

The person named in the bill to be restored to in case of non-acceptance or non-payment by the drawee, is called a *drawee in case of need.* In the United Kingdom it is optional with the holder to resort to this *drawee* who is expected to honour the bill only to accommodate the drawer.

In India where a *drawee in case of need* is named in a bill of exchange or in any indorsement thereon, the bill is not dishonoured until it has been dishonoured by such drawee. A drawee in case of need may accept and pay the bill of exchange without previous protest.

A drawee in case of need is thus defined :

When in the bill or in any indorsement thereon the name of any person is given in addition to the drawee to be resorted to in case of need, such a person is called a *drawee in case of need,* or a *reference in case of need in England.*

Discounting Bills.

For immediate recovery of the amount of a bill of exchange, the holder instead of waiting until maturity, may *discount* the bill with a banker, that is, he can *negotiate* it meaning sell it to the banker. In such a case the banker becomes the *holder in due course* and absolute owner of the bill entitled to its full face value. If the bill is dishonoured the banker can enforce payment against any party who is liable on the bill. The banker will of course discount a bill only when it is drawn, accepted or indorsed by a party of good standing having the necessary credit. On dishonour the banker can debit his customer with the full amount of the bill plus charges incurred in connection with such dishonour, though he paid an amount less than its face value.

When a bill is discounted with a banker, he charges *interest* at the prevailing *discount* rate, which is deducted by him from the amount of the bill. The amount paid is necessarily less than its face value. The margin is the

banker's discount and its amount varies with the period the bill has to run.

Calculation of Banker's Discount and True Discount.

It will appear from the above that the customer in such a case is paying to the banker a little more than the interest rate would warrant, for he is not getting the full amount of the bill though paying interest on its face value. So he is receiving less than the *true present worth* of the bill according to the interest rate charged. The banker's discount is therefore a little more than the *true discount*. The following example will show how these discounts are calculated and how this difference takes place :—

Suppose a bill for Rs. 1,000/- maturing on the 18th March is presented to a banker for discount on the 4th January and suppose the discount rate is 5 P.C. on that day. The banker will calculate the discount as follows :—

4th January to 18th March	..	..	..	= 73 days.
5 per cent on Rs. 1,000/-	..	..	..	= Rs. 10/-
Rs. 1,000/- minus Rs. 10/-	..	..	..	= Rs. 990/-

This Rs. 10/- is the banker's discount which will be deducted from the amount of the bill and the customer will receive Rs. 990/- in this case.

The true discount is however different and is to be calculated thus :

Let P. W. represent the present worth of the bill which at 5 P.C. per annum will amount to Rs. 1,000/- in 73 days.

$$\text{P. W. } \left(1 + \frac{5 \times 37}{365 \times 100}\right) = \text{Rs. } 1000/-$$

$$\text{i.e., P. W.} = \frac{1000 \times 36500}{36500 + 365}$$

i.e., P. W. = Rs. 990–1 anna –7 pies approximately.

∴ True discount = Rs. 1,000/- minus Rs. 990–1 anna –7 pies approximately,
= Rs. 9–14 annas –5 pies approximately.

But the Banker charged Rs. 10/-; so the customer lost, and the banker gained a small margin in the *banker's* discount calculation.

Renewals of Bills.

Inland bills are sometimes renewed when the acceptor anticipating his inability to pay on presentment, makes a representation to the drawer asking for renewal and extension of time. In such cases the drawer on receipt of interest and stamp may accept a part payment and renew the bill for the balance or draw a fresh bill for the whole amount which, when accepted, occupies the place of the old bill which is cancelled. If the bill has already been discounted the drawer makes necessary arrangement for the purpose with the discounting banker.

Summary Procedure.

There is a summary procedure in the High Courts for a suit on a bill of exchange or other negotiable instruments provided the suit is brought within one year from the date on which the debt becomes payable. In the case of instruments provided the suit is brought within one year from the date on payable on demand, this date is the date of the instrument. In such a case the defendant is not allowed to defend unless the Court thinks that there is a good defence on the merits and grants leave to defend. In default of his obtaining such leave the plaintiff is entitled at once to a decree for the sum of the instrument without any further evidence.

PROMISSORY NOTE.

Definition and Difference with a Bill of Exchange.

A Promissory Note, which is a negotiable instrument like a bill of exchange, is defined as an instrument in writing (not being a bank note or a currency note) containing an unconditional undertaking signed by the maker to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument. So it contains a promise to pay and unless there is an express promise to pay, an instrument is not a promissory note.

While a bill of exchange, as already explained, has three parties, a promissory note has only two. It must be signed by the person who undertakes to pay, called the

maker, and it is to be in favour of another, called the *payee*. It therefore differs from a bill of exchange inasmuch as it is *made* and not *drawn* and is an undertaking on the part of the maker to pay and is not an order on some one else to pay. Hence it is not drawn on any one. In other respects, the two are similar and the conditions necessary for a valid bill of exchange are also necessary for a valid promissory note, though the law as to acceptance, presentment for acceptance, acceptance *supra protest* and issue in set has no application to the latter. Besides, in the case of dishonour of a foreign note, no *protest* is necessary as in the case of a foreign bill of exchange. A bill possesses some advantages over a promissory note. After acceptance a bill offers double security of the drawer and the acceptor, while a promissory note offers the security of the maker only. A bill is a useful instrument for financing trade by including a banker to *accept* it, while this can not be done in the case of a promissory note.

The main points of difference between these two classes of instrument are :

BILL OF EXCHANGE.	PROMISSORY NOTE.
(a) After acceptance the drawer is only secondarily responsible.	(a) The maker is primarily responsible corresponding to the acceptor of a bill.
(b) The bill is an order to pay.	(b) The note is a promise to pay.
(c) Acceptance is required when a bill is payable otherwise than on demand.	(c) There is no drawee in a note and therefore no acceptance.
(d) Conditions may be attached to the acceptance of a bill.	(d) The maker of a note can not attach any condition to a note.
(e) There is a joint liability of all the acceptors of a bill.	(e) The liability of the makers of a note may be *joint* or *joint and* several.

Essential Requirement of a Promissory Note.

The essential requirement of a promissory note is thus an unconditional *promise to pay only money*, so that a mere acknowledgment of debt is not enough. For instance, a note in the terms " I promise to pay Rs. 500/- to B, after

the death of C, if he leaves sufficient assets for the purpose" would be an invalid note upon which no right accrues to the payee. So also "I am bound to pay Rs. 500/- to B" is worse than useless. Hence the validity of a note depends on its appropriate wording.

Time of Payment.

The next thing to consider is the time of payment. A note in which no time is mentioned or which is made expressly payable on demand, or at sight or on presentment is a note payable on demand. A promissory note may also be made payable on a particular date or on expiry of some specified days after presentment or sight. The time of maturity of a promissory note, not payable on demand, is the date on which it falls due, but three days of grace are allowed and when the date of maturity is a public holiday under the Negotiable Instruments Act, the Instrument is due on the preceding day as in the case of a bill of exchange.

Interest and Stamp.

A promissory note usually provides for interest, which is a matter of agreement between the parties. If, however, the interest is excessive, the Court may, in proper circumstances, interfere and reduce it, while if no interest at all is mentioned, interest at the rate of six per cent. per annum is allowed under the law.

The next important thing is the stamp. At one time promissory notes, for whatever amount, had to bear an one-anna stamp, but since 1924 the requirement is that one anna is enough only for a note in which the amount does not exceed Rs. 250/- while two annas are necessary when the amountt exceeds Rs. 250/- but does not exceed Rs. 1,000/- and four annas are required for a note where the amount exceeds Rs. 1,000/-.

Transferability.

When a note containing the above requirements is made over to the payee, he becomes what is called the

holder of the note and he is then entitled to receive or recover the amount due. If the note is made payable to a particular person or order, or bearer simply, the holder can negotiate it to a third person. In other words, he can transfer the note to any person so as to constitute the transferee the holder of the note. This transfer is made by indorsement which may be either *in blank* or *in full.*

When the payee signs merely his name at the back, the indorsement is *in blank*, while if he adds a direction to pay the amount to or to the order of a specified person the indorsement is said to be *in full.* In this way a note may be indorsed time after time by various persons until it is paid off.

Amount in Words and Figures, Forged Indorsement, and Note Obtained through Fraud.

Generally a Note mentions the amount both in figures and words. In such a case the amount mentioned in words will prevail if it is at variance with the amount in figures, and no evidence is admissible to show that the amount in words is incorrect.

When a Promissory note is lost or is obtained through fraud, no one who claims through the person who so found or obtained it can claim the amount due unless he paid value for it and was unaware of any defect in title. But if the indorsement of the loser is forged, even a *bonafide* purchaser for value acquires no title.

Order of Liability.

The maker of a Promissory note is the principal debtor and he must pay the amount to the holder on maturity, and the other parties, if any, are liable as sureties for the maker and must pay if default is made by the maker. So while the drawer of a Bill is only conditionally responsible for payment, the maker of a Note is primarily responsible for it, as the drawer is liable only after the dishonour of the Bill by all other parties but there is no such parties to accept the primary liability for payment in a promissory Note.

Any material alteration in the note makes it void as against a person who was not a party at the time of the alteration or who has not consented to such alteration.

Presentment.

When a demand Note is indorsed over, it should be presented for payment within a reasonable time, otherwise the liability of the indorser will end, though the liability of the maker will not be affected. When a note is payable by instalments, it is to be presented within three days of the date for payment of each instalment. When any place is mentioned in the note as place of payment, the note must be presented at that place. If there is no such mention, presentment is optional, but when the note has been indorsed over, presentment is necessary to render an indorser liable. When a note is dishonoured, the indorser is entitled to notice.

Limitation.

A suit on a Promissory Note must be brought within the period of limitation, otherwise the suit will be barred and the note useless. For a note payable on demand the time is three years from the date of the Note. In other cases the time is three years from the date on which a note falls due.

Time, however, may be extended in two ways. If there be a written acknowledgment of liability by the party against whom the amount is claimed, or where interest or part of the principal is paid by the person liable to pay, a fresh period of limitation begins from the date of such acknowledgment or payment. In the case of the part payment the fact of the payment must appear in the handwriting of the person making the same.

Joint and Several Notes.

When a Promissory note is made by more than one person, it is a *Joint* or *Joint and Several* note according to the actual wording of the note. All the makers are jointly responsible for it. The first begins "We promise to pay" and is signed by the makers. The second may begin "I

promise to pay" and may be signed by more than one person. Only one maker may be used in the case of a *Joint and Several* note but the other makers' liability does not end and action may be taken against them when the judgment against the first one is not satisfied. Instead of one all the makers can also be sued together in such a note. In a *joint note* all the makers are to be sued together though the judgment may be enforced against any of them. If any of the makers is left out in the suit, he is freed from liability as the holder of a *Joint note* has only one right of action.

Some specimens of promissory notes are given below :

Promissory Note payable on Demand.

STAMP.

CALCUTTA.

Dated.....

Rs. 100/-.

On demand I promise to pay at the Central Bank Ltd., Calcutta, to.....or order the sum of Rs. one hundred only, for value received.

Signature.

.....

Promissory Note payable after Date with Interest.

STAMP.

CALCUTTA.

Dated.....

Rs. 500/-.

One month after date I promise to pay to.....or to his order the sum of Rs. five hundred only, with interest at the rate of five per cent. per annum until payment.

Signature.

.....

Joint Promissory Note.

STAMP.

CALCUTTA.

Dated.....

Rs. 200/-.

On demand we promise to pay to.....or order the sum of Rs. two hundred only.

Payable at the Central Bank Ltd., Calcutta.

Signature.

.....

Signature.

.....

Joint and Several Promissory Note.

STAMP.

CALCUTTA.

Dated.....

Rs. 1,000/-.

One month after date we jointly and severally promise to pay to.....or order Rs. one thousand only.

Signature.

.....

Signature.

.....

Bank Notes and Restriction on Their Issue.

A Bank Note is a form of Promissory Note. No Bank in India except the Reserve Bank is however authorised to issue Bank notes. In England only the Bank of England has the authority to issue bank notes for amounts which can not be less than £5. It now issues notes of the denominations of 5, 10, 100, 200, 500, and 1,000 pounds. Scotch and Irish Banks also issue notes.

Under the provision of Sec. 25 of the Indian Paper Currency Act, no person in British India can make a Promissory Note payable to *bearer on demand*, as the

function of making such notes was reserved to the Government only which used to make them in the form of G. C. Notes. The provision applies to other negotiable instruments also except cheques which are issued against deposits.

I. O. U. Notes.

Acknowledgment of debt is frequently made by an I.O.U. note without any specified time for repayment. This is therefore not a negotiable instrument and is given as evidence of a temporary loan generally for a small sum. The letters I. O. U. are the contraction for the words "I owe you." It is dated and signed. Ordinarily the name of the creditor in such a note is considered unnecessary but sometimes it is mentioned. If a due date is added, it becomes a promissory note, in which case it becomes inadmissible in evidence unless duly stamped as such. If the words used are such that it is not a promissory note, but at the same time a contract for payment, it is to be stamped as a contract.

CHEQUES.

Limited Scope of a Cheque.

As explained in detail in the next chapter on Banking Practice and Cheque, it can be drawn only on the banker having a deposit account of the drawer and its scope is therefore limited to some extent, though it plays a very important part in the commercial world. It is superfluous to give a detailed treatment to a cheque here and the reader is referred to that chapter to study it as a negotiable instrument. The rules applicable however to other negotiable instruments payable on demand, *mutatis mutandis*, apply to the cheque.

QUESTIONS BEARING ON CHAPTER XIX.

1. Define a Negotiable Instrument and state what are its special characteristics.

2. Which are the negotiable instruments made such by law?

3. Define a bill of exchange and explain the terms—drawer, drawee and payee.

4. What are the conditions which a bill of exchange must satisfy to be recognised as such?

5. Are the orders of payment by the drawer after the marriage of a person or the death of a person, bills of exchange? Give your reasons.

6. Are the orders of payment by the drawer in G. P. Notes, bills of exchange? Discuss your answer from a legal point of view.

7. Is an order by the drawer to pay the sale proceeds of goods consigned by him to the drawee, valued at a given sum, and an order to pay in instalments, bills of exchange? Give your reasons.

8. When the payee of a bill of exchange is a fictitious or non-existing person, to whom is the bill payable?

9. Is a bill of exchange valid if it is accepted by the drawee before the drawer has signed it?

10. What do you understand by the **term** of a bill of exchange? What are generally the **terms** on which these bills are made payable?

11. Is a bill of exchange invalid if it is not dated or if there is no mention of the fact that it is for consideration?

12. What is the restriction imposed by Sec. 25 of the Paper Currency Act in respect of the condition for drawing bills of exchange? Why does such restriction not apply to cheques? Does the Sec. impose any restriction on drawing a demand bill payable to a **Dhani?**

13. What will be taken to be the amount of the bill where the figures and words of the sum payable do not agree?

14. What are the principal uses of a bill of exchange?

15. How does a bill of exchange facilitate settlement of international debts? Illustrate your answer by an example.

16. What is an Allonge? How is it to be indorsed upon and why?

17. How does a bill of exchange facilitate recovery of capital in business?

18. How does a bill of exchange consolidate debts?

19. What is a documentary bill? How is it retired? What do you understand by retiring under rebate?

20. What is a letter of hypothecation? What is the use of such a letter?

21. What is a Council Bill? How does it help settlement of accounts between England and India?

22. What is an Accommodation bill and who is an Accommodation party? When has the holder in due course of such a bill the right to enforce payment?

23. What are "Kites" and "Windmills"?

24. Explain "purchasing Telegraphic Transfers" and bank post bills.

25. Explain a Letter of Credit. Is it in itself a bill of exchange?

26 What do you understand by Clean Letter of Credit and Conditional Letter of Credit? What are the respective conditions attached to them?

27. Explain Confirmed Credit, Unconfirmed Credit, Omnibus Credit, Fixed Credit and Revolving Credit in connection with letters of credit.

28. What are the occasions on which Letters of Credit are generally issued?

29. With what other additional clauses are bills of exchange sometimes drawn?

30. What are the meaning and effect of the words "Sans Frais" and "Sans Recourse" written on a bill of exchange?

31. What is a Hundi? Is it a negotiable istrument?

32. What are the usual kinds of **Hundis?** What are **Darshani** and **Muddati Hundis?** Are they bills of exchange?

33. Explain.—**Paitth, Parpaitth** and **Mejurnama** in connection with **Hundis.**

34. Explain **Shahjog Hundi, Dhanijog Hundi** and **Namjog Hundi.** Are they bills of exchange? Give your reasons.

35. What are **Jakhmi Hundi** and **Zickri Hundi?** Are they bills of exchange? Give reasons for your answers.

36. Why and when are bills of exchange drawn in **sets**?

37. You have consigned goods to an American Merchant at New York, Mr. H. C. Williams—for which his debt to you stands at £550. Draw a bill of exchange on him in a set of three payable to Lloyds Bank Ltd., with which you have discounted it and show how it will appear when accepted by the drawee.

38. What is a letter of **protection** ? What is its utility ?

39. What is the provision about lost bills ?

40. How is a bill of exchange to be accepted ? What are the requirements for a valid acceptance ?

41. What do you understand by general and qualified acceptance of bills of exchange ? What are the qualifications that may be imposed in a qualified acceptance ? Explain them.

42. What is the effect of acceptance by the holder of a qualified acceptance without the consent of the drawer or the indorser?

43. Explain—Drawee in case of need.

44. State the import and effect of the following acceptances :—

(a) Accepted, Payable at the National Bank of India, Ld

(b) Accepted, Payable at the National Bank of India, Ld only.

(c) Accepted, Payable on arrival of "S. S. Mandavilla."

45. What is meant by "tenor" of a bill of exchange? What do you understand by bills at sight, bills payable at the expiration of a fixed term and bills payable at a determinable future time?

46. What is the effect of an indorsement of a bill?

47. Explain "Blank, In full" and "Restrictive" indorsements with examples.

48. Can a holder convert a blank indorsement into one in full? If so, how?

49. How can an indorser exclude his liability on the bill?

50. What do you understand by negotiation of a bill?

51. Explain "Holder" and "Holder in due course" of a bill of exchange stating their respective legal position. What are the conditions under which a bill is to be received to become a "holder in due course"? What is his special legal advantage?

52. What is the provision of presentment of a bill of exchange regarding time and place?

53. How is a bill to be presented when the address of the drawee is unknown? What is the effect of default in presentment?

54. What is the provision for notice in case of dishonour of a bill of exchange? What is the effect of such notice by the holders and the effect of its omission?

55. What do you understand by "Noting" and "Protesting" a bill of exchange? How are they done? In what case is protesting compulsory? What is the effect of a default in this respect?

56. What will a **protest** contain?

57. Is a bill with a forged signature a valid document? When is the drawee liable for such a bill?

58. What are the provisions about time of presentment and days of grace of different kinds of bills?

59. How is the time of maturity of a bill of exchange to be calculated? How are the "lacking" days to be treated in calculating the time of maturity of a bill?

60. State the nature and extent of liability of minors and corporations in becoming parties to bills of exchange.

61. Are agents signing a bill of exchange personally responsible for their signatures? If so, when?

62. Are the agents responsible by signing bills in the following ways:—

(a) B. D. Ghosh, Director All India Trading Co., Ltd.,

(b) The Happy Valley Tea Co., Ltd., S. C. Roy, Agent.

(c) The Calcutta Rice Mills, Ld., per pro. R. N. Chatterjee, Director.

63. State the order of liability of the acceptor, indorser and the drawer of a bill of exchange.

64. When are the parties liable on a bill of exchange discharged from such liability?

65. What do you understand by payment for honour of a party of a bill of exchange? Is the person so paying entitled to recover the the amount of the bill and if so, from whom?

66. Define a "referee in case of need." Explain the difference between English and Indian law about resorting to him in case of dishonour of a bill.

67. Explain acceptance for honour **Supra protest** and payment for honour **Supra protest**.

68. How and when can an inland bill of exchange be renewed?

69. What are the special facilities allowed by law in suits to enforce payment on a bill of exchange or any other negotiable instrument?

70. Define a Promissory Note and mention its characteristics.

71. What are the points of difference between a bill of exchange and a promissory note?

72. What are the essential requirements of a promissory note?

73. What is the time of maturity of promissory notes payable **on sight** and promissory notes payable otherwise than **on demand?** What is the provision for days of grace in this respect?

74. How and under what circumstances can a promissory note be negotiated? Explain indorsement **in blank** and indorsement **in full**.

75. Can any body who found a lost note or obtained it through fraud or any body receiving it through such a person, claim the amount of the note? If so, when? Does any one acquire a title to a note with a forged indorsement of the loser?

76. Explain the responsibility of the maker and the indorser, if any, in a promissory note mentioning its difference with a bill of exchange in this respect.

77. What is the effect of any material alteration in a promissory note?

78. What are the rules for presentment for payment of promissory note regarding time and place? What is the effect of nonpresentation of a note payable on demand indorsed over to another person? Is a notice of dishonour to an indorser compulsory?

79. What are **joint** and **joint and several** promissory notes? Give their forms and mention the legal procedure which may be adopted in this connection to enforce payment.

80. A and B borrow from C Rs. 500/- payable to C or order 3 months after date at the Bank of India, Ltd., Calcutta, the rate of interest being settled at one per cent. per month. Prepare a **joint and several** promissory note with proper stamp.

81. What are the restrictions placed on making promissory notes by parties other than the Government? Are G. C. notes promissory notes?

82. What are I. O. U. Notes? State their value and character.

83. When does an I. O. U. note become a promissory note? When is such a note inadmissible in evidence?

84. What is the difference between a drawer of a cheque and the drawee of a bill of exchange?

SOME UNIVERSITY QUESTIONS.

1. What is meant by negotiable instrument?

2. Give the legal definition of 'Bills of Exchange' and by what name are they known? Mention several advantages attaching to Trade.

3. How do bills of exchange obviate the necessity of sending specie from one country to another?

4. Write notes on 'Documentary Bills,' 'Clean Bills,' 'Finance Bills.'

5. Mention the various processes by which the indebtedness of one country to another can be liquidated. Which is the most approved of the processes?

CHAPTER XX.

BANKING PRACTICE & CHEQUE.

The Customer.

THE main functions of the banker, as explained in their proper places, are (a) to receive deposits, (b) to negotiate loans and (c) to discount bills of exchange, etc. The parties with whom the banker is in regular relationship in respect of these transactions are his customers. The customers are in account with the banker. As hoarding of money is falling into disuse, the surplus cash in the hands of traders and private persons also is generally now deposited with a banker. The banker undertakes to return same when his customer wants it.

Important transactions, specially transactions in wholesale trade, are now-a-days frequently carried on through payments by cheques, specially in cities. Cash payments are generally made in retail trade. These cheques as well as the cash received by firms are deposited with the banker. The cheques are collected by the banker, and the proceeds and the cash deposited are credited to the account of the customer. When payments are to be made the convenient method of payment through the banker is adopted, if the amounts to be paid are not inconsiderable. This system ensures safety and convenience, and is therefore in universal practice throughout the whole civilized world.

What the Banker Does for His Customer.

The banker is therefore not only the custodian of his customer's money, keeping it in safe deposit, but also its disburser according to his direction, giving him facilities and some protection in his transactions. Import and export trades of a country are also financed by the banker, inasmuch as he arranges the necessary credits for these transactions by advancing on bills of exchange, through which generally the international, and internal settlements

of accounts to some extent, are made. As the banker discounts these bills he at once places his customer—the seller —in credit for the amount of the bill minus his discount charge and thus puts him in fund before the bill has run its term.

Thus he is the lender of capital to his customer who used it to secure the goods he had sold on usual credit and who would not have otherwise got its use until the arrival of the date of payment of the bill. The banking system has therefore given a tremendous encouragement and help to the trade, commerce and industry, the prosperity of which has of course reacted on it for its world-wide development. As a matter of fact each is dependent on the other for its growth and prosperity.

Relation of the Banker with His Customer.

Sir John Paget, the great authority on the law of banking says—"The relation of banker and customer is primarily that of debtor and creditor, the respective position being determined by the existing state of the account." So as soon as a deposit is made to a banker, the money becomes his property absolutely at his disposal, and unless he is in the position of a trustee, he becomes debtor to his customer. As a mere debtor, and not a trustee, he is not bound to account for the money to his creditor. He can use the money on which he generally pays interest, in any way he likes to earn profit for himself. It is therefore evident that the banker is not in the position of a bailee and is not bound to return the identical money which the customer deposited, but can repay the amount in any form of legal tender. But when any deposit is made of valuables and securities for safe custody, the banker is in the position of a trustee and can not use them. He is bound to return the indentical things to the depositor when demanded, in such cases.

Banker's Rights and Obligations.

In the case of deposits in current accounts the banker has the obligation to pay on cheque drawn by his customer

provided the amount at the credit of the latter is sufficient to cover the amount of the cheque, and that it is presented within a reasonable time from the date of issue. If the banker dishonours a cheque without justification he makes himself liable to compensate his customer for injury to his credit. The banker has the lien on the goods bailed to him for a general debit balance of his customer's account in the absence of any agreement to the contrary, but he has no lien on the valuables deposited merely for safe custody. The banker is bound to regard the condition of the account of his customer as confidential, except on reasonable and proper occasion, and breach of this duty makes him liable to damage. The banker has therefore to be very careful in this respect.

THE CHEQUE.

The Cheque and Its Definition.

A cheque is defined as a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand. It is drawn on the banker by his customer unconditionally to pay either to himself or a third person a sum certain in money. A conditional order or the draft of a bank on its branch is therefore not a cheque. As it is always payable on demand, no days of grace are allowed for payment. An order not payable on demand is not a cheque. The person ordering payment is the *drawer*, the banker on whom it is drawn is the *drawee* and the person in whose favour it is drawn is the *payee*. The drawer himself may be the payee by making the cheque payable to himself.

A Cheque has many advantages. It dispenses, first of all, with the cumbrous process of handling and despatching species and other legal tenders from one place to another which may be at a distance from each other, and saves expenses for such remittance—the only expense being the charge for postage necessary to send the cheque and a small banker's charge. When payments are to be mutually made by the merchants of two places to each

other, they may be adjusted by despatch of cheques instead of despatch of cash from both the places, as such cheques are brought together in the Bankers' Clearing House, and mutual cancellation takes place without the use of cash. Necessary precautions against miscarriage or theft are however to be taken when they are remitted by post from one place to another. The use of a cheque is also safer than the use of cash for the reasons explained hereafter. A specimen form of cheque is given here :

No H. 24813 Calcutta.....*October*, 1941.

THE BANK OF ALLAHABAD, LIMITED.

CALCUTTA.

Pay.....*or Bearer*

Rupees .....

.....

Rs.....

ENTD.....

FOL.....

Bearer and Order Cheques.

A cheque may be drawn payable either to bearer or to the order of a person named. A cheque which is payable to a specified person or bearer or where no person is specified, is a *bearer cheque*. Similarly when the last indorsement on the cheque, which was originally payable to order, is in blank, it is a bearer cheque. When a cheque is drawn payable to bearer having the word "bearer" on the face of it, it cannot be changed into one payable to order, by any subsequent indorsement to that effect. This rule however has lately been dissented from by the Bombay High Court holding that this can be done by a subsequent indorser. So the position remains a little doubtful until a more authoritative decision giving a full exposition of the law in this respect is forthcoming.

Joint or Alternative Cheque.

When the cheque is drawn payable jointly to more than one person, it is a *joint cheque* and when it is drawn pay-

able to any of them, it is an *alternative one.* In the former case the indorsements of all the payees are necessary except in the case of partners or executors where any partner or executor may for himself and other partners of executors indorse it, and in the latter case any of the payees may indorse and receive payment. Such cheques may be made payable to order and the same rules will apply in regard to indorsements. When a cheque is made payable to the "trustees," the indorsements of all the trustees become necessary as no trustee has the power to delegate his authority to another.

Indorsement of Cheques.

When the cheque is drawn payable to the order of a person named on the face of it, it will only be paid on the indorsement of such person on the back of the cheque in the way in which his name has been put by the drawer. When a cheque is drawn payable to a certain person without the addition of the words "or order" it may be paid to him personally, but when he indorses the cheque, it is considered to be an "order" cheque. When an order cheque is simply indorsed by the payee, the indorsement is a *blank* one and it can be passed from one holder to another without any further indorsement. This indorsement may be qualified by addition of a direction to pay to some other person when it becomes a *special* indorsement and the cheque can not be passed on to any one else unless it is indorsed by such some other person. When a cheque is specially indorsed to a certain person *only*, it can not be paid to any one else except the payee. The indorsement is taken to be *prima facie* evidence of the fact that the indorser has received value.

Examples of Indorsement of Cheques.

As indorsement of cheques frequently causes a certain amount of confusion specially to the uninitiated, the following examples of indorsements will be some help to those concerned with dealing in cheques :—

INDORSEMENTS. (BY THE PAYEE)	SIGNIFICANCE OF SUCH INDORSEMENTS.
(a) B. C. Gupta.	(a) Blank indorsement, payable to bearer.
(b) Pay to the order of S. N. Roy. B. C. Gupta.	(b) Special indorsement.
(c) Pay to S. N. Roy only. B. C. Gupta.	(c) Restrictive indorsement.
(d) Pay to Roy Martin & Co., or order. B. C. Gupta.	(d) Indorsement of a partner will suffice.
(e) Per Pro. Roy Martin & Co. B. C. Gupta. Manager.	(e) Per procuration indorsement.
(f) B. C. Gupta, Executor of late B. B. Roy.	(f) Executor's indorsement (one executor only).
(g) For self and co-executors of late B. B. Roy. B. C. Gupta.	(g) Indorsement of one executor is sufficient to bind others.
(h) B. K. Chatterjee, S. K. Sircar, R. N. Ghosh, Trustees.	(h) Indorsement of all the trustees necessary.
(i) Sm. Sarala Dasi × Witness— R. N. Banerjee, 2/1, Simla Street, Calcutta.	(i) Indorsement of an illiterate payee.

It is always necessary to see that the indorsements are in proper form, as no cheque will be paid if the indorsement is not in order. For example, a cheque which has been made payable to "Amiya Roy" will not be paid by the banker if it has been indorsed as "Mrs. A. Roy" or "Mrs. Roy" and a cheque made payable to "Roy Martin & Co. or order" will be refused payment if indorsed "Roy, Martin & Co. Ltd." All indorsements should therefore be according to the description on the body of the cheque and their spelling must be the same as given by the drawer.

Drawing of Cheques.

Care should be taken in drawing cheques, and a correct description of the payee should always be given. Error is sometimes made in this respect through negligence or

oversight when drawing cheques, and difficulties arise in cashing such cheques. The spelling of the name and the correct firm name of the payee should always be given attention to. "Roy Martin & Co.," should not be written as "Roy, Martin & Co. Ltd.," and "B. K. Ghosh" should not be spelt as "B. K. Ghosha." The endorsement of the correct name in such cases will not entitle the payee to receive payment, but the banker will generally pay if the cheque is indorsed in the inaccurate name with the correct name written under it, provided there is no doubt about the identity of the payee.

Any discrepancy should be carefully avoided. When drawing a cheque, the amounts of the cheque in words and figures must tally, otherwise the amount stated in words shall be taken to be the amount ordered to be paid. Drawers should also take necessary care to prevent fraudulent alterations in their cheques. This is generally done by the use of a device called *Protectograph* which perforates the cheque with the words "Not over----------Rupees."

Transferring Cheques and Stopping Payment.

The cheque being a negotiable instrument can be transferred by the holder to another person like a bill of exchange by mere delivery in case of a bearer cheque, and delivery and indorsement in case it is payable to order. But, as in the case of a bill of exchange, there is no acceptor in a cheque, and hence the holder has no cause of action against the banker in case of dishonour. The banker is however liable to pay damage to the drawer when the cheque is dishonoured without reasonable grounds, in spite of sufficient funds standing to his credit, even if the drawer does not sustain any actual loss. Cheques are to be presented for payment within a reasonable time according to practice and trade usages.

The banker shall stop payment of a cheque, (a) when the drawer has countermanded its payment and sent a notice to that effect to the banker, (b) when he has received notice of the death or bankruptcy of the drawer and (c)

when garnishee order from a Court has been served on him placing a legal encumbrance on the banker.

The banker is usually liable for any loss incurred for payment of a cheque with a forged signature of the drawer, as the banker is supposed to know the signature of his customer, a specimen of which he retains, but if the drawer has by his behaviour induced the banker to believe that the forged signature was a genuine one, he is not liable for such loss. The banker however is not supposed to know the signature of the indorser and if the indorsement is a forged one, he is not liable to the drawer for payment on such indorsement, for it is not possible for him to verify the authenticity of the indorsement on the cheques presented to him.

Refusal of Payment.

The banker may refuse payment, (a) when the fund at credit of the drawer is not sufficient to meet the cheque, (b) when the cheque has been incorrectly drawn *e.g.*, when words and figures differ or some other mistake or informality is found in it and (c) when it is not presented within a reasonable time.

When payment is refused, the banker assigns reasons for such refusal in a printed slip marked as follows and returns the cheque to the payee at once :—

(a) Insufficient funds. (I/F)
(b) Refer to drawer. (R/D)
(c) Not sufficient funds. (N/S)
(d) Indorsement irregular. (I/I)
(e) Drawer's signature differs.
(f) Effects not cleared.
(g) Payment stopped by the drawer.
(h) Drawer bankrupt.
(i) Drawer dead.
(j) Account closed.
(k) Words and figures disagree.
(l) Garnishee order served.
(m) No effects.

(n) Not in order.
(o) Unreasonable delay in presentation, etc.

The remarks are self-explanatory and require no comments except about (f) and (l). The first means that the cheque, bill or any other credit instrument deposited, against which the cheque is drawn has not been cashed up to the time of the presentation of the cheque ; the second is an order by a Court of Justice attaching a *debt* due to a debtor by a third party—known as *garnishee*. This order is passed in favour of a creditor who has obtained judgment against his debtor, to secure the amount of the decree from the *debts* due to such debtor *at the time* by the *garnishee*; so it does not attach any *debt* that will *become due*. A *garnishee* order is generally taken attaching the balance of a current account with a bank.

On receipt of the cheque thus refused the payee can take the necessary steps against the drawer to enforce payment, if he so wishes, after giving notice of such dishonour to him. No such notice is however compulsory if the reason for such refusal for payment is the want of sufficient funds with the banker to meet the cheque.

Mutilated and Stale Cheques.

When the cheque is torn to pieces or mutilated it is called a *mutilated* cheque. The banker in such a case may send it back to the holder to be exchanged for a fresh one. When there is unreasonable delay in presenting the cheque for payment, the cheque is a *stale* one which the banker will generally decline to pay. What the reasonable time for presentation is, depends on the local custom and practice in vogue, but as a rule this is judged by circumstances in each case, though 6 months or longer from the date of issue of the cheques are generally taken to be the longest period in this respect in the case of inland cheques and 12 months or longer for cheques payable abroad. The refusal of payment by the banker of a stale cheque, however, does not absolve the drawer from his liability for payment to its holder in due course who may enforce payment from him any time before it is barred by limitation

according to the law of the country. But if the drawer suffers any actual damage through the delay in presentment of the cheque by the holder, *e.g.*, for failure of the banker in the mean time, he is discharged to the extent of such damage. This is due to the fact that had the cheque been presented within proper time, the banker would not have dishonoured it, and the loss of the drawer on account of insolvency of the banker might have been averted.

Lost Cheques and Post-dated Cheques.

When a cheque is lost, the drawer should forthwith be communicated with and asked to stop its payment by the banker as it may be negotiated by an unscrupulous person in whose hands it might have fallen. There is no remedy if the cheque has been paid by the banker before receipt of such notice, when of course it will form the subject of a legal enquiry; but the banker will be responsible if he pays the cheque after receipt of notice to stop payment, though some bankers in such cases try to evade responsibility for payment through inadvertence.

A cheque with a subsequent date, that is, dated forward is called a post-dated cheque, which will not be paid by the banker before that date. Such cheques are generally issued by parties who have not got the necessary fund with the banker on the date these are issued. These are however sometimes issued contingent upon the fulfilment of certain contracts by the receiver within the interval between the date of delivery of the cheque and the date on its face so that the payment of the cheque might be counter-manded in case of failure on the part of the payee to fulfil the contract. Such instances are very rare and unusual and a post-dated cheque should always be accepted with much caution as it generally indicates the financial difficulty of the drawer which he expects to get over within the interval.

CROSSING OF CHEQUE.

Effect of Crossing.

We have seen that when a cheque is made payable to order, it is safer than the bearer cheque, but both are *open*

cheques. A crossing gives the cheque further safety as under Section 126 of the Negotiable Instruments Act of 1881, "when a cheque is crossed generally, the banker on whom it is drawn shall not pay it otherwise than to a banker" and "where a cheque is crossed specially, the banker on whom it is drawn shall not pay it otherwise than to the banker on whom it is crossed or his agent for collection." Hence the service of a banker is necessary to cash a cheque crossed *generally* and the service of a particular banker where crossed *specially* to him. The banker may however cross it again specially to another banker for collection and may cross to himself an uncrossed or generally crossed cheque sent to him for collection. The movement of the cheque can thus be traced and fraudulent encashment easily detected in such cases.

Cheque Marked "Not Negotiable" and "Not Transferable."

Further precaution may be taken in this respect by adding the words "not negotiable" to the crossing, as thereby the negotiability of the cheque is impaired (not lost), for in the case of transfer of such a cheque, from one person to another, the transferee cannot acquire a better title to it than the title of the transferrer which he would have done had the negotiability of the cheque not been impaired. The result in such a transfer will therefore be that if the cheque be found to be a stolen one, the transferee will lose the value he paid for it, though he be found to be an innocent holder for consideration. While the crossing "not negotiable" of a cheque does not restrict its transferability, it can be made non-transferable by crossing it "not transferable" or "pay X only" or "a/c payee only," with the word "order" or "bearer" struck out from the cheque. A cheque may be marked "not negotiable" or "not transferable" either in its general or in its special crossing but not otherwise, that is, the negotiability of a cheque without *crossing* can not be impaired or destroyed in any way.

General and Special Crossing.

Crossing is generally done by drawing two parallel lines across the face of the cheque with or without the words "& Co." or "& Company." As will be understood from what has been written above, when no particular banker is named in the crossing, it is a general crossing, but when the name of a particular banker, authorised to receive the proceeds of the cheque, is mentioned in the crossing, it is a special crossing.

A cheque which has not been crossed by the drawer may be crossed either generally or specially by any holder thereof. A general crossing may also be turned into a special crossing by either of them. The special crossing of a cheque can not be altered by any holder thereof, but the banker to whom a cheque is specially crossed can again specially cross it to another banker for collection.

The following are specimens of general and special crossings :—

GENERAL CROSSINGS.

(1)

(2)

& Co.

(3)

& Co.

Not negotiable.

(4)

Not negotiable.

(5)

& Co. A/C Payee only.

SPECIAL CROSSINGS.

(1) The Central Bank of India Ltd.

(2)

The Central Bank of India Ltd.

(3)

The Central Bank of India Ltd.
Not negotiable.

(4)

The Central Bank of India Ltd.
A/C Payee only.

(5)

The Central Bank of India Ltd.
Credit Roy Martin & Co.

(6)

Remitted by the Central Bank of India Ltd.
to the National Bank of India Ltd.
for collection.

Banker's Responsibility.

Crossings may be in some other forms with the same effect. It will be seen that the parallel lines across the cheque can be dispensed with in the case of special crossings. As the crossing is a very important part of a cheque, the banker is bound to be careful in the payment of crossed cheques and in case of payment in contravention of the rules of crossing, he makes himself liable to the true owner of the cheque, but he is not liable when the crossing has been interfered with, making it impossible for the banker to understand the alteration. A banker who collects a cheque crossed generally or specially to himself, for his customer in good faith and without negligence in the ordinary course of business, is not liable to the true owner of the cheque should the title to the cheque prove defective, by reason only of his having received payment.

Opening Accounts.

When any person wants to open an account with a banker, ordinarily he will require an introduction for the prospective customer before undertaking his banking transactions. He may be introduced by an existing customer of the banker or any other person known to him. On the preliminary deposits being made after the introduction,

the depositor is required to supply his specimen signature to the banker on which he will transact his business with him thereafter. When a company wants to open an account with a banker, the directors have to pass a resolution appointing him as the *banker* of the company and authorising him to pay cheques and to transact business with the company on the signature of some official or officials specially mentioned in the resolution. A copy of the resolution is sent to the banker with copies of its Memorandum and Articles of Association, if any, which are retained by the banker for record. No drawing is allowed by the banker unless all these are in order. A pass-book, a cheque book and a pay-in book are supplied to the depositors which are retained by them for use in their transactions with the banker.

The pass-book shows the state of the account of the customer with the banker and frequently it is taken to him to be written up to date in the form of Cr. and Dr. entries. Not only the amounts deposited and drawn by cheques or otherwise are shown in it, but expenses, if any, for collection of cheques and other effects, cost of cheque books, if any, interest, commission, etc., are also entered in this book in their appropriate columns. In England the practice is to supply the customer in the pocket of the pass-book, the vouchers for all payments made by the banker on his customer's account for cheques drawn, bills of exchange accepted, etc.

The cheque book for the purpose of drawing cheques on the banker contains printed and numbered cheque forms of the banker which are supplied free of charge to the customer in India, as there is no stamp duty on a cheque here. Blank papers may also be used for the purpose of drawing cheques, but the banker recommends the use of printed forms, as cheques on blank paper may easily be tampered with.

The pay-in book is nothing but a set of forms bound together for use when deposits are made. The forms are with counterfoils which are signed by the banker as a

token of his receiving the deposit, the main slip being retained by him. Separate pay-in books are used for deposits in cash and in cheques or bills, etc., for collection. Some bankers use separate pay-in books for town and up-country deposits, for facility of clearance through the Clearing Houses which have a system to follow in this respect. Deposits may generally be in currency notes, treasury bills, postal orders, cheques, bills of exchange, promissory notes, dividend warrants, interest coupons, etc., which are collectively called *effects*, or they may be in species.

Bank Reconciliation Statement.

It will be noted that the balance shown in the pass-book will not sometimes tally with the balance in the cash book of the customer at the end of the month. This is partly due to the fact that the extras debited and credited in the banker's ledger during the month, for interests, commissions, etc., have not been entered in the customer's cash book and partly to the fact that some cheques drawn by the customer and entered in his cash book in the month might not have been presented to the banker within the month and also some cheques paid in within the month and shown in the cash book might not have been collected on the last day of the month when the pass-book was written up. This discrepancy is generally reconciled by the customer making a reconciliation statement by a comparison of the entries in the pass-book and the cash book, which is shown at the foot of the monthly accounts in the cash book at the end of the month.

Different Forms of Accounts and Interest in Them.

Accounts of different forms may be opened with the banker. An account in which the payments inwards are credited and payments outwards are debited by the banker and from which the customer can draw at any time, is called a Current Account. An account to which a deposit is made for a specified period subject to withdrawal by notice on a higher rate of interest than that allowed in the current

account, is termed a Deposit Account. A higher rate of interest is allowed in a Deposit Account for the reason that the banker becomes sure of the use of the deposited amount for the stipulated period of notice, though the depositor is generally allowed an accommodation within the stipulated period, at the discretion of the banker on the security of this deposit at the bank rate of interest. The interest on the current account is very small and some bankers do not allow any interest at all in such accounts. Even the small interest allowed in such accounts depends on a minimum monthly or daily balance remaining with the banker, according to the practice of different bankers. Sometimes a personal current account is opened by a trader in addition to his account in the name of the firm, on which he draws to meet his expenses unconnected with his business. Special accounts for special purposes may also be opened with the banker.

As to the actual rate of interest allowed by the bankers in this country, it is about 1 p.c. on the current accounts with the majority of the bankers, though some big ones allow no interest on current accounts. In England the rate of interest in 7 days Deposit accounts is usually fixed at 2 per cent. below the Bank rate, that is, the official rate charged by the Bank of England in discounting first class bills. The rate of interest on deposit accounts, in India and England, varies with the length of time agreed upon for notice of withdrawal, being higher when the time is long and lower when it is short, but changing with the increase and decrease of the Bank rate of interest. In London the city brokers also receive deposits at call or short notice. Their rate of interest is generally ½ per cent. higher than the rate allowed by the bankers in similar cases.

QUESTIONS BEARING ON CHAPTER XX.

1. Who are the customers of the banker and what does the latter do for the former?

2. What are the advantages of transactions by cheques?

3. What is the relation of the banker with the customer? What is the position of the banker as regards the return of the money deposited to him by his customer?

4. What are the rights and obligations of the banker in payment of cheques drawn on him?

5. Define a cheque. Who are the drawer and the drawee of a cheque?

6. State the advantages of the cheque system.

7. Distinguish between a bearer cheque and an order cheque.

8. State what you understand by blank indorsement and special indorsement of a cheque and explain their effects.

9. What are joint and alternative cheques? How are they to be indorsed?

10. What is the effect of the words—"Pay to K. C. Bose only" on a cheque drawn in his favour? A cheque is drawn—"Pay to Phillip & Co. or order" and it is indorsed by Mr. H. Phillip, a partner of the payee firm in his name only. Will the cheque be paid by the banker?

11. Will a cheque be made payable to "H. C. Bose" be paid if indorsed as "H. C. Bhose"? If not, what is the remedy in the case?

12. What is the effect of the discrepancy when the amount on a cheque in words and in figures does not tally?

13. How is a cheque to be transferred from one person to another? Has the holder of a cheque any cause of action against the banker for dishonouring a cheque?

14. When shall the banker stop payment of a cheque?

15. Is the banker liable for payment of a cheque with a forged signature of his customer? If so, in what circumstances he is not liable for such payment?

16. When may the banker refuse payment of a cheque? What do you understand by the following remarks by the banker on the slip attached to a cheque when returning it to the payee?—Refer to drawer, Effects not cleared, Garnishee order served.

17. What is a stale cheque? What is the extent of the liability of the drawer when payment is refused of such a cheque?

18. What is a post-dated cheque? Why is it generally drawn?

19. What is the effect of crossing a cheque? What are general crossing and special crossing? What are the respective effects of such crossings?

20. What is the effect of the cheque being marked "not negotiable" in the crossing? Can such a cheque be transferred? If so, what is the result of such a transfer?

21. State which of the following are general and which are special crossings with their effects:—

& Co.

Not Negotiable.

National Bank of India Ld.

National Bank of India Ld.
A/C Payee only.

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22. When is the banker not responsible if he makes payment of a cheque in contravention of the rules of crossing?

23. How to open an account with a banker? What are the pass-book and the pay-in book?

24. What is a bank reconciliation statement? Where is it kept?

25. What are usual rates of interest, if any, allowed on opening an account with a banker? What is the difference between a current account and a deposit account?

26. What are the usual rates of interest, if any, allowed on current and deposit accounts—in England and India?

27. State how would you draw a cheque ensuring its payments to no other person than the payee himself. What is the effect of making a crossed cheque "not negotiable"?

CHAPTER XXI.

MONEY AND ITS FUNCTIONS.

Exchange of Commodities.

EXCHANGE of commodities between the members of the society has been one of its vital necessities. In the primitive stage of the society, when man's wants were few, this exchange was carried on by Barter or Truck, meaning interchange of one commodity with another. But as the man's wants multiplied and in consequence the number of commodities increased, this process of their exchange necessarily became complicated, specially in the case of bartering indivisible commodities like cattle and coat.

The inconvenience in exchange thus caused led to the introduction of a medium for it, and this medium is money. By its intervention barter gives way to purchase and sale, and the interchange of commodities instead of being direct becomes indirect through a process called trade. The economic basis of exchange however remains essentially unaltered, for it is still the original act of barter, the only change in it being that it is now carried by a dual operation instead of one of primitive age through the medium of money. This medium of exchange has however made trade easy of operation to a great extent.

Definition of Money.

Money is defined as "a commodity chosen by common consent to be a measure of value and a means of exchange between all other commodities." It must be such a commodity as can command in exchange for it, at the present time or in future, the labour or the product of such labour of others. This definition, strictly speaking, applies to standard money only. Other forms of money, such as bills of exchange, cheques, etc. come within the definition so

long as they are freely received in payment for goods or in discharge of debts. So in its particular sense money is the currency issued by the State, the circulation of which is enforced by it. But ordinarily every form of credit instruments which are widely used as mediums of exchange is regarded as money.

Functions of Money.

The principal functions of money are :

(a) It serves as the medium of exchange, for it is freely accepted in exchange for other things.

(b) It serves as the measure of value, for the values of other things are understood in terms of money.

(c) It serves as the store of value, for it may conveniently be set aside for future use.

(d) It serves as a standard of deferred payments, for an equivalent payment at a future date can be obtained through it, for a loan now made.

Without it commercial transactions would have been extremely inconvenient, if not altogether impossible. Men would have to carry their products from door to door and would have to use utmost exertion to secure raw materials by barter, in the absence of this medium of exchange. The use of money now enables a producer to dispose of his products easily and to get things from distant parts of the world. Without the aid of money the measurement of value of a thing would have been almost impossible.

Qualities of Standard Money.

The articles to be used as money should have the necessary attributes in them of good money. They are according to Jevons, Value, Portability, Divisibility, Indestructibility, Homogeneity, Stability of Value and Congnisability. These attributes are required for the following reasons :—

(a) The material of coin should be valuable, otherwise it would not be suitable for exchange with other valuable things.

(b) It should be portable, that is, should be capable of being easily carried. Otherwise it would be inconvenient for use.

(c) It should be capable of division without difficulty, for otherwise coins cannot be made in uniform quality and value, with it.

(d) It is to be indestructible, for unless the coins from it last for reasonably long period and can be taken to long distance without deterioration, it will be of no use for the purpose.

(e) Homogeneity in it is required, for without it, the material contained in two portions of it of equal size, cannot be uniform in quality.

(f) The material must be stable in value, otherwise, its quality as a store of value will be impaired for violent fluctuations in demand or supply.

(g) The attribute of cognisability is necessary as without it, it would not be distinguishable from other materials and the difference between genuine and counterfeit coins would not be easily recognisable.

Besides, it is necessary that the material used should command general acceptability, for obvious reasons.

Forms of Money.

Though paper and metallic money is now in universal vogue, there have been other forms of money as well. In the past, various sorts of things in various countries were used to be treated as money, such as ornaments, things of consumption, products of a particular industry, skins, tobacco, etc. Cattle served as a medium of exchange even in advanced stage of civilization. The adjective "pecuniary," with which we are so familiar to-day is derived from a Latin word the meaning of which is "Cattle." Owing to the various requirements mentioned before being satisfied by metals like gold and silver, they came to be accepted as universal medium of exchange.

Coinage.

Gold and silver were first used not in the forms of coins, as they are used to-day, but they were used in lumps and bars, and all payments had to be made by weight. "After a time the purity of metal was indicated by a stamp impressed on one side of each bar. Later on, however, this very slow and clumsy method was abandoned and pieces of metal of definite weight and fitness were used instead. These were of various shapes, but for the most part they were round, and were stamped on both sides. This system had the great advantage that the money could now be counted instead of being weighed." In course of time milling the edge of the coin which makes clipping impossible was resorted to. In most countries coins of three different metals, *viz.*, gold, silver and nickel are in use.

Coinage in every State is the function of the Government of the land. No private individual or private body can coin money. If an individual has enough of gold and silver and wants to convert them into current coins, he is to approach the Government mint which would do the needful for him. In some countries this is done freely, in others a restriction is put and in some others the mint is closed to the public for this purpose.

Legal Tender—Monometallism and Bimetallism.

As the money standard is universal in all civilized lands, a knowledge of what is meant by legal tender is needed. Legal tender is the form of money which a seller or a creditor is required by the law of the land to accept in payment of his debt. In England gold coins and Bank of England notes are legal tenders to any amount, but silver coins only for sums up to forty shillings, and pence up to one shilling. In France gold coins and silver five-franc pieces are legal tenders to any amount, but the silver coins of less value than five francs, only for amounts not exceeding fifty francs. Countries in which the coin of one metal only, say gold or silver, is legal tender to any amount, are said to have a single standard or to be monometallists.

Those in which both the gold and silver coins are legal tenders and in which there is an unrestricted right of the public to free coinage of these metals by the mint, are said to have a double standard or to be bimetallists. Bimetallism is scarcely found in any country now. When the face value of a coin, gold or silver, is exactly identical with its value in gold or silver, the coin is said to be *good*; but when its intrinsic value in gold or silver is lower, the coin is said to be *bad*.

Free Coinage.

In some countries the mint is required by law to accept all the gold that is brought to it and to convert it into coins without any charge for the operation. In England for every ounce of gold brought to the mint, the bringer used to receive in coins the value of three pounds, seventeen shillings and ten and a half-pence (£3—17s.—10½d.). The coinage was free because there was no restriction as to the amount coined, and gratuitous because there was no charge made for the coinage. Any one could also bring his gold bullion to the Bank of England, instead of to the mint, and get from the Bank for one ounce of standard (11/12 fine) gold, sovereigns in exchange at the rate of £3 17s. 9d. But in 1915 the Government placed restriction on movement of gold and suspended payments in gold—giving up the gold standard of the country.

The gold payment was, however, resumed by the Gold Standard Act of 1925, but the mint was relieved of its obligation of coining gold bullion brought to it, except in the case of gold brought by the Bank of England, which was made bound by statute to buy and sell gold at the rate of £ 3 17s. 9d. and £3 17s. 10½d. respectively per ounce. Formerly one could go either to the mint or to the Bank for the sovereigns; after the passing of this Act he could go to the Bank only, to obtain the value of his gold bullion at the above rate which the Bank was empowered to pay in Bank notes of its own. This system continued up to 21st September, 1931, when on account of the financial crisis in

the country, caused by foreign drain, England found it necessary to suspend the Gold Standard Act of 1925 and the Bank was relieved of its obligation to sell gold.*

In India silver rupees and Government currency notes are legal tenders to any amount, there being no gold coin in use, but the mint is closed to free coinage. The standard was a gold bullion standard here and the Government was bound up to 21st September, 1931, to supply sterling or gold bar at its discretion to the minimum of 1,065 *tolas* to the public for payment at a fixed rate, namely, Rs. 21—3as.—10p. per *tola* of pure gold.

Gold Standard—Its Advantages and Disadvantages.

In order to secure stability in the value of money, many of the advanced countries of the world have adopted the system of keeping the value of their currency units equal to the value of a fixed quantity of gold. This is a gold standard system. It is not essentially necessary that there should be gold in the form of currency; it is enough if it can be had freely in exchange of the circulating media and that it can be freely imported or exported. †

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* This action of England's going off the gold standard caused a great commotion and nervousness in the financial markets of the world on account of the disturbance in the foreign exchange caused by it, and some other gold standard countries had to follow England, as they too found themselves unable to continue payments in gold. Rupee in India was so long linked with gold by the Currency Act of 1927, but the divorce of the sterling from gold in England compelled the Government of India to suspend the appropriate section of that Act to relieve it from its obligation to sell gold for rupee. The implications of these suspensions and their results have been explained in brief in the chapter on Foreign Exchange.

† The following extract from a contribution to the *Statesman* of Calcutta are illuminating in this respect:—

"The gold standard does not mean an abundance of gold in use. It does not imply a gold currency. England has learnt to do without the sovereign. It means that gold, not silver, not gold and silver, is the standard by which all values of goods and services are measured and in which all debts are payable in the last resort. It means also, in the English way of working it, that all other money has its value and does its work because ultimately if the need arises it can be turned into gold and at an established rate. Gold gives the certainty, the confidence; so, as long as it is there, it is not wanted, except for the one big

As the majority of the civilized nations of the world have adopted the system of gold standard, it now provides an inter-national measure of value. Expansion of credit depends on the gold reserve, so the system provides an automatic check on the governments in this respect compelling them to follow a sound monetary policy. Besides, it prevents much fluctuation in exchange by confining it within the specie points as explained in the chapter on Foreign Exchange.

That gold is the measure of value of all things, presupposes the stability of its own value, but it is not actually as stable as it is believed to be; for stability depends on its supply in quantity required to recoup its normal loss. When there is subnormal or abnormal supply of new gold, that is, when the gold supply of the world falls below or rises above the normal supply, the general price level of commodities is affected indicating that the stability of its own value is lost. Banks can normally expand credits only to the extent of the supply of gold, and hence when the state of commerce and industry justifies such expansion,

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purpose, to pay international debts. It moves from capital to capital as nations have to meet liabilities to one another. That is, the gold standard establishes an international measure of value common to the whole world, universally accepted, automatic in operation.

"In England we are used to gold as a stand-by. Some banker has said "If nine out of every ten people think the gold standard the best, it is the best." The desire that gold shall be there is almost as much a national instinct as the the desire that beer shall be there, with one important difference. If the gold is there, men are content. They don't want to use it. With beer it is different. So it will be easier to cut off gold than beer. Still, gold is a comfort we are used to. Don't we even boast that the baby is as good as gold? (We shall have to drop this habit now).

WANTED THE HAPPY MEAN.

"Yet in the War and for seven years after, when there was no gold standard and no obvious sign of gold, we did without it, got our meals regularly and our fun, and slept without horrid dreams of New Jerusalems made entirely of paper and going up in smoke. Now we have to do without it again letting statesmen and bankers decide with how much paper money, we can manage on. If we are given too much, we shall live in a Fool's Paradise and then go burst. If too little, trade and industry will be languid because their stays are too tight.

the banks remain handicapped by the operation of the gold standard.

But as the system commands public confidence and no other better system has yet been found, gold standard seems to be the best way maintaining an equilibrium of price, not only in the country itself but also amongst different countries.

Different Types of Gold Standard.

The types of gold standard introduced by various countries are not always the same. Though gold has been admitted by all of them as the measure of value, this has been done in different ways. Generally speaking, gold standard is met with in three different types :

(a) *The Gold Currency Standard.* Under this system there are gold coins in free circulation and the movement and use of gold as currency are unrestricted. The *notes* are convertible into gold coins and *vice versa.* The holder of gold bullion is, under the system, entitled to have gold coin in exchange, at a certain fixed rate.

I hope it is now realised that under a gold standard system gold must be there as a fund from which payments may be made to other nations. Such payments are not generally Government payments. They are the resultants of the multitude of transactions between individuals, banks, companies, and balances are settled by the purchase of gold from the banks and its dispatch to other countries. In this way equilibrium is maintained in international trade and steadiness in the exchanges that are the means of trade payments. There is also the importance of gold as backing for currency. When gold comes into the country there can be an increase in currency and credit. When it goes out, a reduction of both is the natural consequence.

The free movement of gold was authorised by the simple rule restored at the end of 1925, that the Bank of England must sell gold on offer of legal tender at the rate of 400 fine ounces at £ 3-7-10½ an ounce. This rule is now gone. The Bank does not sell, for there was a danger, despite the country's financial strength on a long view, of all the gold disappearing. England is like a big landowner who hasn't money in his pocket to pay for lunch and a railway ticket and cannot borrow it at the moment. So the country has "gone off the Standard." The pound is paper, not paper that in sufficient quantity can buy gold. It must maintain its own value and prove its own virtue. It can no longer say, "I am worth much more than my weight in gold."

(b) *The Gold Bullion Standard.* This system does not entitle the holder of gold bullion to demand gold coin in exchange, nor are the *notes* under this system convertible into gold coin, but the recognised Central bank of the Government of the country remains bound to buy and sell gold at a price fixed by the Government for any form of legal tender offered. There is no need of circulation of actual gold coin in the country in this system.

(c) *Gold Exchange Standard.* This standard is for countries requiring no actual gold for the purpose within the countries, though their measure of price is ultimately in gold. A monetary reserve in this system is held in gold and in liquid assets like bills, notes or other securities of a full gold standard or gold bullion standard country, the currency of the former being convertible into exchange on the latter at a fixed rate.

From the above it will appear that in order to maintain a gold standard of any form there must be a reserve of gold or securities in some form readily convertible into gold. India's standard being a gold bullion standard, she has a reserve in gold to maintain it. This is called the Gold Standard Reserve fully explained in the chapter on Foreign Exchange.

Silver and Other Standards.

Under the silver standard system the coins for legal tender are of silver. No gold coin is struck and any such coins, if in existence, are treated as commodities, exchangeable in the terms of the silver coins which are taken as the measure of value in all transactions.

In some countries, both gold and silver have been adopted as legal standards, a ratio of value between the two being fixed for the purpose by statute. Hence coins of both the metals are legal tenders in these countries. This is double standard.

There is a standard which may be called *mixed standard*, in which paper money and metallic currency are both standards of value, all debts being payable in either. The paper money in such cases is backed by the metallic coin into which it must always be convertible.

Some States may not issue any currency at all or may issue an insufficient quantity depending on other countries for their supply. The foreign coins to which a fixed rate is given in their own currency serve their purpose. This may be called a *tariff standard.*

Brassage and Seigniorage.

When the Government of the country makes a charge just covering the cost of coining from the persons bringing metals for the purpose, the charge is known as Brassage.

When the Government makes a profit out of the coinage by fixing a legal standard higher in value than the price of the metal, the amount of profit made, in addition to the cost of coinage, is called Seigniorage.

Debasement, Appreciation and Depreciation.

When the Government of a country issues money containing less than the standard amount of precious metal, the process is called debasement of the coin.

Money has itself little value except to the extent of the value of the metal of which it is ordinarily composed. It is not always desired for its own sake. Its value depends upon the things it brings by exchange, that is on the quantity of other things that can be bought by means of a given unit of it, say a rupee or a sovereign. This evidently depends on prices; if prices are raised, less can be bought with a rupee and the value of the rupee is said to have fallen in that case, that is, money has become depreciated. If on the other hand, prices are lowered, more can be bought with a rupee, and the value of the rupee is said to have risen in that case, that is, money has become appreciated.

Token Money.

This consists of coins used for purposes of small change, such as silver and bronze coins of England, and

also of all sorts of paper currency, such as Indian currency notes, etc. Token coins often contain a very small portion of their face value in metal. They cannot be freely coined but can be issued under the authority of the Government according to requirements. Paper money, such as British treasury bill, is also token money. The difference of token coin with standard coin is, that while the denominational value of the former always exceeds its metallic value, the denominational value of the latter is almost the actual value of its metallic ingredients. Rupees and half-rupees in India, inspite of their not containing the exact quantity of silver of their face value, are standard coins, and bronze four-anna and two-anna pieces are token coins. The profit derived from the manufacture of token money goes to the State.

Gresham's Law.

This law is so called after Sir Thomas Gresham, an Elizabethan merchant of great eminence who was also the master of the mint. Into the detailed examination of this law, it is not possible to go in a treatise like the present. The principle of the law may simply be stated as that when in any country there are more than one kind of coin in circulation, the bad coin always drives out the good, specially under a system of free and gratuitous coinage.

As stated above, token money is manufactured according to requirements, for they should not supplant the use of standard coins and their circulation should always be limited. When the requirement of the country is met by the standard currency in circulation, then any token money issued to supplement them, will cause inflation and the price level will rise to the extent warranted by the total money in circulation and the work done by the standard currency alone will now be done by both together. In other words, there will be a superfluity of currency. In such a case the token coins, that is, the inferior currency, will drive out the standard currency from circulation to the extent of their issue, and if their issue be unrestricted,

then it will drive out the standard coins altogether from circulation, in the long run.

The reason of this is that as the bullion value of the standard coins is always equal to, if not greater than, their exchange value, they will be withdrawn from circulation and exported in discharge of international indebtedness, when acceptable, or hoarded or melted or used for articles of personal adornment. Hence we find that the inferior currency drives out the superior currency, but the latter cannot supplant the former. The law is equally applicable to cases where standard coins are subjected to degradation by mal-treatment or when they have fallen below standard weight for long use, for in such cases, the degraded coins will drive out the newly minted coins, as the latter are worth more as metal than the degraded coins, but are only equal as legal tender. So people will melt them or sell them as metal. Hence all governments safeguard the integrity of the coinage and make all worn coins compulsorily exchangeable at their face value, by law. The systems of coinage under which coins have a purchasing power in excess of their intrinsic value, find little application of Gresham's Law, as in the case of the silver coins in India.

Convertible and Inconvertible Paper Money.

For facility of commercial transactions paper money is now very much in use. In some countries, as for instance, in the United States, the paper money—the bills issued for sums of one dollar—is taking the place of coins. The convertible paper money is that which can be converted into coin at the will of the holder. The bank or the government which issues it promising to pay the sum printed on it, must have an adequate metallic reserve for the purpose. Inconvertible paper money is that which is issued without any undertaking to exchange it for coin or gold or silver on demand. It is merely money in the form of paper instead of in the form of coin. It can be issued by a bank with the authority of the government or by a government. The amount to be issued depends absolutely

on the discretion of the government and no metallic reserve is necessary. It is only the insolvent governments and governments in distress that have recourse to this process. The French Revolutionary Government issued paper money called "Assignates" and the U. S. A. issued paper money known as "Green Backs" during the Civil War of 1861-65. Paper money of either class, however, has certain merits. It is very portable, and though not durable, it can be made to serve very well the purpose of a medium of exchange in the country. Paper money has been issued in India also during present war emergency.

Monetary Units.

There are different monetary units for different countries. The following is a list of the standard coins used by various countries of the world :—

COUNTRY.	COINS.	
Argentine Republic	100 centavos.	1 peso
Austria	100 grochen	1 schilling
Belgium	100 centimes	1 franc
Brazil	1,000 reis	1 milreis
Bulgaria	100 stotinkis	1 leva
Chile	100 centavos	1 peso
China	100 candareens	1 tael
Denmark	100 ore	1 krone
Egypt	100 piastres	1 £ E.
Finland	100 penni	1 markka
France	100 centimes	1 franc
Germany	100 pfenning	1 mark
Great Britain	20 shillings	1 £
Greece	100 lepta	1 drachms
Holland and Java	100 cents	1 guilder
India	16 annas	1 rupee
Italy	100 centisimi	1 lira
Japan	100 sen	1 yen
Mexico	100 centavos	1 peso
Norway	100 ore	1 krone
Persia	2,000 dinars	1 pahlavi
Portugal	100 centavos	1 escudo
Roumania	100 banis	1 leu

COUNTRY.	COINS.	
Russia	100 kopecks	1 rouble
Serbia	100 paras	1 dinar
Spain	100 centimes	1 peseta
Sweden	100 ore	1 krona
Switzerland	100 centimes	1 franc
Turkey	100 piastres	1 £ T.
United States	100 cents	1 dollar

MONEY AND PRICE.

The Value of Money.

The value of all commodities is measured in terms of money, but there is not *one* commodity in terms of which its own value can be expressed. So the value of money is measured by the quantity of other things which it can purchase. As the rise and fall of price of commodities are expressed in terms of money, the rise and fall of the value of money is measured by the quantity of the commodities for which it exchanges. The value of money is said to *rise* when a given unit of it can purchase more commodities and is said to *fall* when the same unit can purchase less of that commodity. So the value of money inversely varies with the general price level. This change in price level is indicated by index numbers prepared by various authorities in this respect, showing the approximate changes in prices of the principal commodities over a series of years, the basic price of each commodity being taken to be 100.

The law of supply and demand determines the value of money as well as of other commodities, and this value is therefore the result of interaction between these two factors. When trade is prosperous, the demand for money increases, for increased number of exchanges required to cope with increased production and its distribution. When the trade is slack, the opposite is the case. The demand for money is also increased with the increase of population, for then it has to meet the requirements of exchange for more persons, and is decreased with the decrease of population in a similar way. At the time when trade is

brisk, money also circulates rapidly and it is therefore more effective then than at the time when the trade is slack, rendering its rapid circulation unnecessary. So in the former case the demand for it increases, and in the latter the demand diminishes.

If the demand for money increases during any period and its supply remains the same, the general prices of commodities will fall, that is, it will exchange for a greater quantity of goods than before, in other words, the value of money will rise. Conversely if the demand for money remains the same, but its supply increases, the general prices will rise, *i.e.*, it will exchange for less quantity of goods, in other words, the value of money will fall.

The Quantity Theory of Money.

All these mean that the purchasing power of the money will be regulated by its quantity in existence during any period of time in a community, in relation to the supply of commodities offered for sale. The general price level will rise or fall in proportion as the amount of money in circulation increases or diminishes, provided that the rapidity of its circulation remains the same. This theory that the general price level is dependent on the amount of money which the community is in a position to pay for the various commodities, is known as the quantity theory of money.

The working of this theory is modified to some extent by various factors. For instance, hoarding practice and reserve system prevent the operation of the theory to the extent of the hoard or the reserve. Credit system and credit instruments reduce the actual demand of money to their extent and interfere with the working of the theory. So the theory is applicable, so far as the money present in *actual circulation* is concerned.

Rising and Falling Prices.

The rising and falling prices are therefore due to a great extent to the change in the value of money, which

affects the wholesale price first, then the retail price, and then the price of services.

A rising price always stimulates business for it widens the margin of profits giving a stimulus to producers and traders in their enterprises. So when there is increase in the supply of money, there is a prosperity in the business, though a class of the general public having a fixed income is adversely affected by the increase of price, for the fixed incomes do not keep pace with the increase of remuneration in all other employments, which takes place with the increase in the supply of money. It also benefits those who have to make fixed payments in fixed interests and in other forms. So the creditors lose and the debtors gain by rising prices.

The falling price, on the other hand, depresses business, for it reduces the margin of profits causing a set-back to the enterprises of the producers and traders. This produces depression in trade. As the prices fall with the decrease in the supply of money, those with fixed incomes are benefited, and the others suffer, for the remuneration in employments falls with the depression while the fixed salaries and wages take time to come in line with the falling prices. But the depression causes distress amongst a certain section of the wage earners also, for it leads to heavy unemployment. The creditors gain and the debtors lose by falling prices.

Inflation and Deflation.

As the State is the authority to supply money according to its own necessity and the necessity of the public, it frequently regulates its supply in a manner that it may not cause any disturbance in the stability of price, but sometimes it causes violent fluctuation by manipulation in its supply. Deliberate expansion of currency by the government forces up the price level to an abnormal extent. This is frequently done by issue of an excessive quantity of inconvertible paper currency for its own purpose, and its use in the market for purchasing commodities in competi-

tion with the public, as for instance, at the time of war or other emergencies, causes an abnormal increase of price. This is inflation. The government sometimes similarly manipulates currency by contraction against requirement of the trade. This is deflation. It causes trade depression and unemployment and benefits those having a fixed income. Careful expansion and contraction of currency, however, are not harmful to the interest of the community as they are generally meant to meet the requirements of the situation for the time being.

Creation of money solely for the purpose of economic development of the country does not affect the people in the same way as when a government appears in the market with new money to purchase commodities for its use in competition with them. Hence the evil of creating new money is minimised in the case when the government would not only refrain from purchasing the commodities available in the country, but help the production of more commodities with it. An increased amount of currency will still cause something like an inflation, as the new money would find its way into the pockets of the people and interfere with the credit structure of the country before appreciably influencing the manufacture and production of commodities in increasing quantity. But this temporary inflation would be more apparent than real, as the people in such cases would become possessed of more money than they had in their possession before, and consequently will feel little difficulty in paying increased price for their requirements during the interval. A deflation on the other hand is not harmful when it is considerably resorted to, for the interest of the State and the public.

QUESTIONS BEARING ON CHAPTER XXI.

1. Explain Barter and Sale and state how the former gave place to the latter.

2. What is money? Describe the various substitutes of metallic money.

3. What should be the qualities of standard money? Give your reasons.

4. Describe the various forms of money which have been in use. How and why do gold and silver occupy their present position in the currency of the world?

5. Explain legal tender and standard money.

6. What are Monometallism and Bimetallism?

7. What do you understand by "free coinage"? What had been the pre-war position of England in this respect and what changes have taken place in it since the outbreak of the European War of 1914-19? What is the position in India in this respect?

8. What do you understand by Gold standard? Mention its advantages and disadvantages.

9. Explain the different types of Gold standard.

10. What were the results of India going off the Gold standard in 1931? Explain Silver standard. What are the other standards than gold and silver standards generally met with? Explain them.

11. What are Brassage and Seigniorage? Explain Debasement, Appreciation and Depreciation of money.

12. State what you understand by token money.

13. What is Gresham's Law? In what cases the Law is not fully applicable?

14. What are convertible and inconvertible paper moneys? What are their advantages and drawbacks?

15. What are "Assignates" and "Green Backs"?

16. How is the value of money measured?

17. Explain the Quantity Theory of Money. How and when is the theory modified to some extent?

18. What do you understand by change in the value of money? How does it affect the price?

19. What are the effects of rising and falling prices on business? How are these effects brought about?

20. Explain Inflation and Deflation. When are the beneficial and when are they detrimental to the interest of the public?

21. How does contraction of currency cause trade depression and unemployment?

22. Does creation of new money always cause real inflation? If not, when?

CHAPTER XXII.

FOREIGN EXCHANGE.

THE rate of Exchange is said to be the thermometer indicating the financial and necessarily the political temperature of a country, for the economic and political problems of a country, in a way, eventually find their expressions in the rates of exchange. Foreign Exchange market provides the machinery for the settlement of international debts, just as the banking system provides an arrangement by which generally the domestic indebtedness is settled. But while the domestic settlement is made through the currency of the country, international settlements have to be made in currencies of different countries. Hence complications arise in foreign exchange for settlement of international debts, as unlike the cheques and bills drawn in home trade in the currency of the country, cheques and bills in foreign trade are necessarily drawn in the currency of other countries and a question of exchange between the currency of different countries arises.

In the country itself there is the legal tender to be offered for settlement of debts, but the legal tender of one country cannot be offered to pay a debt in a foreign country, and hence in the latter case means must be found to convert the currency of the paying country into the currency of the receiving country. The Foreign Exchange market provides a medium to effect this conversion. The operation of these markets is similar to the Bankers' Clearing Houses for clearing internal cheques by setting off one against the other and dealing with only the balance in a special way.

Mint Par of Exchange and Specie Points.

When currencies of two countries are based on the same metallic standard, a rate of exchange can be determined according to the contents of that metal in their

respective coins, under the mint laws, assuming that there is no other consideration but their intrinsic value. The rate thus determined is the Mint Par of Exchange. For instance, according to gold contents under the mint laws in the respective countries, 25·225 gold francs of Switzerland and 4·86⅔ gold dollars of the U. S. of America are the mint pars of one English gold sovereign. But in the market, foreign exchange does not take place at this mint par of exchange, which is an unalterable factor in this respect, so long the mint laws prescribing the weight and fineness of the currencies of the respective countries remain unaltered. The market rate of exchange fluctuates around mint par and between what are known as *gold* or *specie points*, differing from mint par to the extent of the cost of sending gold from one country to another, provided there is no restriction on movements of gold, as such restriction introduces additional factors in the matter.

Gold Points and Settlement of International Debt.

International indebtedness, as a rule, is not settled by sending precious metal to the creditor country. This is settled by bills of exchange and cheques, etc., as explained in the chapter on Negotiable Instruments, and by other ways, and the market rate of exchange (within the specie points) is determined by the law of demand and supply of these bills, cheques, and other instruments. The rate is confined within the specie points as when the price of foreign bills for their brisk demands tends to be so high as to render the export of gold a cheaper method of settlement of indebtedness than by the remittance of bills, the price automatically falls, and when the price of such bills for slack demands tends to be so low as to tender the import of gold a cheaper method of receiving payment, the price of the bills automatically rises.

For these reasons the price cannot exceed a certain limit, neither can it fall below a certain limit, in other words, the price of foreign currency in term of home currency and consequently the rate of exchange, can

fluctuate only between two points—called *specie* or *gold points*. The point at which a country will think of shipping gold instead of buying bills, etc., is termed the *gold export point* or *gold losing specie point*, while the point at which a country will think of importing gold instead of selling bills, etc., is termed the *gold import point* or *gold gaining specie point*.

Take an example to make the matter clear. Suppose the par of exchange between England and Germany is £1=20·43 marks. Now a German debtor to pay £1 to his English creditor will require not only these 20·43 marks, but also the cost for its transport and insurance. Suppose this cost to be ·08 marks. The German remitter will therefore have to make provision for 20·43 + ·08 = 20.51 marks, if he desires to pay it in gold. Now if at any time on account of scarcity of bills on London the exchange on London tends to exceed 20·51, then the German debtor will naturally prefer the cheaper method of remitting gold to purchasing of bills, etc., on London. So the rate of exchange cannot ordinarily rise above 20·51 marks between England and Germany. This is the *gold export point* for Germany.

Again if at any time on account of the abundance of bills on London, the exchange on London tends to fall below 20·35, a German creditor who has to receive payment from his English debtor will not consider it worth his while to draw on his debtor a bill on London and sell it at a rate of exchange below 20·35 (20·43—.08), for it will then be to his benefit to instruct his English debtor to buy gold and send it to him, as in that case he will receive 20·43 marks for each pound worth of gold, less the cost which is ·08 marks, that is, 20·35 marks. This is the *gold import point* for Germany. From the above example it will appear that the rate of exchange between England and Germany cannot rise above 20·51 which is the *upper specie point* and cannot fall below 20·35 which is the *lower specie point*, and can fluctuate only between mint par of exchange *plus cost*, and mint par of exchange *minus* cost, oscillating about, but automatically tending to rest, on the *par of exchange*.

It is to be mentioned here that in settlement of international debts the debtor in his country may buy a bill on the creditor country and remit it to his foreign creditor, or the creditor may draw a bill on his foreign debtor and sell it in his own country to realise the amount due to him. The former process is known as *remittance method* and the latter as *draft method.*

Thus it will be seen that the specie points are determined by (a) the specie at which gold may be purchased in the exporting country and sold in the importing country and (b) the expenses for transport of the metal from one country to another. The first factor is of course less variable than the second. All the above are of course applicable to countries having gold standard.

"Price of Silver" Parity.

It will appear from the above that there cannot be a mint par of exchange between a country having a gold standard and one having a silver standard. The country having a gold standard generally treats the other metal as merchandise, the price of which is regulated by the law of supply and demand and changes in terms of the standard currency; so the rate of exchange in such cases is regulated by the gold price of silver. But there can be a mint par of exchange between two standard coins of the same metal used in the two countries, for instance, there can theoretically be a mint par between the Indian silver rupee and the Japanese silver yen with specie points, just in the same way as between the gold pound of England and the gold mark of Germany.

As the price of silver is expressed in terms of gold, the silver specie points are always fluctuating with the change of the gold price of silver on which depend the fluctuations in the silver exchange rate. This rate may be termed the "price of silver" parity or "relative" parity. Its fluctuation is limited either above or below this parity by the cost of transmission of silver bullion to and from the country. These two points are its specie points.

Gold Standard in Silver Using Countries.

As these fluctuations cause much inconvenience and difficulty to the silver using countries, some of them have adopted a system by which the value of their silver currency units has been fixed by law in gold, that is, it has been enacted that for the purpose of foreign exchange, the standard silver coin would be deemed to be equivalent to a given weight of fine gold. The Central Banks or the Governments of these countries have been made bound to sell gold bullion or gold exchange on a gold standard country at that fixed rate, which in a case like this is regarded as the par of exchange. The market rate of exchange therefore cannot go beyond the limits set by this rate plus or minus the estimated cost of transmission of gold. These two limits are the specie points in such a case. Where, as above mentioned, gold bullion is sold in this way, it is *gold exchange standard* in a silver using country. Where, instead of gold, exchange on a foreign gold using country is sold, it is a *currency exchange standard.*

Hence in the latter case if the value of the currency to which the silver currency is linked is itself divorced from gold for any reason, it affects the silver using country with the gold currency exchange standard to a great extent, inasmuch as the value of its silver currency, with the fall in the gold value of the currency of the former, falls in its relation to gold standard countries other than the country with whose currency it is linked. India is having an experience in this matter as will be explained hereafter.

This system of currency exchange may be conveniently adopted where the currency of a country consists of inconvertible paper money, by keeping its value linked by law to the currency of a gold standard country, for the purpose of external payments, and maintaining it through Government or Central Bank control of exchange.

Purchasing Power Parity.

Where a country issues inconvertible paper money without restriction, the relationship of its currency unit

with that of a similar country or a gold standard country is established by a comparison of the purchasing power of the respective currencies. The ratio thus obtained at a given time is what is called the *purchasing power parity.* This parity is therefore a fluctuating one with the fluctuation of the purchasing power of the respective currencies.

This parity in other words is therefore determined by the amount of currency of the countries, required to purchase the same quantities of goods. For instance, if a certain quantity of goods entering into international trade costs £1 in England and 20·45 marks in Germany, the market rate of exchange will tend to rest at that figure, for if the exchange rises to, say 20·50 marks, it will be a paying proposition for English merchants to purchase in Germany, while opposite will be the case for German merchants, the result being the larger purchase of German currency in England and smaller purchase of English currency in Germany, forcing up the exchange value of the former until it reaches the purchasing power parity, *i.e.*, 20·45 marks per pound.

It should be understood that the mint par is really nothing but the Purchasing Power Parity, for in two gold standard countries, say England and Switzerland, £1 will buy the same amount of commodities in England as 25·225 francs in Switzerland, and if the purchasing power of £1 considerably increases relatively to the purchasing power of the franc, gold would tend to flow from Switzerland to England and *vice versa.* Thus the purchasing power of the quantity of gold in a sovereign could increase or decrease in both countries at the same time, but not in one country only for any length of time. This purchasing power parity is therefore the ultimate basis of the market rate of exchange in all cases. The above shows that it is the possibility of the free movement of gold from one country to another which prevents the fluctuation of the rate of exchange going above or below the specie points. It therefore follows that where there is a restriction on this movement, as we find in many countries now, these

specie points lose their significance and the fluctuation no longer remains confined within these points. It is the Purchasing Power Parity which is operative in such cases.

Market Rate of Exchange.

It will appear from the above discussion that it is not the mint par, which is the working exchange rate but a variable one rising and falling with the relative strength of demand and supply of exchange, is the working rate ruling the market. This rate is the *market rate* of exchange.

MOVEMENTS IN EXCHANGE RATES.

Causes of Fluctuations in the Market Rate of Exchange.

If Free Trade and free movements of capital exist, the following factors give rise to international obligations, that is, the debts and credits of a country, and it is the relative volumes, over a short period, of these debts and credits which cause fluctuations in the rate of exchange of a country :—

(1) Trade operations.
(2) Financial operations.
(3) Speculation.

The first causes international obligations for export, import, and charges incurred in freight, commission, insurance, etc., for them, and demand and supply for foreign currencies are determined to a great extent by these obligations, influencing the rate of exchange. The second, necessitated on account of banks' requirements to transfer funds from one country to another to take advantage of higher rate of interest, and by international borrowing, lending and international payments of interests and also by purchase and sale of stock exchange securities abroad, materially influence the rate of exchange. The third including all speculative dealings of purchase and sale of foreign currencies in expectation of rise or fall in their price, as explained in the chapter on Speculation Market, considerably influences it.

(1) Trade Operations.

Exports and imports of merchandise of a country, exert considerable influence over the relative strength of demand and supply of its currency, for they are the chief factors in determining the extent of international obligations. We find the value and the volume of imports and exports of a country in its government returns. These are known as visible imports and exports. But there are, as explained below, *invisible* imports and exports which, though important sources of international indebtedness, do not always appear in the government returns.

(2) Financial Operations.

Loans, Credits and Investment :—One country frequently invests its funds in the securities of another country and sometimes one country grants loan for short and long terms to another country. This has an effect on the rates of exchange as if the imports of the investing or lending country and the exports of the borrowing country were increased, for in such a case the former pays and the latter receives just in the same way as in actually receiving imports and sending exports. When these loans are repaid or the credits withdrawn or the investments realised and the proceeds brought back, the opposite effects take place.

Payments for Social Intercourse :—Influx of people of one country into another for holiday purpose i.e. of tourists creates an immediate obligation for remittance of fund to the latter country and therefore has the same effect as that of importation of goods from this latter country. On the other hand remittance of emigrants to their own countries from abroad have the effect of export of goods from that country.

Transfer of Funds by Banks :—Banks always transfer funds from one country to another in order to take advantage of the higher rate of interest prevailing in the latter country. These operations of the banks have the same effect for the time being as importing of goods.

Political & Financial Rumours and Events :—Bad rumours and changes in the political situation in a country cause loss of confidence in its finance condition and funds are transferred from such country. This is known as the *flight of capital.* This has the same effect as importation of goods by that country.

(3) Speculative Dealings.

Arbitrage Operations :—These are operations of a speculative nature which sometimes cause movements of funds from one country to another, as explained later on, and have therefore the same effects as imports and exports of goods.

Visible and Invisible Items.

Of the above three, transfers of funds for trade operations are visible exports and imports and transfers for the other two are invisible exports and imports, for they are not represented by actual goods. Unlike the visible exports and imports, these invisible items cannot be included in government statistics, but all governments generally make investigations to ascertain the amounts of these invisible exports and imports of the country every year, with some degree of success.

Transactions which involve payments of money from abroad without actual export of goods imply invisible exports, and transactions involving payment of money to other countries without actual import of goods imply invisible imports. The services rendered by Indians to other countries, the operations of our banking, insurance and shipping companies abroad involving payments to India in the shape of remuneration, commission, premium, freight, etc., are all invisible exports.

Similarly the remunerations for services rendered by foreigners to this country, the premiums for insurance with foreign companies operating here, the commission to foreign banks having their branches in India, the freight to foreign shipping companies carrying our merchandise, the

interest and dividend paid to foreign investors in the country, etc., are all invisible imports.

Balance of Trade—Favourable and Unfavourable.

The debts and credits caused by these visible and invisible exports and imports are not as a rule paid or received in precious metals or specie, but bills are created in different countries against the credits, through which these debts are settled by remittance or draft system resulting in the debts being set off against the credits. It is therefore the balance only that needs settlement at any particular time in precious metal or specie.

The following example will make the position clear. Suppose American exporters ship goods and draw drafts on foreign buyers of United Kingdom, ordering payment of the required amounts in foreign currency, viz., in sterling. The exporters would like to change these orders for American dollars. On the other hand, American importers with remittances to make desire to exchange their dollars for drafts calling for payment in sterling. There are difficulties which prevent the exporters from selling their foreign bills of exchange directly to the importers, e.g. the difficulty of making contacts, the difficulty of different sizes of amounts and maturities, etc., etc. So foreign exchange merchants naturally appeared as go-betweens for these exporters and importers, and foreign exchange banks also came in. At any time the supply of commercial bills for sale in American foreign exchange centres is weighed or calculated against the demand for foreign bills by American importers, and if any differences appear between supply and demand, these may have to be settled by transfer of specie to the creditor country.

The difference between the total amounts of these exports and imports (visible and invisible) of a country is its *balance of trade* or more appropriately, *balance of indebtedness* or *balance of account.* This balance is *favourable* to the country when its exports are more than its imports in value, that is, when after an adjustment of

international payments by a setting-off against each other, a balance remains due to it from foreign countries. Similarly its balance is *unfavourable* when its imports are more than its exports in value, that is, when after such adjustment a balance remains to be paid by it to the foreign countries.

It is to be understood here that debts and credits of a country must be equal in the long run, otherwise a debtor nation will run into bankruptcy; but they are rarely equal at any particular time, and temporary excess of one over the other always takes place, for excess of exports over imports or *vice versa*. It is this temporary excess of one over the other, that brings about the fluctuation of the rate of exchange.

The balance of trade, however, cannot be consistently favourable or unfavourable to any country for a long time, for the mechanism of foreign exchange always makes for the equilibrium between the receipts and payments of a country.

How the Equilibrium is Brought About.

Suppose a country is having favourable balance in respect of its visible and invisible exports and imports resulting in the creation of more bills on other countries for sale than there would be buyers for them, because the amount to be paid by the debtors in that country is less than the amount to be received by the credetors, for which the bills are created. Thus the supply of foreign bills will be more than there are demands for them, and they will, like other commodities, become cheap. This means that a given amount of foreign currency will be available for a comparatively less amount of home currency of the country under consideration. This is a movement of the exchange in its favour. Foreigners will then begin to export gold to the country in question for its favourable balance, unless this balance has been lent out to its debtor countries. If the countries are on gold standard, this influx of gold will cause expansion of credit which according

to the quantity theory of money, will force up the price-level in the country. The effect will be that foreigners will find it profitable to sell, unless artificially restricted by prohibitive tariffs, and unprofitable to buy there. This will result in a fall of its exports and rise in its imports and the favourable balance will be reduced causing a movement towards equilibrium. With it the rate of exchange will necessarily move in the opposite direction.

Similarly, take a country having an unfavourable balance of trade in respect of its visible and invisible exports and imports, resulting in the creation of less bills than there are buyers for. Thus the demand for foreign bills will be more than their supply and they will, like other commodities, become dear causing a movement of the exchange against the country. At last gold will be exported out of the country for paying the amount of its unfavourable balance, in the absence of any restraint, to other countries. This depletion of gold will cause contraction of credit which will force down the price-level in the country. The effect will be that foreigners will find it profitable to buy and unprofitable to sell there. Besides, the Central Bank of the country in such cases will intervene and try to stop the drain of gold by raising its discount rate. All these will result in a rise of its exports and fall in its imports and the unfavourable balance will be reduced causing a movement towards equilibrium. With it the exchange rate moves in the other direction.

In the above we have instanced the gold import and export only for examples, for such gold import and export rarely take place, and that also in extreme cases, for a tendency towards an equilibrium exists in the fluctuation in the rate of exchange itself that comes into automatic operation before the gold export and import points are actually reached as the last resort. The following example will show how it operates :—

Suppose that at any time the balance of indebtedness is in favour of America and against England, and the exchange in consequence becomes unfavourable to England and

favourable to America. This will mean that those in England who have to make payments to America, will require more pounds to buy dollar bills, while those in America who have to make payments to England, will require less dollars to buy sterling bills. Hence England will tend, as far as possible, to restrict her payments to America by importing less from that country and America will tend to import more from England, and this will tend to turn the balance of indebtedness, and with it the rate of exchange in favour of England and against America. Thus it is seen that the balance of international indebtedness between two countries in one direction, which caused the exchange to move in one way, will itself be moved by the exchange in the other direction, averting the necessity for payment of the balance in gold except in rare cases.

Position of India.

India normally exports more than she imports in merchandise, but her balance of trade is not favourable on account of the huge amount of her invisible imports. These are for direct Services rendered by England and other countries, Interests of foreign investments, Shipping payments, Banking commissions, Insurance premiums and many other miscellaneous Services. Besides, the huge amount of the Home charges is also to be added to these items. All these taken together are likely to convert India's favourable balance in export and import of merchandise, into an unfavourable one, for her total imports may often be in excess of her total exports.

How Rates are Quoted.

Rates of exchange in a country may be quoted in terms of (a) the amount of foreign currency which is equivalent to a fixed amount, say one or sometimes hundred units, of home currency, or (b) the amount of home currency which is equivalent to a fixed amount, say one or sometimes hundred units, of foreign currency. In England the rates of exchange with European countries and the U. S. A. are

quoted in terms of an amount of foreign currency, such as 150.28 francs (France) or 4.95 dollars (U.S.A.) which is equal to one pound, and the rates with Oriental and South American countries in terms of an amount of sterling, such as 18 pence and 14 pence which is equal to one rupee and one yen respectively.

The Dominion and Colonial Exchange.

Australia and South Africa use sovereigns which are intrinsically equal to British sovereigns and hence the mint par of all is the same. Canada has the same currency as the United States and its exchange with other countries is a dollar exchange. Dominion exchanges in London are dealt with generally by the Dominion Banks and not by the Foreign Exchange Market, and the rates are quoted at a premium or a discount, as the case may be, or at the buying or selling price per £ 100 sterling of the Dominion currency.

Favourable and Unfavourable Exchange.

It will be seen that where the rate of exchange is quoted in terms of foreign currencies, it becomes favourable to the country when the rate rises, that is, becomes higher, and it becomes unfavourable when the rate falls, that is, becomes lower; and where the rate is quoted in terms of home currency the rate becomes unfavourable when it rises, that is, becomes higher, and it becomes favourable when the rate falls, that is, becomes lower.

For instance, if there is a rise in the Anglo-American exchange, say from 4.50 to 5.50 dollars, the rate becomes favourable to England, in whose case the quotation is in terms of foreign currency. It will be seen that in the above case of rise of rate an English buyer would have to pay less pounds to buy a dollar bill, and the English seller would receive less pounds when selling the same bill. It is favourable to English buyers and unfavourable to sellers of dollar bills. Any particular rate cannot be favourable to both buyers and sellers of bills in a country. But the terms favourable and unfavourable exchange are generally used

with reference to a country, when it is favourable to the *buyers* in that country, that is, when less of home currency exchanges for more of foreign country; for a continuance of this state ultimately results in an influx of gold into the country and its export from the other country concerned.

Artificial methods are also sometimes adopted to turn this rate of exchange for or against a country, by increasing or decreasing its bank rate of interest. For instance, when the rate of exchange consistently stands against England, she increases her bank rate of interest. This causes a scarcity of bills on London in foreign countries, as the holders of those bills would not discount them while a high rate of interest prevailed in London. This leads to an increase of the price of London bills, turning the exchange in favour of England. In case the exchange in London stands consistently in favour of England, resulting in an influx of funds causing an apprehension of inflation, the interest rate is lowered and the opposite result is obtained. Thus the rate of interest in the market also causes fluctuation in the rate of exchange.

Sight Rate and Long Rate of Exchange.

When a bill is payable at sight, it is certainly more valuable than a bill payable after a stipulated period, say 60 days. It is therefore only proper that the former called the *sight bill* or *sight exchange*, would be quoted at a different rate from the latter, which is called a *long bill* or *long exchange*. While the buyer of a sight bill will at once get a credit for the amount of the bill in the foreign centre, the buyer of a long bill will have to wait till its maturity, and if he desires immediate credit, his agent in the foreign centre will have to discount the bill at the rate of discount ruling there at the time. Besides, he will have to pay additional stamp duty and commission and carry the risk for possible non-payment of the bill.

Therefore in the case of a long exchange the buyer is entitled to a discount or interest for the period the bill has to run for maturity from the date of the discounting and

an allowance for stamp duty and commission over what he would receive by purchasing a sight exchange. This interest or discount is not charged as such but is merged in the rate, and the buyer compensates himself by offering a different rate of exchange for a long bill from that for a short bill. So exchange rates are quoted according to the period the bill will have to run before maturity. The rate of discount or interest to be taken into account in this connection is that prevailing in the foreign country where the bill is payable. The buyer of a long bill, however, in the Indian market receives, over the rate for T. T. which practically takes the same time for remittance as a sight bill in one European country on another, interest at the rate prevailing in that market for the period the bill takes in transit, in addition to the interest at the rate ruling in London for the time the bill has to run after sight.

It should be noted here that the difference of time taken in remittance by T. T. and sight bill is very little from one European country to another and so there is little or no difference of cost in remittance by these two methods; but this is not the case as between two distant centres, and as immediate credit in a distant centre can be obtained by purchasing a T. T. only, the other rates are based on the T. T. rate.

Suppose, the sight rate in London on Paris is 100, that is, one pound to 100 francs. This means that at a cost of £ 1 in London the buyer of a short bill on Paris will be entitled to 100 francs in Paris without delay. Now, if he is to secure this 100 francs on a long bill of 3 months, and the rate of discount in Paris be 4 per cent. per annum, then the buyer ought to have for £ 1 an amount of francs which being discounted at that rate will leave 100 francs available for immediate credit. This will approximately be about 101.01 francs per pound including the additional stamp duty and commission. Thus where the exchange is quoted in terms of foreign currency, long rates are found by adding the interest or discount prevailing at the foreign centre for the period the bill has to run before maturity and the above

mentioned charges to the sight rate. But where the rate of exchange is quoted in home currency, the long rate is found by deducting the interest, etc., from the short rate.

Again suppose that the long rate for a three months' bill in London on Paris is 104, that is, one pound to 104 francs and the rate of interest in Paris is the same as above; then if the buyer of such a bill wants immediate credit in Paris he will have to discount the bill for which the cost will be—discount at one per cent. on 104 = 1.04 + approximate stamp and other charges being .01 aggregating to 1.05 francs. Hence he will obtain an immediate credit of 104 — 1.05, *i.e.*, 102.95 francs in Paris at a cost of £ 1 in London. So he would expect to get 102.95 fr. in Paris by buying a short bill in London at a cost of £ 1. The short rate therefore in this case would be 102.95 francs.

Thus where the exchange is quoted in terms of foreign currency the short rate is found by subtracting the discount and other charges from the long rate. But where the rate is quoted in home currency, the short rate is found by adding the interest and other charges to the long rate. From the above it will appear that when the rate of exchange is expressed in foreign currency, the rate for a short term bill is lower than that for a long term bill, for the former is a *better* bill than the latter. But where the rate is expressed in home currency, the rate for a short term bill is higher than that for a long term bill. The reader will observe here that though the rate of exchange for a better bill is in the one case higher and in the other lower, the result in both the cases is that the price of a better bill would be higher, that is, more of one's home currency would be necessary to purchase a short-dated foreign bill than to purchase a long-dated one. This means that in quotation in terms of the foreign currency, "The better the bill, the higher the rate." It is of course to be borne in mind that the quality of a bill, however, does not depend on its time factor only but the element of security also enters into it.

Telquel Rate.

When long bills are offered for sale they may not have to run the full term of the bill, for a part of it has already expired. It is not possible to obtain any quoted rates for the varying periods such bills have still to run and hence the price of such a bill is arrived at either by adjustment of its price at the quoted rate for the full term, or it is arrived at on the basis of a rate obtained by increase or decrease of the above rate, that is, by adjustment of the rate. This adjusted rate to fit the particular period the bill has to run before payment, is known as the *telquel rate*. It is to be understood that the shorter the period the bill has to run, the higher will be the price for it and *vice versa*. As the purchase and sale price of long bills on different centres depends on the rate of discount ruling in those centres, the *telquel* rate will be found by adding to or subtracting from the quoted rate the proportionate amount for the discount, on the principle indicated above of finding the short rate from the long one and *vice versa*.

Factors Affecting Basic Rates.

The price of foreign bills as said above, depends fundamentally upon the forces of demand and supply. If supply of foreign bills on sale exceeds the demand for such bills, the price will fall; if the supply is relatively small, the price will rise. A favourable balance of indebtedness depresses the foreign exchange rate; an unfavourable balance raises it. Whether rates are high or low, the exchange banker tries to buy bills more cheaply than he sells them in order to maintnain his margin of profit.

It has been remarked that these variation in exchange rates of a home currency can move only between the gold import and export points, if the trading countries are on the gold standard. But foreign exchange rates did not necessarily fall to the gold import point, each time a favourable balance of debt appeared. Speculative withholding of bills would take place in anticipation of a reverse movement at a later date which under the gold

standard was naturally expected, because drafts are payable in the paper currency in large amounts. This might depress the rate of exchange before the change in the internal purchasing power of that currency really takes place. Any breath of rumour is sufficient to start such speculations. That is the reason why the central bank or the government of that country would take over the task of keeping the paper exchange rates free from such disturbances. The Central Bank or Government acquires an adequate amount of foreign funds and creditors to enable, i.e., to support the domestic exchange rates against the so-called 'bear raids' of the speculators. This is effected by the simple expedient of buying all home currency offered at what is judged to be a desirable rate, in exchange for bills for foreign currencies.

The extensive scale of operations with the foreign exchanges when trade was free and multilateral, permitted the exchange operators to speculate within the frame of the gold points. The various methods or forms of transfer are discussed below:—

Methods of Transfer of Funds.

Transfer of funds is effected from one financial centre to another in different methods. These methods may be in one or the other of the following forms :—

(a) *Bills of exchange* which are now the principal mode of remittances to foreign countries. There are two classes of these bills, namely, bills drawn and accepted by traders and bills drawn or accepted by banks and financial houses, respectively known as *trade papers* and *bank papers*. The bills are either short bills (sight) or long bills (at terms).

(b) *Telegraphic Transfers* or *cable transfers* by which the banks and other members of the exchange markets of the world issue orders to pay, on each other by wire, to the nominee of the purchaser of the T. T. (Telegraphic Transfer).

It is not in the form of a bill. When such an order is sent by mail, it is called Mail Transfer (M. T.).

(c) *Drafts* by which one member of the exchange issues on another an order to pay the purchaser of the draft or to his order. This order is sent by mail and not by telegram.

(d) *First class Securities* of the stock exchange, which are saleable in all financial centres, and their interest coupons. These are transferred to the centre where their price is comparatively high at the time.

(e) *Bullion* as the final means when its transport becomes the cheaper method of remittance in comparison with any other method.

Foreign Exchange Market—Dealers and Brokers.

As in the case of stocks, shares and commodities, there is a regular market for transaction in foreign exchanges or foreign bills, in almost all the important commercial centres of the world. Persons who want to buy or sell them resort to these markets which are constituted, broadly speaking, by merchants, dealers and brokers. The dealers buy from and sell to merchants and others, and the brokers generally act as intermediaries in these transactions.

The dealers are either operators in the foreign exchange departments of the banks or are independent financial houses, and the brokers are persons or firms through whom the former transact business with the merchants or with each other. But the brokers frequently transact business themselves on their own account also. They generally borrow money from the banks on the security of bills, a number of which they always hold, and make their profits from the small difference in their buying and selling price or from the small difference of rates of interest they pay to the banks and charge to the public for discounting them. Their expert knowledge in these dealings always helps them to have a small margin for them in the transactions.

The banks have generally a good deal of surplus money ready for investment and the bill brokers obtain short term loans from them rather easily. The periods for which such loans are arranged may be a day or a week. The shortest period loan which is from the afternoon of one day to the morning of the next day is called the *overnight money* and the loan for a period of a week is known as the weekly money. When these loans are payable at call, they are termed *call money.*

Ordinary mercantile bills discounted by Clearing Banks are not, as a rule, rediscounted but they are kept by these banks till maturity; but foreign bills drawn on English banks, and discounted by the foreign banks and sent to their representatives at London are discounted by such representatives, after acceptance, through bill brokers who frequently rediscount them with joint-stock banks or use them as margin for advances. The banks thus holding the bills keep till maturity. London banks as a rule do not directly invest in foreign bills, but foreign banks always purchase London and other foreign bills.

Quotation of Rates on Different Countries.

So there is a constant flow of exchange business between the various financial markets of the world and the transactions amongst them are always producing different variable rates of exchange. The rates at which business is done in those markets on any particular day, called the *course of exchange* of the place, are supplied to the newspapers and periodicals which publish them. Thus the rates of exchange in Calcutta (pre-war rates) on different foreign centres used to be quoted in the newspapers in pre-war days in the following way :—

Thursday Afternoon, Cal. Aug. 18.

The market was very steady.

Sterling rates may be quoted as follows:—

Banks Selling :

Tele. Transfer	1s. 6 $\frac{3}{32}$d.
On Demand	1s. 6 $\frac{3}{32}$d.

Banks Buying :

3 m/st Bills	1s. 6 3/16d.
4 m/st Bills	1s. 6 7/32d.
6 m/st Bills	1s. 6 9/32d.
Sight	1s. 6 5/32d.
T. T.	1s. 6 1/8 d.

Other rates are as follows :—

	Banks selling o/d	Banks buying 30d/st
France (francs per Rs. 100)	657	———
America (rupees per $ 100)	382 1/2	———
Shanghai (rupees per taels 100)	121	114
Hongkong (rupeed per $ 100)	94	86
Singapore (rupees per $ 100)	154 3/4	151 1/4
Japan (rupees per yen 100)	94 1/2	92
Java (guilders per Rs. 100)	65 1/4	66 1/2
Germany (marks per Rs. 100)	108	———
Chamber of Commerce rate for freight	1s. 6 3/32d.	

Cable Quotations :

London-New York (dollars per £)	3.47 5/8
London-Paris (francs per £)	88.65

The rates of exchange ruling in different centres on India and on each other were obtained by Cable and published in the newspapers in the following manner :—

London, Aug. 1.

The following are to-day's quotations 3-30 P.M.:—			Method of quoting.*
London on Bombay	1|6 3/32	..	Sh. and pence per rupee.
Paris on Bombay	6.68 1/4	..	Francs per rupee.
N. Y. on Bombay	26.25	..	Cents per rupee.
Berlin on Bombay	1.10	..	....Marks per rupee.
London on Milan	67.75	..	Lire per pound.
London on Shanghai unavailable.			
London on Yokohama	1|5 1/8	..	Sh. and pence per yen.

* This column is inserted by us for guidance of the reader.

(Wednesday's closing rate: 3.47 5/8).

(Reuter's Commercial Bulletin.)

London, Aug. 17.		..	Method of quoting.*
T. T. London on Berlin	14.59	..	Marks per pound.
T. T. London on Amsterdam	8.62 3/4	..	Florins ,, ,,
T. T. London on Milan	67.87	..	Lire ,, ,,
T. T. London on Berne	17.85	..	Francs ,, ,,

			Method of Quoting.
T. T. London on Paris	88.65	..	Francs per pound.
T. T. London on Prague	117.25	..	Krone " "
T. T. London on Athens	540.4	..	Drachmae " "
T. T. London on Oslo	19.97	..	Kroner " "
T. T. London on Stockholm	19.46	..	Kroner " "
N. Y. Demand Bills	3.47 3/4	..	Dollars " "

* This column is inserted by us for guidance of the reader.

The international exchange market is now in a state of flux and quotations in foreign exchange market take place in terms of Dollar and Sterling for Dollar area and Sterling area countries, respectively.

Forward Exchange.

As rates of interest, as we have already seen, vary in different financial centres, the banks or financial houses, to take advantage of profitable employment of funds, frequently transfer them from one centre to another in liquid balance, by purchasing exchanges on that centre. But as the exchange rate is always liable to fluctuation, they generally protect themselves by selling forward exchanges for the same amounts, that is, they *even up* their accounts to save themselves from the situation, should the exchange rate turn unfavourable to them. As these transfers normally take only a few minutes' time and a profitable employment of funds is frequently possible in one financial centre or the other, these operations by the banks and other dealers have become very common at present. This combined operation of purchase and sale is termed a "swap" or "swap and deposit." Merchants generally buy and sell forward exchanges on the principle of "futures" and the banks sell them such exchanges on the margin or cover system. There are *options* in forward exchange, but these options are only in reference to time of delivery of the currency bought or sold, at any time at the option of the buyer or seller, as the case may be, during a stipulated period, and can not be made applicable to the amount of the currency under transaction.

Future transactions may rise naturally in trade. An American exporter, for example, would expect to ship goods abroad at a future date, say, a month hence. He may go to the foreign exchange dealer and sell the foreign exchange for future delivery; so that when the time comes to ship the goods and draw drafts against shipment, he will be able to sell the drafts at a fixed price already agreed on. The exchange dealer assumes the risk, and can bear these risks of fluctuations because of his superior knowledge of trends in exchange rates, and because of the possibility of hedging the purchase. The profit of the dealer arises from the willingness of the seller to sell future exchange at a rate cheaper than the existing rate when the time arrives for completion of the sale. In order to avoid possible or probable losses the dealer may at the same time sell the future exchange to some American importer who expects to have to pay in a month's time. This is *hedging* and by it the dealer eliminates his risks.

Arbitrage Operation in Exchange.

On account of prevalence of different rates of exchange in different centres, at the same time, speculative operations are carried on by people, explained in the chapter on Speculation Market, to make profits on arbitrage. The arbitrage is *simple* when the operation involves only two financial centres and *compound when* it involves more than two centres. It is sometimes possible to obtain a better rate of exchange by purchasing a bill on another centre and selling it at a third, than by directly remitting it to the second centre. This is an *indirect exchange* and the rate produced by the operation between the purchaser's centre and the third centre where he sells is the *arbitrated exchange rate.* This involves the employment of only one intermediate centre but it may involve two or more for the result wished for, when a rate of exchange between the purchaser's centre and the centre where it is finally sold, is produced. The former is a *simple arbitrated rate,* and the latter a *compound arbitrated rate.*

An example will make the matter clear. Suppose a dealer in exchange purchases dollars in London and with these dollars he purchases marks through his agent in New York; then suppose he purchases francs with the marks through his Berlin agent and sterling again with the francs through his agent in Paris. The fund is brought back to the country of the dealer with probably a profit to himself. This is a compound arbitrage operation, and as the fund is brought back to the centre from where the operation was started, it is a *circuitous arbitrage operation.*

Arbitraging was a necessary process in the past, for a situation might well arise in which A requiring B's money can get it from C, who has a favourable account with B. For example, American importers may want to send sterling drafts to England, and English exporters may want dollar drafts. But suppose that at a certain date England does not receive dollar drafts, and America cannot reach out to sterling drafts, neither being available at that time. This may raise foreign rates of exchange in London and New York. Suppose sterling drafts sell in New York at $ 4.88, and dollar drafts in London at $ 4.84 per £. This would afford an opportunity for profit to arbitrage transactions. The New York dealer would ask its London correspondent to sell at $4.84 (Telegraphic Transfers) and credit the pound sterling to his account. He then asks pound sterling T.T's in New York at $4.88 against his sterling account, and makes a profit of $.04 per £, minus incidental costs, on such transactions. This operation will continue till the prices of exchanges are so very equal that no profits can be made.

And international trade is not a two-nation affair between two countries, and it is likely that trade terms would at any time be exactly equal between any two countries. It might happen that the U.S. had excess exports to the U.K., and the U.K., export surplus against Latin American countries. In such conditions sterling bills would be cheap in New York, and Latin American bills cheap in London. Suppose Latin America has export surplus against the U.S.,

then dollar bills will be cheap in these countries. Now the New York dealer may buy cheap sterling bills, utilise the proceeds to buy cheap S. American bills in London, and use S. American funds to buy cheap dollars there. This would continue until the ratio of exchange would even up, yielding no profits to arbitrage.

If all international transactions were settled in terms of the currency of a country, the debtor countries would eventually take protective measures. The banker foreseeing this would speculate on the future rise of price of foreign bills. and invest his funds, abroad until the new demand appeared.

When a country's currency is not convertible into a fixed amount of gold, there is no gold export point to limit the drop in the price of bills payable in that currency. But countries which have abandoned the gold standard normally continue to purchase or accept gold at the given price, and so they still technically have a gold import point limiting the maximum price of bills of exchange drawn on them. Since inconvertible paper currencies are generally the result of internal inflation, there is little probability that they will rise in value to the gold import point. As explained in the purchasing power parity theory, the value of bills of exchange drawn on a paper standard country is determined primarily by the buying power of that currency at home as compared with the buying power of other currencies in their own countries. This is necessarily so because such bills cannot be converted in to gold but must be utilized to buy commodities or services. If for example the exporters of America have bills of exchange drawn on English banks payable in paper pounds, they can be sold only to some one willing to purchase these pounds with dollars. Fundamentally the demand must arise from the desire to buy English goods. But no such goods would be bought if the buyer could not expect to make profits by selling the English goods in American markets. If the bills drawn on England are obtainable only at too high prices so that the American importer cannot expect to

make any profits, the bills much be cheaper. Normally therefore the rate of exchange on a paper standard country would tend to be such as to maintain a balance between its import and export items.

But because the paper currency exchange rates are not fixed to any gold parity, they are particularly exposed to speculative pressures. If for any reason there are prospects of inflation in that country speculators believe that the future rates of exchange on that country will fall, and they would seek to profit by it. In the gold standard days, the U.S. exporters sold and drew drafts in terms of £, the South America bought from England and paid in £ sterling. If the U.S. sold more to England than she bought, the surplus £ sterling arising could be used to pay S. American excess exports to the U.S. Only if the U.S. showed a net surplus of exports as against all the other countries would the value of the sterling exchange fall in New York.

Currency in Foreign Bills.

When the creditor draws a bill on his foreign debtor in the currency of his own country, as is the usual custom with English exporters, an indication is given in the bill of the rate of exchange at which it is to be retired by the drawee, in the following terms :—

(a) *Exchange as per Indorsement.*—This clause is used only in the case of sterling bills drawn in Britain. The bank or financial house which negotiates the bill there for the first time, puts on it the rate and the converted amount in foreign currency required to produce the amount of the sterling, that is, the rate of exchange is fixed by the first indorser at the telquel rate adjusted to the term of the bill. The full face value of the bill in sterling is paid to the drawer and the amount of the bill becomes payable in the currency of the country of the drawee. Of course the interest and stamp duty are allowed for at the time of conversion of the bill.

(b) *Payable at the Collecting Bank's Selling Rate of Sight Drafts on the day of payments.*—When this clause is added to the bill the foreign drawee has to pay sufficient money in the currency of his country to produce the amount of the bill at the selling rate of the collecting bank on the day of payment. This enables the collecting bank to issue a sight draft drawn for the amount of the bill in currency of the drawer's country.

(c) *Payable without Loss in Exchange.*—The effect of this endorsement is practically the same as (b) but in this case the collecting bank may be paid by any bank's draft on the country of the drawer, when the collecting bank is deprived of the profit which it makes by selling its own draft as in (b).

Other clauses are "Payable at X. Y. Bank's drawing rate for demand draft," "Payable with approved bank's cheque for full face value," "Payable at bank's selling rate for T. T. on date of payment," "Payable at X. Y. Bank's buying rate for sight drafts," etc. Explanations of these clauses are unnecessary but it will appear that the last clause which is used in bills drawn in London in favour of any payee abroad, makes the amount to be received by the payee uncertain, for the exact amount of the bill in such a case depends on whether the exchange on the drawer's country is at par or at a premium or at a discount.

EXCHANGE POSITION OF THE WORLD DURING AND AFTER WORLD WAR I.

Abnormal Condition.

The exchanges of the world were thrown into a chaos during and after the World War I on account of some nations issuing huge amounts of inconvertible paper money. The nations, however, were trying their best after that to turn to normal conditions by stabilising their currencies on the basis of gold, and as a matter of fact some of them were successful in this respect.

This required a reserve of gold sufficient for the purpose of foreign payment.

In the normal condition of things, the gold supply of the world would be evenly distributed and the gold standard smoothly worked without causing any undue strain on any particular country. But abnormal condition and questionable policy of some nations interfered with this even distribution of gold and caused obstructions in the way of an attainment of equilibrium in international trade, making it impossible for some countries to keep a reserve of sufficient gold for the above purpose. These were due to the European War of 1914-19, which left a disconcerting legacy to the world in the shape of reparation and debt payments in addition to other economic complications too many to mention here. Many countries in order to stabilise price, interfered with the automatic working of the gold standard and took to managed currency not only for the fluctuation in the value of gold brought about by the War, but also for the shortage of the natural supply of gold throughout the world.* The result was that while the gold

* Professor Gustav Cassel in his Rhodes Memorial lectures on "The Crisis in the World's Monetary System" at Oxford made these points clear. Some extracts from these lectures will explain the situation obtaining at that time.

"Quite clearly, under modern conditions, the world's gold market can no longer be considered a free market, governed by objective economic forces, in which a definite value of gold emerges automatically. Those who cherish the hope that the world market for gold will gradually return to some such conditions grossly delude themselves. The gold standard of the future will always be a 'controlled' or 'managed' standard, a standard subject to deliberate influence.

"Roughly calculated, an annual production of gold equal to 3 per cent. of the accumulated stock of gold will be required for the future to enquire that without disturbance of the general price-level of commodities, the world may advance at a rate of progress corresponding to that of pre-war days—namely, at about 3 per cent. per annum. The world's gold production to-day is actually about two-thirds of what we have found to be normally requisite to keep the level of prices constant. The deficiency is so enormous that ordinary discoveries of new gold mean little towards its repair.

"Experts are unanimous in their opinion that gold production from present sources will sink considerably in the new decade. Of course no man can say that the discovery of a new gold field of real importance is quite impossible. But the world has been explored more thoroughly in search of gold than for any other of Nature's resources, and the prospects of new discoveries, especially in proximity to ample supplies of cheap labour, are therefore not very great. A systematic gold economising policy will therefore be necessary. The present violent crisis is fundamentally the result of the fact that the monetary policy of leading

stock of some countries was almost depleted, others accumulated a stock much in excess of their requirements causing a great disturbance in commerce and industries of the world, which were now dislocated and depressed to such an extent that the nations were at a loss to find a remedy for the great economic distress prevailing throughout the world, not excepting those countries which were holding this excess gold stock.

The vast payment received by France and the U. S. of America on account of the reparation and debt charges caused a great influx of gold into these countries, but they failed to use this vast sum in investments abroad or in buying goods overseas which would have automatically solved the problem of payment of international liabilities and bring about the desired automatic equilibrium. But instead they prevented the rise of price in their countries by sterilizing the gold imported to their countries, that is, making it unproductive by withholding it from circulation and confining it in the vaults of their Central Banks. The U. S. of America also carried through a process of deflation by which the price-level of commodities was reduced; and consequently the value of gold increased by about 40 to

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countries has departed from this programme without the slightest regard to the inevitable consequences.

"After 1925 the gold economizing policy continued for some time to gain ground. An achievement of particular importance was that it succeeded in preventing India from putting gold coins into circulation when that country adopted the gold standard. India's demand for gold coins would probably have been so great that it would completely have frustrated the whole gold economizing policy. For some years also a certain co-operation between the Central Banks succeeded in restricting their demands for gold so far that it was possible to prevent any considerable rise in the value of gold. The world reaped the fruits of this policy in an economic development in which most countries had their share, and which for some countries meant a great deal of prosperity. In the basic economic conditions there was no reason at all why this development should not go on, and the tremendous productive powers inherent in the world's material resources technical progress and capitalistic organization, be allowed to create wealth and raise the standard of life of humanity to the standard of their real capacity. But an indispensable condition for such a development was always that a certain degree of stability were secured for the world's monetary system. An appalling lack of insight into the true nature of the problem prevailed. Most governing circles paid no attention to the very explicit warnings of economic science, and some of the most important countries completely failed to grasp both the necessity of international co-operation and their particular responsibility for the fate of the world's monetary system."

about 67 per cent. of its former value. Other countries for restoring their currency to a gold standard basis had to fix their price-level of commodities in a certain proportion to the American, to save their export trade. The two countries, moreover, accentuated the difficulty by consistently refusing to obtain payments by goods by raising tariff walls against their debtor countries and insisting payments in gold. The effect was the efflux of gold to an abnormal extent from the debtor countries resulting in a great fall in the price-level of those countries. As the creditor countries, specially France and the United States, kept the price-level down by hoarding the gold and the debtor countries failed to raise it for want of gold, business throughout the world was practically ruined and on account of the inability of the producers to obtain a proper price of their goods, a general distress prevailed in the world.

Abandonment of the Gold Standard.

The policy adopted by France and the U. S. of America in this respect was therefore suicidal and they now understood it to their cost, for the distress was not much less acute in those countries than in those whom they prevented from paying their debts. The distress in the debtor countries impaired their purchasing powers and the exports of the creditor countries greatly suffered for they could not sell unless they supported the buying market of the world, by becoming buyers themselves or by long term investments there. This being the case on account of the demand by these two countries for payment in gold and the gold supply of the world being limited, many countries including England abandoned gold standard which naturally depreciated their currency causing reduction of their purchasing power from other countries and therefore a complexity in the mechanism of foreign exchange.*

* The United States of America also went off gold and devalued her currency inserting a "gold clause" in her National Recovery Act. To remedy the national distress various other measures were taken by President Roosevelt, which have come to be known as the "New Deal." All these gave rise to litigation in

Effect of the Abandonment on Exchange.

As abandonment of gold standard by England and some other gold standard countries meant the cutting-off of the relation of their currencies to gold, the mint par and the specie points of these currencies in relation to the currencies of gold standard countries practically lost their significance. The result was that the exchanges of the former countries were now ruled by the condition of their demand and supply for trade and other requirements. Let us consider some concrete cases in this connection.

As we have noticed in the chapter on Money and its Functions, England was practically off the gold standard during and after the Great War (1914-19) but she resumed the gold standard by the Gold Standard Act of 1925. On the 21st September, 1931, however, England suspended the gold standard again, for it became impossible for her to

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the Supreme Court there. In view of the frequent reference to these matters in the newspapers of the world, it will not be out of place to give a general outline of the positions arising out of this tangle with its implications.

With the devaluation of her currency the United States abrogated the clause in certain contracts providing payments in terms of gold or its equivalent in dollars of the then legal gold contents. Some, of the clauses of the National Recovery Act were however declared to be unconstitutional by the Supreme Court of the States and as a sequence four test actions were brought before the Court by some holders of "Liberty Loan bonds" questioning the validity of the "gold clause" of the above Act. Those bonds were issued by the Government to secure funds for the conduct of the War. The case aroused great interest and their decisions were awaited with feverish excitement as a favourable decision for the bond holders would have caused a great embarrassment to the Government and some of the big railway and other public utility companies having old bonds to pay would have been reduced to bankruptcy resulting in putting back the clock of recovery for which the Act was intended.

The Government however won at least a partial victory. The decision of the Court was that the Government must pay out on its bonds in gold or its equivalent in present currency, but in other transactions there was no obligation to pay in gold or present equivalent of the old dollars. So the business was saved from the bankruptcy which was starting them at their faces in the event of a decision to the contrary. As to the Government itself, the expectation that it would find a way out of the difficulty in view of the great power enjoyed by the executive of the United States, was practically fulfilled though it had to curb its policy to a considerable extent.

continue gold payments. This was due mainly to the withdrawal of foreign capital funds invested in short term securities in the London money market, on account of lack of confidence in its financial stability. This caused an enormous drain on the gold reserve of the Bank of England, while England herself was not in a position to draw on her investments abroad, most of these being in long term securities. No more loan from France and the U. S. A. against the foreign drawings was available, and the export trade of the country being at its lowest ebb for various reasons, specially the high cost of her production and the tariff policies of other countries, the balance of trade was generally against her for which payments by gold became substantial.

The suspension put the exchange markets of the world in a topsy-turvy position, for with it the British pound sterling went off its gold moorings. Its value in gold was fixed by statute, which, as already mentioned, provided for the Bank of England's buying and selling gold in return for the paper pound at fixed rates. The suspension of the appropriate sections of the Act of 1925 removed one of the above two obligations, namely, the obligation to sell gold in return for the paper pound. This, of course, means that the pound sterling is no longer the equivalent of gold, in other words, British sterling is depreciated in terms of the currency of the countries maintaining a gold standard. The depreciation has at once reduced the value of her sterling in terms of gold resulting in a dislocation of her exchange with the gold standard countries. This, however, was expected to give a stimulus to her export trade, and thus to bring about a rise in her internal price. Though the former expectation has been fulfilled to some extent, it is doubtful if the latter is in its way to the extent wished for.

Effect on Indian Exchange.

From 1893 to 1914, the Currency Exchange system prevailed in India, that is, the rupee was linked to British sterling on a fixed basis, under Government control. But in

the latter year, on the outbreak of the War, England stopped gold export and the value of the sterling in terms of the gold began to fluctuate. In 1899, its rate of exchange was at Rs. 15/- per pound, but in 1919 for a great upward jump in the price of silver, it had to be fixed at Rs. 10/- per pound. But the price of the metal again began to rise after some time and the rupee therefore became an uncertain factor in exchange causing a great disturbance in trade on account of its instability. It was therefore urged by the commercial community, as well as the Government, for the replacement of this currency exchange standard by a gold standard, and a Royal Commission sat in 1925-26 under the presidency of Commander Hilton Young (now Lord Kennet) to make enquiries into the matter and to make necessary recommendations.* As England resumed the gold standard at this time and the sterling became almost synonymous with gold, a gold bullion standard was then adopted in India as recommended by the Commission, under which the Government undertook to purchase gold bullion and to sell gold or sterling at its option at the rate of Rs. 21-3as.-10p. per *tola* of fine gold in exchange of the rupee or the rupee note and the rupee exchange was fixed at 1s. 6d. The system worked pretty well until England became obliged to give up the gold standard again on the 21st of September, 1931, as already mentioned.

As the effect of the divorce of sterling with gold, the rupee at once lost its par with gold pound, as our rupee or rupee note could command this value in our exchange with

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* The present author in his memorandum of evidence before this Royal Currency Commission advocated Gold Standard for India and supported his arguments by his assumption of the availability of the hidden gold stock of the country which, he asserted, would come out of its seclusion on the introduction of gold coinage. That he was right in his surmises in this respect has been amply demonstrated by the export of gold in huge quantities from this country. He also predicted that the vast quantity of gold stocked by the U. S. A. would in the long run be unloaded on the world's market for it would not be possible for her to prevent an abnormal rise of price there and to save her export trade with this glut of gold in the country. There are now dependable signs of fulfilment of this prophecy.

England, so long as a sterling could buy one pound of gold. But as the Currency Act of 1927 made provisions for purchase of gold and sale of gold or sterling by the Government at its discretion at a fixed rate, three alternatives confronted it, specially as the Government so long used its discretion in selling sterling instead of gold. The first was if it would remain on the gold standard and continue to buy and sell gold at the fixed rate independently of the fate of sterling, the second was if it would revert to sterling exchange standard, and the third was to take measures to protect its gold and sterling reserve and to adopt a waiting policy.

Course Adopted by the Government.

In arriving at a final decision the relative advantages and disadvantages of the three alternatives had to be considered by the Government. The first alternative meant that India should have strong gold reserve to protect the gold value of the rupee. India's gold reserve was of course not adequate for the maintenance of a gold standard independently of Britain, and as Britain was unable to accommodate India in this respect, except in the form of sterling resources, an attempt in this direction was considered to be a plunge into a very perilous venture.* The second, on the other hand, meant that so long as sterling would remain divorced from gold, the rupee would cease to be linked with gold and would therefore depreciate in terms of the currencies of the gold standard countries of the world but the rupee being linked with the sterling at

* The Gold Standard Reserve was created on the recommendation of the Fowler Committee to meet the contingency of a fall in exchange if the balance of trade turned against India. The Fowler Committee recommended that this reserve should be held in gold. In adopting this recommendation the Government of India decided to invest the reserve in British securities instead of gold, a practice which was open to criticism on the ground that the reserve in this form was not liquid. The Hilton Young Commission of 1925-26 recommended that gold and gold securities should form not less than 40 per cent. of the reserve, subject to a temporary reduction with the consent of Government, and that of the gold holding at least half should be held in India.

the fixed rate, our trade with Britain would remain undisturbed. It also meant a stimulus to our export trade with the former countries, the power of their currencies in purchasing rupee being increased, and conversely, it meant a diminution of our import from those countries. The third course would have placed the Indian Currency in the position in which it was before 1925, that is, the rupee unlinked either to gold or sterling. This unanchored exchange would have hampered trade giving a premium to speculation. The Government adopted the second course and though it remained bound to purchase gold at the above statutory rate, it suspended the provision of the Act for the sale of gold. The result is that the rupee in exchange with gold standard countries has depreciated, while it is in its former fixed rate in relation to sterling, namely, 1s. 6d.

Its Result.

Indirectly therefore the rupee exchange with these gold standard countries was virtually at much less than 1s. 4d. gold, to which a section of our people wanted the Government to fix it. It was expected to benefit the country by stimulating exports and retarding imports, by protecting the domestic industries and securing more favourable trade balance. It also saved the Government from its budget being upset, so far as its sterling payments were concerned, inasmuch as the rupee exchange with Britain remained the same in terms of the sterling. The fixed exchange rate of India with England was maintained by the Government of India at the fixed parity by expansion and contraction of currency and by making the Secretary of State's Council Bills available according to the exigencies of the case.*

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* The following extract from "Modern Business Training" of Grebby and Scrivener will repay perusal in this connection:—

"In 1899 silver rupees were made exchangeable with gold at the rate of Rs. 15/=£1, but in 1919, owing to an enormous but what proved to be temporary rise in the price of silver the ratio was altered to Rs. 10/=£1. The problem is to maintain this artificial parity. The instrinsic value of the silver in a rupee at the present day price of silver of 2s. 11d. per oz., is a fraction over one shilling. The method adopted is known as the Gold Exchange Standard, and it

But as the Government's buying rate of gold remained at its statutory figure and it was not selling gold, the price of gold in terms of rupee, as in terms of sterling, was much higher and it was being largely exported out of the country as a general merchandise, as there was no check on its price for absence of the selling operation of the Government.

General Survey of World's Gold Position.

This exchange position of the world was continuing up to the early thirties of this century, but the shortage in the world's gold supply began to produce its natural consequence at this time and as practically all the progressive States of the world became very anxious to acquire gold out of eagerness to recover their lost prosperity, the price of the metal soared very high. The result was that supply began to pour in from unexpected quarters. The eastern countries, specially India, started exporting their

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operates as follows. The Government of India has built up both in India and in London large gold reserves. When the demand for bills on India is strong enough to cause the value of the rupee to rise above the fixed parity, the Secretary of State for India sells Council Bills and Telegraphic Transfers by tender, for sterling in London. These are drawn upon the Indian Treasuries in Calcutta, Bombay and Madras and are payable there in rupees. This London selling increases the London cash reserve and the increase is used to discharge India's indebtedness to countries other than Great Britain. It also increases the rupee circulation in India and so brings down the value of the rupee to the fixed parity. In the reverse case, when the demand for bills on India is so weak that the exchange falls below the fixed parity, the Government of India sells bills drawn against its London Reserve, known as Reverse Council Bills. These are payable in rupees in India, and in sterling in London. This selling skims off the superfluous rupee currency, increases the Indian reserve, and so brings up the exchange, to the fixed parity. Normally the balance of trade is in favour of India, *i.e.*, she exports more than she imports, and she imports great quantities of the precious metals which are utilised in the arts. Further, large payments have to be made by India to London for pensions payable to retired officials, for interest on loans, and by way of contributions to the Imperial revenue. On the whole, the Gold Reserve Standard meets India's currency requirements with fair success, and this method is suitable, and has been adopted for countries analogously situated, e.g., the United States and the Philippine Islands."

hoarded stock which was augmented by the production from low grade ores mined in South Africa and Russia, for gold production from these ores which was uneconomic before this time became profitable on account of the jump in the price of gold. These supplies not only met the ordinary loss of the metal in its every day use but more than replenished the depleted stock of the countries which could afford to buy them. France and the U. S. A. which had already sterilised a major portion of the gold stock of the world, also continued their operation in respect of acquiring gold and the vaults of their Central Banks drew the attention of the whole-world by their glittering display of this precious metal. But as this huge stock of gold was used merely as a stand-by for the protection of their managed currency, and was not released for circulation, its equitable distribution amongst the countries of the world was impeded, and though England came into possession of a substantial share of this stock sufficient to keep her currency stable, the U. S. A. hoarded the major portion by its huge purchase at a very high price to support its recovery plan by giving a stimulus to President Roosevelt's "New Deal"

France at that time had to allow export of a portion of its gold stock on account of some political and economic reason, but still it held a stock second only to that of U. S. A. The inflow of gold to these countries from releases by India and some other eastern countries together with the supply from unexpected sources thus supplied the necessary reserve to the above countries specially England and enabled them to keep their managed currencies stable. It was however found that the maldistribution of gold could not be checked and the other European countries than France and England could possess only a small portion of the gold stock of the world thus impeding the world's prosperity. At the end of 1936, we find that out of the total gold stock of the world valued at 72,300 millions of Swiss gold francs, the U. S. A. possessed 34,439 millions, France 9,168 millions, Britain 7,911 millions as against Italy's 638 millions and

Germany's only 141 millions. This glut of gold in some countries and want of gold in others are due to the artificial restrictions placed on its movements by several countries to support their managed currencies and want of means of some others to acquire it, the result being that foreign exchanges of the world were in the melting pot.

Result of Economic Nationalism.

An economic nationalism was rampant every where in the world and all the countries were anxious to export their products while restricting imports. Extensive devaluation of the currencies was resorted to by many Governments and the currencies being depreciated the price of gold went on increasing in terms of these currencies, while the gold buying operation had to be kept in progress by some countries, specially the U. S. A. and the U. K. for their own recovery " purpose.*

As this competition went on throwing the gold standard to the winds, the foreign exchange question became very much complicated causing a tremendous depreciation of the franc, and the three countries holding the huge stock of gold—U. S. A., France and Britain—had to enter into an agreement fixing a point in the operation of exchange amongst them, thus giving inducement to other countries to join them. But though the parties to this *tripartite agreement* tried their best to maintain these fixed rates by operation of their huge exchange equalization funds, the franc continued to move further downwards, culminating in suspension of the operation of the Gold Standard.

TROUBLES WITH THE EXCHANGE UNDER THE INCONVERTIBLE PAPER CURRENCIES.

It has been remarked that there is a natural tendency in a country with inconvertible paper to raise internal prices, and lest speculation anticipates strong inflationary trend, the Central Bank or the Government of the country

* America imported gold worth $ 1,031 million in 1936, $ 1,385 million in 1937 and $ 1,641 million in 1938.

has to regulate speculation or at least confine it within reasonable limits; thus comes exchange controls. Of course exchange rates had to be controlled or managed even in the days of the Gold Standard. When the gold reserves of a country happened to fall, discount rates were raised to stem the outward drain of the gold resources of the country. The flow of drafts on the country would be discouraged on the one hand, and short capital attracted. Restraints might also be put on the capital exports. In case of paper currency, however, the natural tendency was towards overvaluation of the currency in terms of foreign exchanges, and that encouraged imports, discouraging exports. This tendency had to be counteracted in various ways, e.g. tariff, quotas, etc., etc., because the natural trade channels tended to break down.

This happened largely to the £ sterling by 1931 and immediately afterwards, upsetting the whole money market of the world. Official control of what was supposed to be the best useful rate for the home economy was adopted in April 1932 when the speculative pressure was still high against £ sterling, the £ sterling falling from £ 1=$ 4.86 to £ 1=$ 3.35 in December 1931 (=69.3% of its old gold parity), and could be forced up only to £ 1=$ 3.74 in April, 1932. The Exchange Equalisation Account was started, in order to counteract speculative pressure, with £ 150 millions in Treasury Bills (Tap Bills) readily convertible into cash balances by sale in the money market by the Bank of England which managed the Account.

The British Exchange Equalisation Fund or Account.

The first objective was to offset incoming short term funds to raise the exchange value of the £ freely for foreign exchanges, which were obtained at the cost of the £ sterling. If the movement of the short term capital was away from the £ sterling centre, the Account checked the fall in the exchange value of the £ by purchasing £ sterling with foreign exchanges. Since most of the foreign exchanges obtained were dollars, francs and gold bloc currencies, the Account could easily choose between holding the

proceeds in the form of foreign exchanges (balances in foreign countries) and converting them into gold. To a certain extent the Account did so convert into gold, earmarking such gold in foreign countries or shipping it back to London, that was not expected to affect the volume of reserves in the Banking system of the country but merely expanded the volume of tap bills limited by law, and then it might sell gold to the Bank of England to replenish its fund of sterling to use the same either in supporting the fixed exchange rate or to retire tap bills, and on such occasions the gold might add to the reserves of the banks in the country.

The Account also regulated the outflow of capital, by buying £ sterling and selling foreign exchanges. When the supply of foreign exchanges was out, the Account would export gold, either directly to the U.S., or via France, who had to bear the costs of transport. Such exports did not affect the Banking reserves.

The Account had to use increased volumes of £ sterling from £ 150 millions to £ 545 millions, and that enabled it to keep the fixed exchange value of the £ steady in the face of the capital movement from the gold bloc countries of the European continent to London. In March 1938 the gold holdings in the Account and the Bank of England amounted to £ 836 millions. But attempts to support the £ sterling in the pre-Munich days cost the Account £ 200 millions; and the panic following the Munich depleted all the gold in it in January, 1939. The Account purchased £ 350 million worth of gold from the Bank of England, and raised its gold supply to £ 450 millions.

These operations revealed a new trend and a new meaning of Exchange Control. The prevailing idea was to balance only the current items of trade in the exports and the imports by eliminating the disturbing factors of short-term capital movements* and the higher rate of interest or

* The short term funds comprised: (a) purchase of bank balances, (b) banker's and trade acceptances, (c) treasury bills.

profit earned by them, and the interests (and principal, if any) due on old or long term debts. Short term stability was sought by reducing the number of determining factors that might oftener cause disequilibrium than not. Export of capital was even prevented by blocking claims of foreign creditors who were denied the privilege of transferring claims for interest and debt payments to other countries. Only the basic market conditions were heeded. To a certain extent the Account allowed the rate to move up or down in agreement with these basic conditions, as the relations of the £ sterling with the currencies of the gold bloc prove, by their variations. It was only the Great War of 1939 that drove Great Britain to strict and rigid control, and direct control, e.g., by straight prohibition of capital exports, having fixed licensed exchange dealers to carry all deals in exchange, and a strict official rate, etc., etc.

The American Exchange Stabilisation Fund.

In 1934 the dollar was devaluated,* and from the profits resulting from that, amounting to 2 billion dollars, an Exchange Stabilisation Fund was set up after the British pattern. But only 200 million $ deposited in the Federal Reserve Bank of New York were actively used, and the rest were absorbed as a part of the U.S's excessive supply of gold. The fund, managed by the Treasury, did not, however, have much to do. The dollar with a *de facto* fixed gold value varied in terms of foreign currencies with variations in the prices of gold abroad. But obviously it was possible for the U.S. to try to correct all that and assume the risks of buying and selling foreign exchanges to uphold foreign currencies. So the fund actually worked as a secret agent for import and export of gold. Only when the movements of gold into the country were too turgid or slow, the fund would at times buy foreign currencies for dollars to offset the outward motion of capital and prevent an undue breakdown in the exchange rates.

* In London gold had already been valued at 185 sh. 5d. per five ounce instead of the statutory 85 sh.

However, the Government controlled all outward movements of gold.

It was Europe that was in deep troubles in the thirties —and that might have caused directly or indirectly the devaluation of the $.* On the continent the gold bloc countries went off gold one by one, and depreciated heavily the previous gold value of their currencies. France lost a huge quantity of gold by keeping to gold at the old parities.† A series of competitive devaluations seemed imminent in Europe by 1935-6, and that would have meant anarchy in the foreign exchanges and trade. It was to prevent all that that the Tripartite Agreement was made in 1936 by the U.S., the U.K., and France, by which each was to maintain exchange stability in respect of its currency. France started an Exchange Equalisation Fund, (and was followed by many) out of the proceeds of the devaluation of the franc. Yet that did not prevent flight of capital. Further devaluations followed, and by the end of 1938 the franc was somewhat stabilised at 40% of its 1935 value, which had been about 74.8% of the old parity. A good deal of all this debacle was due to pressure of speculation.

The whole chapter of exchange rates history of the thirties looks strange and chaotic. Deliberate efforts were made in all European countries to control exchange rates with the purpose of maintaining at least evenness in current trade,—but that could not be done. Probably outstanding adverse balances of payments acted as a persistently undermining influence. However, it was found that in very tight situations the exchange rates were sought to determine balance of trade, and not the other way about. This was an innovation.

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* The £ sterling was depreciated about 60 per cent. of its original gold value shortly after 1931. The dollar was devaluated in January, 1934, and the new dollar had 59.06 per cent. of its old gold value, and that resulted in a like amount of depreciation in terms of the currencies of the gold bloc of the European continent.

† Between March, 1935, and Sept. 25, 1936, France had to give up 2.1 billion dollars worth of gold. On September 26, 1936, France was off gold. The gold bloc was definitely broken into pieces.

THE WAR PERIOD OF SEPTEMBER 1939 TO THE PRESENT.*

The war thrust control on all belligerent countries, as a matter of necessity, though that did not or could not at first stop (1) disguised flight of capital as payment for current exports, and (2) black markets in the disposal of foreign bills.† Blocked accounts were forced in European countries on a larger scale to prevent the evils, so that blocked funds could not be used for paying for exports from the country and so eliminating from balance of payments on current items. The Exchange controls set up in September 1939 in the U.K. maintained a dollar value as agreed on within narrow range of £ 1=$ 4·00. This kept down the costs of imports, and it was maintained by combining direct restraints with judicious use of the Exchange Equalization Account. France followed; but not so successfully any where. But the war reduced the U.K's investments abroad by about two-thirds, and forced her, apart from the Lease-Lend, to arrange a relatively heavy loan from the U.S. (= about 4 billion dollars) in order that the current balances of payment can be maintained.

Exchange rates do not have any significance now as symptoms of trade movements or trade balances. They are usually rates considered to be in agreement with internal prices, though practically they are everywhere loosely related; for the exchange equalisation does not always allow the reserves of the banking to be effected.‡ The only exceptions were countries like India where sterling reserves were surely depleted in the depression of the

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* The war period saw everywhere a very cautious and careful use of both home currencies and foreign exchanges available. All old holdings of capital and foreign exchanges were sold to the Treasuries. Gold and currency exports were subject to license, though foreign exchanges were freely available in the U. K. (except gold and dollar) to pay for imports contracted for before the declaration of war.

† If official rate happens to be lower than market rate, exporters would sell at the higher rates to those who would export capital.

‡A. R. Adarker, The Rupee Ratio.

thirties, and were continuously pressing upon the currency volume and prices.

India and the Exchange Value of The Rupee.

The sterling value of the Rupee was fixed in 1928-29 at 1sh. 6d. by a statute, after over two years of the Hilton Young Commission's finding that that sterling value was the equilibrium rate. Many objected to it as overvaluing the Rupee—a point that could not be decided off-hand; for, all the world over disequilibrium was prevalent in 1929-30, and symptoms were not absent in 1928-29. Then quite naturally the Rupee was linked to the paper sterling at that rate when the U.K. went off gold in 1931. The depression that set in all over the world made it still more difficult to see what exactly the position was, that is, what the correct par value of the Rupee might be in terms of sterling or any other currency. The 60% depreciation of the £ sterling in 1932 also automatically meant a similar depreciation of the Rupee in terms of gold. There is no doubt, however, that somewhere something was essentially wrong,—probably it was the world economy, but the persistent unfavourable balances of payments over a series of years, made up only by gold exports, was something unusual, particularly as no defence was set up against that. It was misleading that the gold exported was just a commodity and no more; for no other country seemed to entertain such views, not even the U.K., in spite of Lord Keynes (then Mr. Keynes) who was stoutly against the reintrusion of gold as a determining factor in the organisation of the internal monetary system. By 1935, when the existing Reserve Bank came to operate, it was just possible to make out a case that the Rupee was considerably undervalued at 1sh. 6d., for a comparison of the purchasing power parities would show that on the surface; but undervalued or not the unfavourable balances threw upon the Reserve Bank a Sisyphylean task in maintaining the Rupee ratio by sale and purchase of sterling here and in London. The management of the ratio was carried out in the same way as the Exchange Equalisation

Account did it in the U.K., but while the latter's operations did not much affect the monetary system of the U.K., the Reserve Bank's operations did affect. A debtor country's currency is liable to be depreciated in terms of the currency of the creditor country,—that was the first fact for India. The second fact was the paradox of the undervalued Rupee at 1sh. 6d. according to the purchasing power parities. But all these contradictions could not be helped; so it seemed to the Reserve Bank which merrily and zealously stuck to the task imposed by a statute and depleted the sterling reserves in the monetary system and the banking system. If the Great War of 1939 had not come, one might have seen some very new disasters wrecking the whole monetary system.

During the war the exchange rate has been inactive, and without any significance—particularly with the multiplied direct controls on trade. The exchange rate is a fiction—and in prosperous times like the present, it would fit into the times smoothly. The fixed rate is allowed to vary within fictitious gold points. The exchange rate is probably everywhere useless, if trade is carried on through and along tortuous abnormal channels. It becomes just a matter of convenience. Whatever variations in the quotations take place may represent the passing balances of temporary supplies and demands of bills—without any reference to any long term natural equilibrium rate.

Blocked Accounts.

This may be mentioned as one of the ingenious methods of unilateral action by a debtor country to narrow down the meaning and scope of current debts and credits. This was to a certain extent adopted by the U.K. and other European countries in the thirties to make control of exchange rates effective. The lesson of this device for exchange control cannot be yet assessed correctly. The claims of foreigners on funds in the exchange control country are " blocked " by the method. These claims arise from (1) normal working balances needed by foreign exchange dealers (e.g. banks) trading to exchange drafts,

of that country, (2) short term capital that had previously moved in either for security or for earning profits or interests; (3) interest or long term loans, including amortisation of capital; and (4) short term commercial credit and funds received from sale of securities. All such items are held up in the current estimates of debts and credits—and might be regulated in a manner that would benefit the blocking country. As Stuart Chase remarks, the foreign creditors may be forced to take any goods that the debtor country should offer as payment. It is not easy to see if all this can be of any ultimate good to the blocking country's trade; but it certainly causes foreign loans to stand off, and that even when the debtor country may find relief only on the grant of such loans.

Sometimes the creditors force some payments—as Sweden and others did after Germany had exploited her creditors with the 1931 Standstill Agreement intended to cover Germany's obligations (short term). As Germany wanted imports, the creditors forced 'Clearing Agreements' which were a system of binding partial payment on blocked account due to the debtor country wanting to import. Central Control Agencies would be set up in the debtor and creditor countries for this purpose. If the debtor country would send 10,000 $ worth of goods to the creditor country, the latter would send 8000 $ worth of goods in return, and hold in the Central Agency 2000 $ worth as part payments to those whose balances have been blocked. This was making the best of a bad job that could not be cleaned up by direct barter into which the world has fallen more or less, though the fact that 'double concidence', essential to barter, being non-existent, a resort to some accounting has been made through "official" exchange rates of national currencies.

The Future.

The setting up of the world's Monetary Fund and the International Bank for Reconstruction and Development, and the World Trade Organisation—all were planned in the war period in order to clean up all the mess created since

1931, or rather since 1914. The fund is a sort of clearing house of exchanges, and is designed to provide a mutual validation of the exchange values of natural currencies of the contracting countries. This is considered to be a most important step towards short time stabilisation of exchange rates. The par values to be declared of the currencies of the several countries is a problem—but many think that a beginning must be made somewhere, and so one should not be finicky about it, seeing that the existing rates are all inactive and may be as well declared as par values as not. As a matter of fact all the countries have nearly done this —for instance, India has declared the par value of the Rupee at 1sh. 6d. though it is urged in the Articles that the par value should be declared in terms of gold or in U.S. dollars of July 1, 1944.* The fund would have 8800 million dollars to start with, to which the U.S. contributes 2750 million dollars. Each participating country must contribute its quota, and either in gold to the extent of 25% of the quota or in gold and dollars to the extent of 10%, whichever is smaller, the balance being in the currency of the country. It appears that the fund would or might allow 20% depreciation of the altered rate—if necessary to "correct the fundamental disequilibrium".

These are the most relevant items. But the fund has not yet been seen to have done much to clean up. The recent depreciation of franc even against the Fund's judgment and permission is not a very hopeful symptom. Most of the declared par values are indiscreet: because none are natural rates. It may be that the Fund may enable the exchanges to go on for some time:—but nothing can be said about its abiding capability to stand the stress of the world-wide occurrences or emergences of 'fundamental disequilibrium'.

The Bank is for correcting long term disequilibrium as the Fund is for correcting short term disequilibrium. The Bank is to start with a capital of 10 billion dollars of which

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* Art. *XX 'de facto' rate.*

9.1 billions have already been subscribed. Capital is subscribed something in the same proportions as quotas to the Monetary Fund. The capital stock may be increased by an absolute majority of votes. All shareholding countries would form the Governing Board; but only twelve directors would be managing it in all practical matters. Article II Sec. 3 limits the lending power of the Bank. Not more than 25% of the Bank's resources can be directly lent out. But a considerable volume of guarantees can be furnished, under proper safeguards. The loans would be extended to undeveloped countries mostly so that they can grow into proper economic units.

It is obvious that the Fund would serve the purpose of the old short time capital, and the Bank that of the old long time capital movements. If these two are well-managed, that is, if they do not embarrass a country's balance of payments, it is expected that the exchange value of its currency need not be violently fluctuating. But all this is as yet only wishful thinking. It seems that exchanges between paper standard countries have not yet been brought under any scientific law or principle— universally acceptable,— or capable of resolving all the difficulties and complexities, and that the nations of the world have ultimately been falling back on barters on the rule that each would have what each wants on some sort of 'official' accounting, without taking care to see if there may eventuate a state of disequilibrium or not. The rule is rather the socialistic view 'to each according to his need, and from each according to his capacity'—whatever the so-called "exchange values of currencies".

WORLD'S GOLD POSITION.

To most of the modern economists the return to gold seems to be impossible now or later on, even if that were the lesser evil. The impossibility comes from the fact that the distribution of gold has been such that it cannot be used. even if that was thought of, for monetary purposes by all the nations at the same time. The U.S. holds over 70-

80% of the world's total gold stock,* and a large percentage may still be in hoards, leaving very little for the monetary systems of other nations. The rate of new output of gold may be increased—at increasing costs—to 5% or 6% of the existing stock; but that is not the real issue. The real issue is that the disastrous experiences of 1914-47 have shattered the illusion of the "Golden Age" as the background for the world's economic efforts or rewards, and the frame work for exchanges of goods and services. The Economist once declared in 1941 that the pull of a metallic standard and immutable mint parities has probably ceased to operate for ever. And Polanyi in his 'Great Transformation' elaborates this. If one considers the whole gold situation, one finds however, strange contradictions and contrary motions in it.

Of course the U.K. on the British Empire has been the biggest producer of gold, and the U.S. the largest purchaser since 1933-34. The price of gold in devaluated dollars or depreciated sterling went up high—giving a new stimulus to gold production. But it is between the U.K. and the U.S. that nearly all the new output of gold is purchased. Fundamentally nations do not want gold but goods and services; and so a reluctance may appear against trading goods and services against gold that has only an imputed economic value. At any rate Stuart Chase is right when he declares that the idolatry about gold has been destroyed,† if not, in all people, at least in a good number. As one by one the most loyal admirers of the gold standard abandoned it after 1931, they probably got over the old loyalty also. The gathering opinion is that the bullionist theory of money was misleading, and that forcing the world economy into the

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* The U. S. holdings in gold at Fort Knox in Kentucky is estimated at about 23 billion dollars; but the valuation has been made in the devaluated dollar of 1934. It represents none the less the biggest and most overwhelming percentage of the world's monetary gold as compared with the total gold stocks, the figure for which is given above.

† Stuart Chase, the Future Trade, 1946-47.

frame of gold had the unfortunate effect of cramping it considerably.

The argument that the gold standard allowed for natural adjustments of the several economies of the world is no longer considered as valid. The gold standard had to be managed; and still it could produce eventual equilibrium only by creating depressions, which, however, temporary, were disconcerting enough to the community or communities concerned. Besides, it is asked: If gold standard could be managed, why not paper standard? The reply to this question has not been forthcoming, but that has not discouraged the search for a suitable answer. At any rate many think that the U.K's (and Norway's)* management of the paper standard ought to be the answer. After all the right economic theory states that no movement of gold should be required to settle trade balances or balances of payment—if trade follows the right principles. If so, it does not matter what currency is used for short time temporary settlements.

Yet the respect for gold, the power of gold, and the instrumental function of gold in trade have not altogether disappeared. The two leading economic systems, the U.K. and the U.S., have still respect for gold; and this will be evident from the former's gold reserves (constantly in repairs), and the latter's adherence to gold standard, however, indirect that may be. The power of gold is indicated in the few very expressive clauses of the Monetary Fund Rules, e.g. "Quotas have been fixed by a formula considering a country's national income, pre-war volume of trade, gold reserves, and political bargaining power;" "each country would declare the par value of its currency in terms of gold"; "value of gold is to be retained at a fixed level."† "any currency can be bought with gold*"; etc., etc. If 'gold' were dropped or has been dropped, how could it be

* Some do not attach much importance to Norway, which is considered to be just a marginal economy.

† Art. IV. Sec. 1, 2.

Art. V. Sec. 6.

so efficient? The power is sought to be maintained in functions also. The value of gold as money remains unimpaired in the larger area of the world economy. And certainly it would remain so, if the U.S. and the U.K. can manage it.

The U.S. gold hoards cannot be wiped off—and cannot be lent out also, for the simple reason that it would then again find its way back into the U.S., probably with some additions. If the U.S. stop purchasing gold, there would be less quantity of dollars abroad, and that would upset exchanges, again. Some think that the U.S. can now start lowering the price of gold to discourage further supply: but what of the existing stocks of gold? How would that stock be affected? Others think that the U.S. can now put a tax on gold imports, reducing its attractiveness while preserving the advantages of a high domestic price for gold. But it is no good having a high domestic price for gold when gold is not in monetary circulation. So the problem of America's gold is as embarrassing as the problem of little or no gold of other countries which do not consider it worth while to pay high prices for gold.

But all that need not clog and embarrass the economic activities of the world's countries. Gold may remain in the international payment system as an attractive that would be unfailing in " the last resort." Let it be world money of " the last resort " and as such it might play the part of absolute reserves, as it does already in the national currencies in many countries. And for this no free market of gold is also required.

The following is from the Report for 1947 by the Executive Directors of the International Monetary Fund:—

Because the U. S. supplies all export goods or mass of these, the largest use of gold and dollars is made to meet these payments. During 1946-47 the rest of the world used 1.8 billions of gold and short term dollar assets to finance these imports. In the first half of 1947 these countries used approximately 2.3 billions of gold and short

term dollar assets. In a certain degree this was offset by new gold production, but utilisation of monetary resources at this rate cannot last long, in spite of the fact that the gold reserves of many other countries may now be larger than they were in the pre-war period. These, however, do not matter in the huge trade deficits with the United States. Those who are concerned with the deficits have much less now than before.

At the end of 1938 the gold holdings of the United States was 14.6 billion dollars. During the war they rose to 22.8 billions and then declined as large purchases were made abroad, resulting in transfer of gold to other countries. At the end of the war the U. S. gold holdings aggregated 20.1 billion dollars. Since then they have again risen to 21.4 billions, on 30th June, 1947, after paying 700 million dollars as the quota of the U. S. gold subscription to the Monetary Fund. This rise of 7 billion dollars in gold holdings is offset a little by an addition of 3 billions to the foreign owned short-term dollar assets at the end of April, 1947.

For the rest of the world, except Russia, gold holdings in the middle of 1947 were about 12½ billion dollars, not far different from what they had been at the end of 1938. In the mean time there has been a substantial redistribution. Principal increases have taken place in Latin America, Switzerland, Canada, and Portugal, and South Africa. In the aggregate the reported gold holdings of Latin America doubled between the end of 1938 and May, 1947, from 22 % to 44 % of the gold reserves of all countries other than the U. S. A. and Russia. For the liberated countries of Europe (excluding the ex-Axis countries, United Kingdom and Russia) the reported gold reserves fell from 5.2 billion dollars to 1.8 billions at the end of June, 1947. The decline is largely accounted for by the fall in the gold reserves of France and the Netherlands. For the rest of the liberated Europe the decline has been from 1.4 billion dollars to 900 million dollars. For the United Kingdom the gold holdings at the end of 1938 were 3.4 billions, and at the end of 1946

the gross official gold and dollar holdings amounted to 2.6 billion dollars.

International Par Values and Exchange Stability.

The Fund agreement provides that the par value of the currencies of the members are to be established in the first instance by agreement with the Fund. Thereafter they may be changed only after consultation with the Fund and according to the Fund Agreement *i.e.*, the establishment of the initial par values by the Fund was made on 18.12.46 as the first indispensable step. The Fund accepted the parities proposed for currencies of 32 members and a number of non-metropolitan areas, and later, as membership was assumed, it accepted the par values of the currencies of Venezeula and Turkey. At the request of the countries concerned, the par values of Brazil, China, the Dominican Republic, Greece, Poland, Uruguay, Yuguslavia and certain other countries and some metropolitan areas of France and the Netherlands were postponed.

The parities of currencies cannot satisfactorily be used on abnormally high prices, and production costs, in the devastated or disrupted countries. The determination of a satisfactory pattern of exchange rates is at any time a difficult problem.

QUESTIONS BEARING ON CHAPTER XXII.

1. Why is the rate of exchange an important factor in determining the political and economic condition of a country?

2. Explain *mint par* of exchange.

3. What is the *market rate* of exchane and how is it determined?

4. Explain *specie points*. What do you understand by *gold gaining point* and *gold losing point*?

5. Explain by an example how the exchange rate cannot rise above and fall below the specie points.

6. What is "price of silver" parity? How is it determined?

7. How are the difficulties and inconveniences in a silve using country in respect of exchange removed by fixing the value of the silver currency in gold and what is generally the system followed for tho purpose?

8. Explain Purchasing Power Parity and show that the Mint Par is really nothing but the Purchasing Power Parity.

9. What are generally the causes of fluctuations in the market rate of exchange? Explain how exports and imports cause this fluctuation.

10. What are visible and imports and exports? Explain them by examples.

11. Explain what you understand by balance of trade or balance of indebtedness. Why and how does the balance of trade between the gold standard countries tend to come to an equilibrium? Explain by an example.

12. What is the position in India in respect of balance of trade?

13. Explain how exchange rates influence import and export.

14. Explain how loans, investments, payments for social intercourse and speculative dealings influence exchange rates.

15. How are international debts settled?

16. How does the gold standard smoothly work in normal condition in international receipts and payments?

17. How are the rates of exchange noted in different countries? What is the system followed in the quotation of Dominion and Colonial exchange in London?

18. What do you understand by favourable and unfavourable exchange? Illustrate by examples.

19. Explain sight rate and long rate of exchange and show by examples how they are to be converted into each other.

20. Explain Telquel rate and state how it is settled.

21. Describe the several methods of transferring funds to other countries.

22. What do you understand by Exchange Market? Who are the persons constituting this market?

23. Explain Overnight money, Weekly money and Call money.

24 What is meant by *Course of Exchange?*

25. How are the rates of Exchange in Calcutta on different foreign centres on India quoted?

26. What is meant by Forward Exchange? Explain "Swap and Deposit."

27. What is Arbitrage operation in Exchange? Explain by examples what you understand by simple Arbitrage and compound Arbitrage. What is Indirect Exchange?

28. Explain *circuitous* arbitrage operation.

29. State what is the usual custom in London about the currency in which bills are drawn. What are the indications given in such bills for their retirement? Explain their effects.

30 What is the opinion of Professor Gustav Cassel about the causes of the difficulty in smooth working of the gold standard throughout the world?

31. Explain how the U. S. of America and France are responsible to a great extent for the present *Impasse* which led some countries to abandon Gold Standard.

32. What is the effect of the abandonment of the gold standard by countries on their foreign exchange? What is the present position of the exchange of the world? Do you suggest any method to improve it?

33. Give the history and mention the immediate causes of the abandonment of the gold standard by England.

34. Explain Prof. Kemmerer's views about the Gold Standard and Gold Purchase plan followed by the U. S. of America.

35. What do you understand by "Commodity Dollar" and Silver Purchase Plan introduced by President Roosevelt?

36. What was the effect of the abandonment of gold standard by some countries on Indian Exchange? What was the course adopted by the Government of India on the abandonment of the gold standard by England? Criticise its action.

37. How is the result of such abandonment expected to benefit India by stimulating exports and retarding imports?

38. How is the fixed exchange rate between England and India maintained by the Government?

39. When and why are the Council Bills drawn by the Secretary of State for India? Explain the system of these drawings.

40. Explain Reserve Council Bills and state on what occasions they become necessary.

41. Describe the different methods of financing a business in India.

42. Give the legal definition of a bill of exchange and by what name are they known?

CHAPTER XXIII.

TRANSPORT.

TRANSPORT is that section of commerce which deals with the removal of hindrances of distance in its operation, that is, it contributes to commerce by enabling goods to be sent to the right place at the right time. It includes all auxiliary services, *e.g.*, clerical, manual and mental occupation in connection with all sorts of transport.

Transport in Olden Days.

In the primitive age there were practically no other means of transport than those supplied by nature. Even in the seventeenth and eighteenth centuries means of communication between different countries and different parts of a country were very imperfect. It was with the greatest difficulty that goods could be transported from one place to another. It was moreover very slow, hazardous and costly and the result was that a good many commodities which are now cheap and within easy reach of every body, were very costly and only obtainable with difficulty. The merchant at that time used to furnish the conveyance for his goods and supervise the operation of their transport himself. He had to build ships of his own and to send them to different ports of the world with his merchandise at a great risk for want of the insurance system. This was not only troublesome but was very costly, capable of being undertaken by only a few.

Effect of Improved Methods in Transport.

The advent of modern methods of transport by railways, steamships, aeroplanes, etc., has now revolutionised the system of communication—external and internal. The present system of transport has brought into existence with it the broad roads, the lengthy canals, the extensive railway

tracks and gigantic steamship lines. The factory system itself which necessitates the gathering together of a large number of workers and huge quantities of raw materials at one place was not possible before the improvement in methods of transport; for without proper and efficient system of transport it was impossible to feed and clothe such a large number of persons settled at one place and to transport the huge quantity of manufactured goods of the factory to their places of distribution. It is no longer necessary to despatch letters by paid messengers that was the custom before, but a State Postal Service becoming possible with the improvement in methods of transport, they will be carried to their destination with the greatest possible speed and least trouble.

Development of Transport in India.

In India the condition of transport in the eighteenth and nineteenth century was deplorable, the existence of only a few metalled roads built by the Mohammedan rulers principally for military purposes being the only means for a slow traffic of goods and men. This deplorable state of things led the British Government to start a programme of road making. It also prompted to some extent the Government to take to construction of canals, which has an advantage over the rivers in that they can be designed according to the necessity of the case.

Canals, Railways, Steamships and Roads in India.

In 1854, the construction of the Ganges Canal was taken up. Almost simultaneously a project for construction of railways was mooted out and in 1853 the first railway in India—that between Bombay and Thana—which was only 20 miles in length was opened. In the following year another line from Calcutta to Hooghly was completed. From this small beginning the railway line has increased by leaps and bounds and it now traverses more than 40,000 miles. Canals have also grown in number and they are serving both the purposes of transport and irrigation.

Steamship lines are in evidence now in almost all the navigable inland waterways of the country, and the process of road making is going apace. An impetus has been given to it by the report of the Committee appointed to devise means for improving land transport. Motor vehicles have also been introduced in almost all parts of the country and every place which has a passable road, has been brought within by this modern means of transport.

Difficulties Got over in World Transport.

Many of the difficulties of transport disappeared with technical improvements in railways, steamships, etc.; for instance, it was very costly to transport crude oil in Petroleum Industry and hence the industry worked under a handicap; the difficulty has now been removed by the introduction of pipe lines. For receiving and transporting oils and other similar goods, specially constructed tank cars and tank steamers are now in use. Great Elevators have now been introduced to facilitate carriage of grain in bulk, effecting great economies in loading and unloading it. In the case of perishable goods the improvements have been more remarkable. In ships and trains refrigerators have been fitted up in specially constructed chambers, and meat, fruit and other perishable goods can now be transported for thousand and thousand of miles, without any deterioration in their quality. Special fast trains equipped with necessary devices are now running for inland transport of fruits, flowers, etc., for comparatively short distance. Fishes brought from a distance of hundreds of miles are now served fresh with the help of freezing plants fitted up in railway carriages and steamships. Many improved and novel devices for the purpose are also being experimented upon and tremendous and far-reaching changes for the better are now expected in this direction.

Forms of Transport.

The modern transport system may be classified under the following heads :—

1. Transport by Roads.
2. Transport by Railways.
3. Transport by Canals and Rivers.
4. Transport by Sea.
5. Transport by Air.
6. Transport by Post.

The chief amongst the above of course is the railway. The building of railway requires huge capital and the most important railway lines are therefore owned either by governments or big corporate companies. The road transport does not require a big capital as the roads are built with the public funds and only the necessary vehicles are to be supplied by the owners of transport services by roads. In the case of ocean, river, canal and air transports, generally the "road" is there open to every body, and though the owners are required to supply ships, barges, wharves and aerodromes for haulage, entailing an enormous expenditure they are not as complex as the railway. On these special condition of the different systems of transport depend the charges for transport made by them. Some of these transport systems, specially the railway, are either State owned or State controlled. State control in transports is needed because it is necessary that their services should be available to the members of the public on equal terms and on condition that they may not be detrimental to their interest. Post Office is always a government department.

Transport by Roads.

In contrast with the railway, road transport practically costs nothing for the use of the road which is generally constructed at the cost of the government. Even the maintenance charge is not always paid by its users. So there is very little to be spent by those who transport goods by it on account of the capital invested on its construction. The maintenance charges of roads in India are met by the authorities concerned, namely, the Public Works Department, the Local Boards, the Municipalities and sometimes

the Military Departments, which constructed them. The public had to pay little or nothing for their use, except a small tax to the Government known as Public Works Cess on the land revenue and some other indirect taxes and sometimes a small toll to the Local Bodies. Direct taxes, however, are now being imposed in some cases on vehicles using the roads, and this tax is pretty high in the case of motor vehicles. Still the users of these roads have certain advantages over the users of some other ways of transport.

Advantages and Disadvantages of Road Transport.

The following are the special advantages enjoyed by road transport :—

(a) Unlike the railway companies the road transport companies have not to incur a heavy expenditure for maintenance of their track.

(b) Transport by road may sometimes be speedier, as the vehicles of transport companies need not generally run to scheduled time.

(c) There is convenience of handling of and less chance of damage to goods in road transport, as it carries them to their destination mostly without breaking journey and consequent reloading.

(d) As the roads have penetrated the interior of the countries, such transport can pick up and carry the goods almost everywhere.

(e) The road transporters are not "common carriers" within the meaning of the law and so they can choose their goods.

(f) Their vehicles being self-contained, they are not required to wait for very big consignments before beginning a journey.

(g) As they do not require large consignments, they have less difficulty in obtaining return loads,

The following are its disadvantages :—

(a) It is less reliable for possibility of breakdown, which is frequent.

(b) Inconvenience owing to uncertainty about time, for it cannot generally run to scheduled time.

(c) More men and more power per unit of load are necessary in road transport than in railway transport.

Forms of Road Transport.

Motor lorry is the most important vehicle now used for road transport. There are companies owning a fleet of these vehicles for the use of the public and there are traders or manufacturers owning only one or more for their own use. Sometimes a combine of several carrier companies is found to exist to serve a particular locality.

Carts, mules, horses and road carriers of other forms still exist in many places, specially in those places which are not sufficiently developed for different reasons to use motor vans. But this old form of transport is giving place to motor transport almost in every place where there is a proper road for the use of a motor vehicle.

During the previous War the railways were congested with traffic of goods for military purposes and this gave an impetus to motor transport by roads. The general improve- of roads, the labour disputes dislocating the working of the railways, the sale of a number of army lorries after the war at a very cheap price and a general reduction in the price of petrol and tyres, all contributed to the improvement and prominence of this form of transport. It appears from an examination of all the facts in this connection, in spite of the temporary setback due to petrol restriction, that the future of road transport by motor vehicles is almost assured.

The following are classes of carriers by motor vehicles :—

(a) Local carriers who act as connecting links between the villages and the adjacent town.
(b) Railway carriers who act as forwarding agents to the several railway companies.
(c) Special carriers who only act for some particular special trades, such as wheat trade, sugar trade, etc.

(d) General or jobbing carriers who act for any body and carry any class of goods. They are generally men without a big finance to back them and own one or two lorries each.

Transport by Railways—its Advantages.

Railway transport is the most important form of land transport. As already mentioned the railway has to construct its own line requiring a heavy outlay and to maintain it at a great annual expenditure. In spite of this its charges for conveyance of goods and passengers are comparatively low, they being regulated by the State in almost all cases, in consideration of certain concessions of a monopolistic nature granted to them by the governments. Besides, as these companies render services of public utility, they must conform to certain principles in fixing their rates of charges for conveying passengers and different classes of goods. They can therefore legitimately charge an interest at a moderate rate on their capital and make a liberal provision for depreciation. There is a Railway Rates Tribunal in India to hear complaints of persons prejudically affected by the rates fixed by the railway authorities, and to make necessary recommendations in this respect.

The following may be considered to be the special advantages of transport by railways :—

(a) The service of the railway is more regular than that of other forms of transport.

(b) The speed of the railway is always uniform and satisfactory.

(c) The service of the railway is comparatively cheap.

(d) It can transport goods in huge quantities and passengers in large numbers.

(e) It is probably the safest mode of transport.

Besides, its superiority in long distance haulage can not be denied in any circumstances.

Forwarding Goods by Railways.

Any one wishing to transport goods by railways is to fill up a consignment note, as it is called, in which the following information are to be given :—

(a) Names and addresses of the consignor and the consignee.
(b) Description of the goods with particulars.
(c) The mark and weight of the goods with the name of the station to which they are to be sent.
(d) Whether the goods are to be despatched at the risk of the owner or the railway.
(e) Whether the freight is to be paid by the consignor or the consignee.

A form of consignment note is given here which will show at a glance what it is.

The railway company is not responsible for damage, mis-delivery, delay or detention of the goods when forwarded at the risk of the owner unless such damage, etc., are proved to be due to the misconduct of the servants of the railway company.

The main railway systems in India are The East Indian Railway, The Bengal & Assam Railway, The Great Indian Peninsula Railway, The North Western Railway, and others almost all of which now belong to the Government. There are small lines also owned by Companies, Indian States, and Local Bodies. There is a Railway Board exercising control over railway management in India under the supreme Government. A Railway Rates Advisory Committee has also been established to which complaints regarding rates charged by railways are referred for enquiry. The competition of motor services in the interior with the Railway systems is now engaging the attention of the authorities, for a portion of the traffic of the latter has now diverted to the former.

Transports by Canals and Rivers—Their Advantages and Disadvantages.

Both canals and rivers are inland waterways. Sea canals like the Suez canal, and great lakes are not inland

waterways and they are navigated by ocean-going ships; their transport problems are different from those of transport by inland waterways.

The advantages of transport by inland waterways are :—

(a) If there is no prohibitive toll, the transport of goods by canals or rivers is cheaper than by railways.

(b) The capacity for traffic by canals and rivers is much more than that of the railways, the lines of which are liable sometimes to be congested.

(c) It is convenient for the consignor and the consignee in canal and river transport to load and unload their goods on their own wharves and to put them directly on the barges.

But there are certain disadvantages also in canal and river transports. They are :—

(a) The traffic is generally slow.

(b) Big vessels cannot be used in such transport on account of the shallowness of water in the canal or the river and the vessels cannot pass the locks unless they are small.

(c) The canals and rivers are not navigable throughout the whole year and in the hilly areas they are scarcely suitable for navigation by steamer or motor boats.

Steam boats, motor boats, barges and country boats are ordinarily the means of transport by inland waterways.

Canals frequently relieve congestion of traffic on the railways. They are also useful in carrying bulky articles like coal, timber, salt, etc. Canals are more useful specially in this country, from another point of view, for they serve the purpose of irrigation to which their construction in India is mainly due. The Ganges Canal, the Eden Canal and some other artificial waterways in the Punjab and Madras are the main canals in India. There are many mighty rivers in India, too many to be named here.

Tolls and Rates and Inland Waterways.

Tolls are levied at a rate fixed according to the class of goods transported by the inland waterways. Maximum rates are fixed for different classes of goods. They are generally based on the principle of "charging what the traffic will bear." The policy of the authorities in respect of this charge is practically the same as is followed by the railways, though the "tapering" of rate is quicker in the case of canals, that is, while the railway charges an uniform specified rate after charging a progressively higher rate up to a certain distance, this "certain distance" is made shorter in the case of the canal which charges at the uniform specified rate after this distance. For example, if a railway will charge a progressively higher rate, say, up to first 100 miles and then reduce the charge to a uniform specified rate, the canal will generally make this reduction after the first 30 miles.

Transport by Sea.

In the modern commercial world, transport of goods by ships on the high sea has assumed such a gigantic proportion that this system of transport has excelled even the system of railway transport, in bulk and importance. The old sailing vessels have now practically been superseded by steam boats which are carrying the merchandise of the world from port to port at a cost which is always lower than what is charged by the other classes of transporters.

Sailing ships, however, are not still extinct and they are proving their utility by carrying bulky goods like wheat, paddy, timber, etc., as in spite of the delay and risk involved in transport by them, the merchants find them cheaper in comparison with the modern great liners.

Liners and Tramps.

Ocean-going ships, other than the sailing ships, may be divided into two classes :

(a) The liners.

(b) The tramps.

The former follow defined routes and have fixed places and times of call. They must make the journey according to the time-table, no matter if they get full cargo or not ; but the latter do not follow any regular routes or fixed times, but go to any place at any time to receive cargo. The former are generally mail and passenger steamers carrying not much of cargo, while the latter are essentially cargo steamers. Another class of steamships is now coming into prominence. They are the large cargo liners. They are ocean-going vessels mainly intended for cargo, but having at the same time some accommodation for passengers. They have generally fixed routes and pre-arranged ports of call.

Their Respective Freights.

The liners belong to the very big companies and are in fleets, while the tramps are generally in units of single ship, owned by companies or individuals not commanding a capital of the dimension of that of the former. As the liners would ordinarily carry cargo received at the fixed time of their departure with their passengers and the tramp would not sail without a "full and complete cargo," the former control the rates for small consignments and the latter rates for bulky traffic. In chartering a tramp the charterer should be ready with its full cargo or to pay the "dead freight," that is, to pay for the capacity of the vessel over and above what he has actually filled by his cargo. As the tramps are owned by a large number of persons generally in units of one, competition for freight is very keen and necessarily rate cutting is frequent amongst them. There is also competition between the liners and the tramps, and many owners of liners have formed themselves into Holding Companies to meet this competition. The liners frequently make contracts beforehand for freight but the tramps do not, and while the rates of the liners are always fixed for the time being, those of the tramps are determined by bargaining in individual cases. No agreement amongst the owners of the tramps about rates of freight is therefore practicable.

Systems Followed by Liners Respecting Freight.

Conference System.—In order to protect themselves from unhealthy competition amongst themselves and with the tramp owners, the owners of the liners formed associations to protect their interests. They arranged their first conference in 1875 and evolved a system called the Conference system by which all the owners of liners bound themselves to charge equal rates for each of the ports from which their steamers sailed and not to allow any preferential rate to any one.

Deferred Rebate System.—This, however, could not protect them from the competition of the tramps, and soon after, they introduced the system of Deferred Rebate by which a rebate was allowed to those merchants who despatched goods by one line only for a fixed period. This system became very popular at first. But the present century has seen legislation against it by many countries specially by some British Dominions and the United States, as they considered this system of rebate to be a partial monopoly.

Agreement System.—Hence another system—called the Agreement system—is now finding favour with the shipping companies. Under this system a contract is made between the shippers and the shipping company by which the former bind themselves to give all their traffic to the shipping company in consideration of its maintaining regular services, providing sufficient tonnage for normal trade requirements, and maintaining stable rates for the traffic. Unlike the rebate system, only the nett freight payable by the shippers in this system and no money is accumulated with the shipping company. The system has this advantage over the rebate system that while ensuring their entire support to the company the shippers remain certain that the company will carry out its obligations about service and rates, which were only implied in the case of the rebate system. A Committee which sat in England to investigate into the rebate system in 1921 advised in 1923 that merchants should have the option to use either the rebate system or the

agreement system in making their carrying arrangements with shipping companies. Both the systems are therefore found in these contracts in England.

Policy Followed in Fixing Rates of Freight.

The main feature in the scale of rates of freight in ocean transport is that while the liner quotes a scheduled rate, the tramp fixes a rate on competitive basis as a result of bargaining between its owner and the shipper. The rates charged by the liner must contain an extra for compensation of the loss involved in maintaining a regular service without any consideration of the volume of traffic available for the time, while the tramp has no such obligation and is therefore free to quote on a competitive basis. The rates of freight in outward journey are fixed in this way. In return journey, however, the rates are often a matter of agreement between the parties concerned. In fixing rates the schedule is formed according to the class and value of goods to be carried—the rates for goods of higher value being higher than those for goods of smaller value.

Regulations about Shipping.

The total capacity of a vessel, that is, the amount of cargo it can be permitted to carry, and the port and canal dues payable by her are determined by her measurement. The capacity is registered in terms of tons, the covered space in her being taken at the rate of 100 cubic feet per ton.

A load line is marked on the ship indicating the maximum depth to which it can be allowed to sink in the water by the weight of the cargoes, etc. This is called the *plimsoll* mark. There are always more than one line for the purpose, as the immersion is not the same in all the seas, the saline contents of which cause variation in this respect.

Control of Sea Transport.

There is government control in sea transport, as in the case of railway transport, and provision is always made by the laws of various countries about—

(a) control of pilotage,
(b) regulations of institution of ships' wireless equipment,
(c) regulations for the saving of life and preventing of collisions at sea,
(d) issue of certificates of seaworthiness to ships,
(e) enquiries into shipping casualties and other matters respecting safety of life and property on the sea, and about similar matters.

Transport by Air.

In comparison with the transport by other means, transport by air is insignificant, though this new method of transport is now growing in importance. The time has not yet come when goods in bulk can be transported by air, but mails and passengers with their luggage are now freely taken from one place to another by aeroplanes and air ships.

Transport by air does not require a constructed road or line like the transport by road or railway, and except aerodromes and air masts to give the machines specialised accommodation and facilities for departure and arrival, nothing in the way of permanent way is necessary for it. It can always use the shortest route and is not required to traverse any but the "crow line" distance. This form of transport, besides, exceeds all other forms in speed and hence is the quickest means to travel effecting great economy in time.

The capital expenditure and the maintenance charge of air transport are however considerable, and hence this form of transport is very costly. Besides, the system has not yet attained the standard of efficiency at par with many other forms of *transport*. It is still in its infancy and is more risky than the railway or the sea transport. Besides, it cannot handle bulky traffic and its rates of freight are necessarily very high. This form of transport is now growing in importance in this country and big towns are being connected by air routes giving facilities for swift

transport of passengers, mails and packages between these towns.

Transport by Post.

Besides letters, money orders, etc., the postal service carries goods of almost all descriptions, which are not bulky, to almost every part of the world where there is a post office. By its parcel post arrangement a huge amount of inland and foreign trade is carried on at present under Mail Order system in all the advanced countries.

When rapid transmission of small packages is required, parcel post may very efficiently be used. A despatch by a registered parcel in conformity with the postal regulations is probably the safest mode of transport, and if the parcel is insured then the post office remains liable for any loss or damage that may occur in the course of its passage to the destination. The post office is specially safe and convenient for sending securities, bullions and other valuable articles.

Post Office vrs. Railway.

While the railway can not deliver goods except at the limited number of places where it has stations and agencies in the country, the post office can deliver them in numerous places throughout the whole world, as the number of post offices is innumerably larger than railway stations.

Though the railway gives quicker service, there is inconvenience in receiving parcels at its stations or outstation booking offices, by production of the receipt which is sent by post. There is no such inconvenience in receiving parcels by post.

But there is one special advantage in the case of railways. Their charge for parcels of comparatively big sizes is less than that made by the post offices.

QUESTIONS BEARING ON CHAPTER XXIII.

1. What was the condition of transport in olden days? What was the system in vogue then for the merchants to secure transport?

2. What are the effects of improved methods of transport on the modern factory system?

3. Give a history of development of transport in India.

4. Describe the rise and progress of mechanical transport in India.

5. How have the difficulties been removed in the transport of crude oils and perishable goods?

6. What are the main forms of transport at present and what are their special characteristics?

7. Mention the advantages and disadvantages of road transport. What are its main forms?

8. What are the several classes of carriers by motor vehicles?

9. Railway is the best form of transport. Why?

10. Mention the advantages and disadvantages of railway transport.

11. What are the advantages of transport by inland waterways?

12. What is the policy followed in fixing the charges for transport by inland waterways? What do you understand by tapering system?

13. Describe the importance of transport by sea.

14. What is the policy followed by the liners and the tramp ships respectively in fixing their rates of freight?

15. In what matters is the sea transport controlled by the various governments.

16. Describe the Conference system, the Deferred Rebate system and the Agreement system.

17. What are the advantages and disadvantages in transport by air?

18. What are the special features of transport by Post?

19. Compare the system of transport by Post with the system of transport by Railway.

20. A modern country enjoys three main kinds of transport, viz., by road, rail and water. Outline the chief economic characteristics of each, grouping your reply around three main points, viz., nature of ownership, control and methods of operation.

CHAPTER XXIV.

BANKS AND SUPPLY OF CAPITAL.

BEFORE the modern joint stock banking came, there were (1) private bankers or firms that were predecessors of the modern merchant banking; (2) special institutions which were prototypes of modern central banks; (3) old country banks with rights of note issue; and (4) giro banks e.g. of Amsterdam, to facilitate commercial transactions in an age of great currency disorganisation. It may be said that the origin of the modern banking can be traced to the goldsmiths' having the receipts for deposits with them pass from hand to hand without actual transfer of money. Sometimes depositors would order payments on the goldsmith for payment, and these orders would become negotiable. There is in existence a specimen of such order in England dated August 1 st., 1675 among the London records. It was a many sided growth in response to the commercial developments on the one hand and state requirements of funds on the other. But the modern joint stock commercial banking came only in the middle of the 19th century.

There were at the beginning private banks or bankers, and incorporated banks or chartered banks. Some of these chartered banks again came to receive special privileges as lenders to the state and became leading banks. Again, as banking developed and the theory of banking advanced, special legislation created special banking institutions that were so privileged as to become leading banks. By far the largest number of banks have been commercial banks, that is, are engaged in financing trade and commerce. And so the leading banks are in most instances concerned with commerce, though they seek here and there to embrace other kinds of economic activities and special organisations. In all countries the existing banking systems have developed in their own ways,

and so no two systems are similar though each system carries on banking and may look similar and even in some parts of their respective organisations almost identical. The organisation of the banking system in a country is something as follows:—

A. The Central Bank or Reserve Bank.
B. Regulated Banks (commercial).
C. Non-Regulated Banks (commercial).
D. Banks constituted by special legislation for special purposes e.g. Savings Banks, Trust banks, Co-operative and Agricultural Banks.

Of these (A) and (B) are often directly connected with the State or the Government of the country. Among (B) and (C) may be joint stock banks of limited liability and also private partnerships of unlimited or limited liability. The modern trend in banking legislation is to extend and include all the bankers or banks in the system, so that there would be non-regulated banking in the country.

A. THE CENTRAL OR THE RESERVE BANK.

(1) The Bank of England.

The example *par excellence* of a private joint stock bank (chartered specially) becoming a central or Reserve Bank is the *Bank of England* which once helped to make London the money market of the world, and still maintains in London a money market for a large portion of the world, e.g. the sterling area. The bank was started in July 1694 when a certain group of persons were permitted by the state to raise funds by selling stocks so that they could lend the Government £ 1,200000. The party was authorised from time to time, on the renewals of its charter for banking, to add to its capital stock and in 1709 it was given the joint stock status, and had a capital of over 5 million £'s. In 1721-3 it was again permitted to add 3 millions to its stocks when it undertook a portion of the liabilities of the South Sea Company. It, however, started lending to the public only in 1746, and at that date also its assets

exceeded its liabilities, for the first time. The rate of interest on its loans fell to 3 p.c. from 5 p.c., though its original rate in 1694 was 8 p.c. It had begun discounting bills and could from the outset issue notes to the extent of 25% of its paid up capital. In the last quarter of the 18th century Adam Smith wrote of the Bank. "No other company of England can be established by an Act of Parliament or can consist of more than six members... The Bank acts not only as an ordinary bank but also as a great engine of the State".

These were the special privileges, privileges of monopoly, which the Bank enjoyed. But the Bank had also to face troubles that would have blown over a less privileged bank. In 1797 it had to stop payment because its gold reserves with which it could reduce its notes were drained out. The Government wanted the gold and got it by exchange of its own bonds, and that helped to create inflation. The notes of the bank fell in value in terms of gold very rapidly. Then convertibility was abrogated by law, for 22 years. The inflationary position became worse by 1807 and a committee was set up —the Bullion Committee. They recommended resumption of payment as the only remedy to inflation. Yet resumption of payment was not possible until 1819. In the meantime the country banks had gained some gold that the government spent and had also the government bonds against which they issued notes. These notes begun to flood London, and so after 1819 the Bank had to face competition; for notes in those days meant what increased deposits mean now, a source of profits; and naturally the Bank was embarrassed. But there were free trade banking enthusiasts who disliked all kinds of monopolies. What the Bank could manage to get was the prohibition that no banks within 65 miles of London could issue notes. That was simply a way of permitting other banks to multiply and expand. The Bank again complained, and in 1833 it was enacted that the notes issued by the Bank were the legal tender of the country, though other banks, now raised to

joint stock concerns, continued to issue notes and be formed with more than six members.* This Act indirectly indicated the lines of future development of the Bank of England, and other commercial banks of England, and by the Bank of England Act of 1844, the status of the Bank in the system was still more sharply defined when it came to be the guardian of the gold reserves of the country and became practically the leading note-issuing bank. The Act contained a clause relating to the note-issue by other banks that permitted the Bank to assume two thirds of the note issue that might be allowed to lapse by any of the existing banks. As the cheque system grew, the other banks did not care to issue notes, and so it was that the fiduciary issue (that is, note issue not covered by gold) fixed for the Bank of England at £ 14 millions by the Act was enlarged by 1921 to over £ 19 millions simply by the assumption of lapsed rights of issue allowed by the law.

The Act of 1844 tied the total note issue of the country to the gold reserves maintained by the Bank of England. To save this appeared to be restrictive. In an age of expansion, the severe limitation might prove embarrassing. But it caused some good also to the general banking system. They could use cheques widely and started branch banking which they could not possibly do at a time with note issue that had to be fully covered with gold. It was the last half of the 19th century that saw the enormous growth or movement to the growth of branch banking in England.

The supporters of the Act contended that restricted note currency and sharp regulation were first steps to sound banking that had to maintain convertibility. The Bank's rates for buying and selling gold, were fixed. It was obliged to publish its accounts every succeeding week; and in order to show its issue, it had to publish the state-

* The first joint stock bank came in 1833 and it was London and Westminister Bank.

ment of the issue department separately. It could otherwise keep all other facts unpublished, though it carried some discounting business, and lending to the public, as well as managing the public debt and financing the government as in the past. No other statements were required of it. None the less its inelastic note issue compelled it to face some very tight situations in 1847 and 1866 and 1890, only some relaxation of the law on the fiduciary issue helped it to tide over in 1866 and 1890. The Bank also had no easy undertaking to water over the gold reserves. But it must be admitted that it, along with the other joint stock banks, made London the money market of the world. This was the only market that could always meet obligations in gold on demand. Bills on London were as good as gold bullion, and so they fulfilled the functions of international currencies. Even countries that had no connection with London would accept bills on London. There were always a mass of bills to pay, and the Bank had to arrange gold supplies to ensure prompt liquidation of the same. Naturally the Bank's concern with the gold reserves was great at all times, and yet it is surprising that the Bank managed all this with a relatively a very much small quantity of gold reserves.

The management of the Bank, as originally laid down by law, was vested in twenty four directors, and a governor and a deputy governor. These last two were to function for 2 years at a time. But this last condition has not been fulfilled; and it is considered necessary that the governor at least must hold office for longer terms so that there may be continuation of policy. Stock holders are to meet four times a year. But these meetings are only formal. The Bank has 2 branches in London and 8 branches in the provincial towns.

The working of the Act of 1844 went on until 1914. Then came the first World War, and created a revolution in the banking system so strictly defined. With the help of the Government the Bank had to keep the discount market and the Stock Exchange open, though a brief spell

of moratia had to be declared at first and all short term loans had to be recalled.* There was an unprecedented call for additional currency by banks aiso. The Treasury issued £.1 10sh. notes, obviously redeemable, but not actually so, —through the Bank to meet the new demands. But the Bank had to render assistance in a very big way in order to open the money market and keep it going during the whole war period. It had to discount bills to the extent of £.120 millions; to make advances to acceptors to the extent of £.60 millions; and it lent £.520,000 to the Stock Exchange to enable it to carry on when the Exchange reopened on 15th September, 1914, under stringent Treasury regulations. The banks received new Treasury issues up to 20% of their liabilities; while the Bank issued certificates instead of notes to the Scottish and Wales banks.

The war period experiences caused great changes in the Bank of England's currency policy and organisation. It was found that the gold standard could be maintained without internal convertibility of notes into gold coins, the gold in the Reserves could be held only as the last resource; and the ordinary currency of paper required only securities and bills. It was further found that the exchange value of £ sterling could be maintained artificially—and it had been so maintained. Again, it was also possible to economise the gold-holdings with the help of balances of foreign currencies held abroad. So when the war was over, and a return to gold was considered advisable, the new monetary system was in many respects quite different from the old. But the restoration of the gold in 1926 took place without much thought given to the changed context of the world trade and distribution of gold, with its tendency to stick to where it lay. The valuation of the £ sterling at the pre-war rate was simply to overvalue the £ sterling in terms of foreign currencies that mattered largely. The result of

* The raising of the discount rate from 3 per cent. to 10 per cent. (August 1, 1934), only added to the difficulties of bill brokers. But the cessation of outside trade serve resulted in the exhauseion of sterling bills.

this was a deflation and unemployment, and a growing volume of opposition by experts of the new deflationary policy. This gloomy view was not altered even when the Bank took over the Treasury issues in 1928 under a new Act and was allowed fiduciary issue of £ 260 millions. The revival of the London as the world market even on a reduced scale now on account of the rival growth in New York, put a tremendous strain on the Bank's gold resources. There were foreign loans to finance, and on the top of it payments of war time debts and debt services, together with a fast falling volume of external trade. The consequence of all this was that the Bank could not stand the pressure, and England went off gold again in 1931.

But going off gold was not a relief, as some are inclined to think. For with the abandonment of the gold standard the Bank was not relieved of its burden of maintaining London as a money market for the world. To abandon that undertaking would have meant a complete disaster for the Bank and England. The Bank had to maintain the money market open to all foreign trade, and at the same time to meet the internal demands for more employment and more production, what it did with the aid of the Treasury was to have a new Exchange Equalisation Fund set up to maintain steady exchange values of the £ sterling, and to make a new departure in commercial banking, namely, start with a newly formed organisation, the work of 'long term investment' through a Finance Corporation. This last was done with the help of the other banks who held or purchased shares in the corporation. Yet the task was not at all easy,—and it is certainly creditable to the bank that through all the stormy years of 1931-1936 it maintained the exchange values of the £ sterling steady, and that it helped to finance with long term loans of some of the key industries while it could keep up trade between the sterling bloc on the one hand, and the dollar and the gold bloc on the other. All this required the Bank to have a very much flexible or elastic system; and it certainly recovered a good deal of ground, by 1938. But then the poli-

tical situation in Europe created a panic and a flight of capital from Europe to America; and that made a severe strain on the Bank. It had to abandon its respect for the fiduciary restrictions and also its obligation to buy and sell gold at fixed rates.* The gold it held was mostly placed at the disposal of the Treasury and it managed with that to maintain the cross rate stable during the war.

The first world war brought the Bank of England into close co-operation with the government; and though it tried to get free after 1928, it had again to maintain contact after 1931 when the gold standard was finally abandoned (in the old fashion). The exchange control required not only Treasury co-operation in England; but also co-operation by the Dominions and colonies, and friendly countries on the sterling bloc. The Bank became, in spite of its reluctance, a state-associated or controlled lender of the last resort 'and' manager of the foreign exchanges as also the manager of the gold resources of the country. It was not very much distant from a state controlled central bank, unable to resist the new principles of central banking. There was no longer any free trade, and it was not possible to maintain the London money market in the way the Bank had done in the past. So when the new Labour Government at the end of the war proposed Nationalisation, the Bank was not reluctant to merge its separate existence in a state institution. It had already become a part of the state in many respects as a result of the two world Wars and the Great Depression of 1929-38. Accordingly Nationalisation meant only a tranfer of the capital stocks held, and nothing else of any importance. It does not seem that any other change has been made as a result.

The Bank's weekly statements still read as follows:—

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* The British Currency and Bank Notes Act, of 1939.

ISSUE DEPARTMENT.

Liabilities:	*Assets.*
Notes issued:	Government Debt. .....
1. In circulation	Other Government Securities. .....
2. In Banking Dept.	Other Securities.....
	Silver Coins.....
	Amount of Fiduciary Issue.....
	Gold coin and Bullion.....
	@ 168 s per fine ounce.....
Total Liabilities	Total Assets.....

BANKING DEPARTMENT.

Liabilities:	*Assets:*
Capital*	Government Securities.....
Rest	Other Securities.....
Public Deposits†.....	Discounts & Loans.....
Other Deposits	Securities .....
	Notes .....
	Coins .....
Total.....	Total.....

The statement is now vaguer than it ever was in the past.

The need for any elaborate change of the banking system seems to have been obviated by the nationalisation. But that has not been real; for, it shall be impossible to nationalise the Central Bank—which is not merely assumption by the State of the Central Bank,—without making essential changes in the entire system of banking. The methods and ideals worked by the British Comercial Banks cannot but be changed, if these are to hang together with the nationalised Central Bank. Too often nationalisation is confused with assumption of the private capital by the state—and this is naturally the beginning of larger confusion.

It is true that the Bank of England was not a perfect organisation; as a lender of the British Banking system it was probably too much preoccupied with London as the

* Before nationalisation this item was written "Proprietors' Capital."

† Includes Government Savings, Treasury Funds, and Administration of National Debt and Dividend Accounts.

world's money market. It could not probably adapt itself very fittingly to the changed world conditions after the first war. It is doubtful if it could keep London as the world's money market after the second world war. The resources of the United Kingdom had been considerably destroyed by the war of 1939-45. In view of this change—a very deep and far-reaching change for the country—it is probably best that the state undertakes to recreate and reconstruct.

Nationalisation of the Bank of England.

In the autumn session of 1945 a Bank Bill was introduced in the Parliament and it was passed into an Act in February 1946. The Act provided—

(1) That the State would assume the Bank of England.

(2) That the Charter of the Bank itself may be revoked, subject to the acceptance by the new Court of Directors of the Bank, and renewed in an amended form by the crown;

(3) That the Proprietors will receive for every £ 100 of stock an allotment of £400 of a 3 per cent. Government stock redeemable at par, at the option of the Government in 1966 or after.

(4) That a Governor, a Deputy Governor and sixteen Directors forming a Court of Directors will be appointed by the Crown; the term of office of the first two will be four years, and that for every Director shall be five years. The appointed persons cannot be removed ordinarily before the expiry of the terms.

(5) The ordinary business of the Bank shall be conducted by the Court of Directors not more than four of whom are to be full time servants of the Bank at any time;

(6) None of the Office holders (and Directors) shall be aliens, members of the House of Commons or persons disqualified by the Banks charter;

(7) The Treasury may give to the Bank such directions as they think necessary in public interest, but may

only do so after consultation with the Governor, and the Bank may make recommendations to bankers and request information from them and if the Bank is so authorised, issue directions to any banker for the purpose of securing that effect is given to any such recommendations (provided that no such request or recommendation shall be made with respect to the affairs of any particular customer of a banker).

The simplicity of the provisions is, however, deceptive. The last-mentioned provision, which has been known as clause 4 of the Act raised a substantial amount of controversy and opposition. However, it may be worth while to examine the whole situation. So far as giving effect to the Act is concerned, only the assumption of the Assets and Liabilities, and the appointment of the Governor, Deputy Governor and the court has taken place. There has as yet been no issue of a 3 per cent. stock to indemnify the proprietors. It has already been remarked that the two world wars brought the Bank into very close relation with the Treasury, and so the Bank was for all practical purposes, a Bank of the State. The position was accepted by the Bank as well as by the entire banking system. So the transfer seems to be only a formal and legal recognition of what has been already a fact.

The valuation of the Proprietor's capital presented no difficulty in this instance, as the capitalisation of the revenues derived by the Bank's proprietors at current market rates has provided that. For twenty two years the Bank has been paying 12 p.c. on the stocks steadily. The capital value of the stock to be issued in payment or in exchange for the stock of the bank is, on market valuations, also equal to the value put by the bank on the stock. So the share holders will not suffer any losses, but they will get no benefit from the Bank's undisclosed reserves and profits, which would continue to accrue to the Bank, since its liability to the Treasury for dividends is to be limited, unless contrary is agreed, to the amount which will now be needed to pay interest on the Government stock.

There is none between the Treasury and the bankers except the Governor. If political pressures increase, the money market cannot be managed by the Governor himself. However, that is merely a minor point.

The controversy over clause 4(3) where by the Bank may at the instance of the Treasury request information and issue Directions to other banks is, of course, a protest that should not be there, once the principle of nationalisation is accepted. No process of nationalisation can stop simply at assumption of capital. Of course there are no penalty clauses for any bank's non-conformity with the directions or requests. Evidently the sanction of the Bank's disapproval is expected to be as potent as ever.

For a long time the demand for nationalisation of the whole system was going on, and the grounds of the demand were (1) that the Banking system, including the Bank of England was controlled in the interest of the private proprietors or share holders, and (2) that it operated only on a profit motive which restricted the supply of money and credit to only short term lending of self liquidating loans, or to only big capital, while the necessary economic developments of a broader social nature, were neglected or ignored. This criticism may not an all correct; but that the banking system is not adapted to a socialistic economy cannot be denied. If so, the nationalisation may not stop only with the Bank of England.

Besides, the Treasury retains through the Bank's Exchange Equalisation Account the right of controlling exchange rates. The new Exchange control Act of 1946 accepts the frame work of the recommendations of the Bretton Woods Conference and the rules of the Monetary Fund with a nominal acceptance of the cross rate fixed at £1= 4.03 dollars, which is the par value equation the 1934 dollars being taken into reckoning, the Account would seek to maintain that rate. So all the war time restrictions go on—so far as movement of capital and gold is concerned. All dealings in gold and foreign currencies shall be made as during the war period, with the authorised dealers. And the

dealers shall sell and buy gold and exchanges to the equalisation account. Some think that imparts an unnecessary rigidity to the structure of exchange rates; particularly to the range between buying and selling prices. The range in official rates is wider than is excusable in a well-organised market. The result has been loss of business to the London Exchange market. Again, no payments to persons outside the sterling area (now called the Scheduled Territories) shall be made without permission. Thirdly, a rigid control over foreign bearer securities will be there as during the war. So the most important part of the financial transactions of the country is controlled together with the general trade. In such conditions, the banking system, holding in heavy bulks Government securities, and Treasury Deposit Receipts, may not be as free in their operations as they or the critics of the nationalisation think.

Of course, the Treasury or the Bank has not moved much beyond the passing of the law. The interest rate is still a prime mover in the supply of funds, and the supply of Treasury Bills or of Treasury Deposit Receipts still a factor of importance for the availibility of short term funds for business. The cheap money policy is not now so devotedly or doctrinairely adhered to; but it is still there—along with other special credit supply arrangements made by the Government for export industries and export trade. It is not possible that in these conditions there cannot be but a complex system—the full effects of the operations of which cannot be measured or even guessed at present. However, so long as the rate of interest remains as a prime mover in the system, the banking system would adapt itself to the Governmental policies, but otherwise the engaged funds of the system would be much compromised.

(2) The Federal Reserve Banks of the United States.

The banking history of the U.S.A. is obscure and complicated. There are various types of banks—all of distinct weights and significances, and functions. Before 1860 there were in all the states private banks and state-

incorporated banks (joint stock), the latter authorised to issue notes, while the former issued notes without authorisation. This applied to the first formal beginnings of the modern commercial banking. The Federal Government first created a Chartered Bank in 1791, and another in 1816, but these came to grief owing to adverse political pressures instigated by the banks without authorisation for note issue. It was not before 1864 that the Federal Government started creating National Banks under a very strict legal provision so far as note issues by these were concerned, though no attention was paid to " discounting " and dealing in securities. The notes were to be issued against Government bonds. The Banks were required to have fixed subscribed and paid up capital. The relevant provisions governing the formation of the Banks were not encouraging at first, and so a large number of amendments followed in the course of time to enable the system of National Banks to increase and grow with aid of new privileges or powers.

But for all that was done, the system could not bear the pressures of business and economic fluctuations very smoothly. There were seasonal as well as cyclic variations and neither could be managed smoothly. This was mostly due to the fact that the country banks sent surplus funds into city banks on loan, and these were employed mostly in the speculative markets from which they could not be disengaged without causing a very big upset, particularly when the autumn demand was strong in the country. Such disengagement caused either liquidation of the City Banks' assets at a loss, or borrowing at high rates of interest or stopping payments. Stop payments occurred in 1893 and 1907. The critics of the system remarked that the inelasticity of the note issue was contributory cause, and neither Treasury Aid nor Clearing House Certificates helped much, though each kind of relief might do assist temporary tiding over. That the strict provisions governing note issue were restrictive cannot be doubted; particularly as available bonds were sold at a high premium while notes

could be issued up to only 90% of the per values of the bonds. This might cause such a condition that a bank wanting to buy bonds as cover for its additional note issue would lose more cash than it would receive in notes, to meet the increased currency demands. But the real cause of inelasticity was the temptation of the city banks to earn profits in the speculative markets.

The 1907 shortage of cash was so great that special currency supply provisions had to be enacted in the Act of 1908.* The same act provided for a National Currency Commission to investigate the banking conditions and make suitable recommendations. The commission recommended a Cental Bank with 15 branches, all owned by member banks. In 1913 the Federal Reserve Act was passed by the Congress, but it provided instead of one Central Bank with fifteen branches, a regional set up of " not less than eight and not more than twelve reserve banks', with a Federal Reserve Board with general supervisory powers. Actually twelve districts were also marked out each for a Reserve Bank, and with as fair an idea of distribution as possible, though later some branches of Reserve Banks had to be opened in certain areas.

The Reserve Bank of a district might be set up with a minimum capital of four million dollars, the capital stock being mostly subscribed by the national banks of the district on penalty of forfeiture of their charters.† Ae last 6 p.c.

* This emergency currency law provided for the voluntary organisation of incorporated national currency organisations. Not more than one might be organised in each city, and at least ten national banks, having an aggregate capital and reserve fund of 5 million dollars, were required to form one. If a member of such an association had already outstanding notes equal to 40 p. c. of its capital, it might deposit securities and commercial paper with the Association in trust for the United States, and the Association might receive from the comptroller an additional supply of notes to an amount not exceeding 75 p. c. of the cash value of the securities and papers (or 90 p. c. of these securities, if they were state or municipal bonds). The total of the emergency currency was fixed at 500 million dollars. A tax was to be levied on the issue to help retirement, and the longer the issue would be out, the higher the tax. By 1914, 45 of such associations were formed.

† If the members could not provide the required capital, the stock in the reserve bank could be sold to the public; and even if the capital was not fully

of the paid up capital and reserve fund of each national bank would be the amount of subscription to the capital stock of the bank*. This is how the national banks were forced to take interest in their own reserve bank, and there was a complete identity of interests. The note issuing power of the Reserve Bank was calculated to provide a final aid to the national (member banks) in times of stringency or to help these to meet the pressures of seasonal and cyclical variations of demands without any undue strain on their own resources or losses. The arrangement of a Reserve Banks' Assets and Liabilities is shown in the following statement of the Federal Reserve Bank of New York:—

Assets:	Liabilities:
Total Cash reserves:	Capital stock paid in surplus____
Bill discounted:	Other capital Accounts
Industrial Advances:	Notes in circulation_____
U.S. Government Securities:	Deposits.
	Member Bank Reserves.
Uncollected Items:	U. S.
Bank Premises:	Foreign Bank.
Other Assets:	Other Deposits_____
	Total Deposits_____
	Deferred Availability Items_____
	Other liabilities_____
Total Assets	Total Liabilities_____

The bulk of the Federal Reserve Bank's deposits are the balances by the member banks. Other deposits consist of clearing balances of non-member banks, deposits of the

subscribed, the stock could be sold to the government (U. S.) Only stock held by members would be voting qualification. However, the member banks in all cases made sale to the public or the Government unnecessary.

* If the capital and surplus of a bank were increased or decreased, its subscription to the reserve bank also be modified. One half of the subscription was to be paid in at once, and the other half was subject of all. The stock bears double liability.

United States Government and foreign bank deposits. These deposits, in so far as they are not results of lending operations, provide the single source of cash that the Reserve Banks possess.*

The law requires the federal reserve banks to maintain a reserve of lawful money equal to 35 p.c. of the total deposits, although under penalty of a graduated tax, the reserve ratio may be allowed to fall below 35 per cent., if the Board of Governors of the Federal Reserve System permit it. In addition to capital and assets the reserve banks have in the past increased their cash holdings by putting Federal reserve notes into circulation and retaining the lawful money displaced. The reserves of cash are always the source of additional credit expansion. As the profit motive is strictly limited for the Reserve Bank, and the member banks cannot receive more than 6 per cent. on the stocks, (the surplus being carried into the reserve funds up to certain limits and then paid over to the government; though under the Banking Act of 1933, the Reserve Banks contributed one half of their accumulated surpluses to the Federal Deposit Insurance Corporation). This limitation would stop the Reserve Banks from lending out for excess earnings, and allow them to hold always a very useful volume of unemployed reserves. The expenses of the Federal Reserve System are also limited, because the Banks do not pay any interest on the deposits in these banks.

The legal requirement of reserves against obligations are (a) 40 per cent. of the amount of notes in the form of gold certificates, and (b) 35 per cent. of the deposits in form of lawful money. To provide unlimited elasticity the Board of Governors (older Federal Reserves Board) can waive reserve requirements for limited periods. Usually, however the Reserve Banks carry as much in excess of their require-

* If the balances held by the member banks change, the cash holdings of the Reserve Bank would automatically change. This is specially true of the deposit variations arising from importation and exportation of gold. Imported gold or under the present system gold certificates due on the imports are put to the importing bank's credit with the Reserve Bank.

ments. Each Federal Reserve Bank can declare its own rediscounting rate, and can carry on open market operations,* and by either activity a Reserve Bank can alter the cash holdings of the member banks. Member banks can also borrow from the Reserve Bank on their own notes, or on the United States obligations, federal intermediate credit bank debentures, federal farm mortgage corporation bonds, and home owners, loan corporation bonds if guaranteed by the U. S. Government in regard of the principal and interest. Non-member banks were also given the privilege of borrowing at par on government obligations on September 1, 1939. In the difficult years of 1932 and 1933 provisions for emergency borrowing were also made,† with no eligible or adequate security loans, though for a short period only. Accordingly, the Reserve Bank system has explored all possible ways of supplying additional cash against securities that would not be altogether deadweight liabilities or assets in the hands of these banks.

Each federal reserve bank is directly under management of a board of nine directors. The directors are divided into A, B and C classes. Class A directors, three in number, are representatives of the member banks of the district and are bankers. Class B directors are businessmen, and chosen by member banks. The C class directors are appointed by the Board of Governors. The chief executive officer is the President, and there is also a vice president, appointed by the Board of Directors, for five years, subject to approval by the Board of Governors, who can require reserve banks to open branches within their respective districts, each branch to be managed by a board of directors of not more than seven nor less than three. The majority of one is appointed by the reserve bank and the rest by the Board of Governors. The President of the Federal Government appoints the seven members of the Board, with the approval by the senate. Not more than

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* S. 14 of the Federal Reserve Act.

† S. 10a and S. 10b. The provisions expired on March, 1935.

one member would be appointed from any one district. The appointments hold for 14 years and the terms are so arranged that one member would go out every two year and a new appointment would be made in his stead. The members are not eligible for reappointment nor can any member resign before the end of his term to accept any position in a member bank. One of them is appointed president and another vice-president.

The Board of Governors possess comprehensive powers of control over the reserve banks. They have powers of inspection and supervision. The Board is required to make an annual report to the Congress, and the Report, under the 1935 Act, must contain an account of the activities of the board and also of the Open Market Committee. This Open Market Committee is a body of twelve members seven of which are members of the Board of Governors. The other five are chosen by the reserve banks in such a manner that one represents the reserve bank of New York, second of the banks of Boston, Philadelphia, and Richmond; the third, the reserve banks of St. Louis, Atlanta, and Dallas; and the fifth, the reserve banks of Minneapolis, Kansas City, and San Francisco.

These representatives play an important part in the committee's decisions. The 1935 Act puts the Open Market Committee absolutely in control of the open market operations of the reserve banks, for banks must carry on operations in accordance with the directions of and regulations by the committee. The actions of the Committee are to be "governed with a view to accommodating committee and business, and with regard to their bearing on the general credit situation of the country".

The Board of Directors of the Federal Reserve Banks annually chooses one representative for membership on the Federal Advisory Council. This council meets in Washington, and four times a year or oftener. It can confer with the Board of Governors on general business conditions and to advise the Board on general matters of policy (Section 12 of the Federal Reserve Act). The Advisory Committee is

composed of experts and experienced persons, and so may be supposed to influence the Board's decisions on policy.

The federal reserve banks as a governing system is a complex system. The main idea of the system is to create a solvent and yet economic monetary system all over. All the national banks are included in it automatically, but the number of non-member banks, excluding the mutual savings banks is still very considerable.* A good deal of efforts were made to persuade the non-member state banks to enter the system, but the success was, as in the case of the national banks, doubtful. Section 19 of the Federal Reserve Act set down some attractive conditions for the state banks desiring to enter the system,—but all the provisions were objectionable to the state banks. (One can compare the relative position of the Indian indigenous banks with respect to the Reserve Bank). These original conditions were relaxed in June 21, 1917, as further inducement, e.g.

1. State banks and Trust Banks, on becoming members, might retain their full charter and statutory rights.

2. Reserve banks would rediscount for state member banks only the paper of borrowers who were in debt to the bank by an amount not exceeding 10 per cent. of the banks' capital and surplus (= reserve fund). This limit did not apply to bills of exchange and paper owned by borrowers and subsequently discounted by him at the bank.

3. State members to make at least three annual reports to Federal Reserve Banks and not to the comptroller of currency; the banks should not be subject to examination by the comptroller also.

4. State members might withdraw from membership after six month's written notice.

Subsequently more attractive conditions were laid down, and the Bank Act of 1933 introduced still further changes. But no state members have mostly chose to re-

* In 1939 the member banks numbered 6362, and non-member banks 5396 (on the par list) and 2717 non-member banks (not on the par list). But 80 p. c. of the monetary resources of the country are the command of the federal system.

main out of the system. And on a balancing of advantages and disadvantages, it would seem that the State Banks would not gain much by their membership.

That the Reserve Bank system has added considerable strength to the U. S. banking system cannot be doubted. It has built up a close unit organisation and yet it has left member banks a proper amount of freedom except where such freedom, pushed to excess, would endanger the entire money and credit system. The standard of the Reserve Bank's policy is space and time out money and credit to economic production and distribution, so that production and consumption are in equilibrium. This looks so simple, but is not at all simple. It might require checks on certain tendencies and stimulation of certain activities. For example, definite limitations are to be set on certain classes of loans, while other classes of loans or advances are to be encouraged. So far the Reserve Bank's policy has been to allow the economic and financial developments to take place first, and then judge which of these should be encouraged or controlled and restricted. The most common form of regulated loans is relative to the size of loans to be made to a single borrower by a bank.* Loans against security of its own stock by a bank are prohibited. Real Estate loans were encouraged by the Banking Act of 1935. Loans to the Exchange Markets are restricted by the Securities Exchange Act of 1937, Section 7; and so forth.† But it is not always possible to hold the entire system in hand at all times, particularly when the system is so much dispersed as the Federal Reserve Banks of the U.S.

So far as the total effects on the money markets are concerned, it must be admitted that the Federal holds the gold reserves and stocks for the U.S. and regulates its exports and imports in co-operation with the Treasury. The following is an account of its work done in order to raise New York to be the world's money market:

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* Sec. 5200, (National Banking Act), Revised Statutes.

† The Amendment of October 27, 1937, permits advances up to 50 per cent. of the market values of registered securities for purchase and carry over.

The position of the London banks was weakened during the First World War when American bankers acquired the right to accept bills and proceeded to finance world trade. To a very considerable extent the growth of the activity by the American banks has been dependent on the development of the American open market for banker's acceptances, and appearance of favourable rates of discounts for such acceptances. Other things being equal, the money centre with the lowest discount rate gets the business.

In 1914 when the Federal Reserve Banks were organised the U.S. had no market for bankers' acceptances. A market had to be created, and that was dependent on (1) well-developed demand for acceptances by investors, and (2) a body of expert dealers to distribute acceptances to buyers. The Reserve banks set themselves to create the market and develop it under powers conferred by Section 14 of the Federal Reserve Act, these banks can undertake to buy all eligible bills offered in open market at fixed rates of discount. This buying rate is near enough to the market to make acceptances a desirable part of the secondary reserves of the banks. At times the reserve bank buying rate has fallen below the rate at which bankers are willing to buy acceptances, the reserve bank undertook to support the market by purchasing acceptances to resell them at the same rate in 15 days. The Reserve banks purchase acceptances for their own sake and also for their foreign correspondents, and the latter are endorsed by the reserve banks.

So a discount market was forced open, and kept open. This, along with other conditions of change that made the U.S. the most solvent nation and the biggest creditor nation, made New York the world's money market, even London is dependent on New York for supply of dollars by the New York market.

The U. S. Federal Reserve System.

The typical assets of a U. S. Federal Reserve Bank cover the following items:

Cash reserve . . . . . .
Discounted Bills . . . . . .
Industrial Advances . . . . . .
U. S. Government Securities . . . . . .
Other assets . . . . . .

The cash assets are the results of: (1) capital contribution by the member banks who are stock holders; (2) deposits of reserve cash by the member banks; (3) federal reserve notes; (4) governments and other deposits; and (5) Federal Reserve notes.

Of these (2) was the most important item until lately and is now rivalled and exceeded by government deposits.

The main liabilities of a Reserve Bank are :—

(1) To Stock holders; (2) To depositing member banks; (3) To the Reserve Fund; and (4) To note issue.

The law requires that the Bank must hold 40% of the note liabilities in gold certificates and 30% in lawful money against other deposits. The Board of Governors have powers, however, to relax the rules if necessary. Usually the several F. R. Banks carry excess reserves; and so the rule about the taxation of deficiencies is not enforced. The special features of the F. R. Bank are: this is a bank of banks. The stock is owned by the member banks (formerly National Banks); (2) it is a bank of lending at the last resort.

This last requires some explanation. When the commercial banks begin to lend they do it on the basis of their own reserves. This is the Primary Expansion of credit. When the banks exhaust their resources of cash and depend on some operations by the Reserve Bank to have their cash increased, they make the Secondary Credit Expansion. It is here that the Reserve Bank has to lend to the member banks in order to keep these in cash.

The Reserve banks can connect up with the banks and the money market through two means, (a) Rediscounting bills of trade or notes or lending against notes secured by collaterals; and (2) market operations, that is, buying and selling of securities in open markets. (S.14 of the Act).

At the outset all kinds of papers and securities could be bought and sold; but for some time now only government bonds are dealt with.

The effects of (1) are as follow:

For the borrowing bank: Assets increased by the cash amount of the discount or loan, less the amount paid for discount or interest.

Liabilities—increased by the face value of the discounted paper or reduction of loan plus undivided profits by the amount.

For the R. Bank: (1) Assets increased by the amount of the discount; (2) liabilities in the shape of R. B. notes or member bank deposits increase; (3) addition is made to undivided profits by the amount.

The effects of (2) are:

Results of sale of papers or securities: withdrawal of cash or reduction of Deposits of member banks.

Results of purchases: Addition to the currency and increase of deposits.

In the matter of rediscounting the R. Banks are to see to acceptability and eligibility: for acceptability are required (a) soundness of the paper; (b) sufficient economic reasons; and (c) the borrowing bank's credit position in regard of the R. Bank. For eligibility one should consider (a) maturity of the papers; (b) the purpose of the loan.

So far as these rules on eligibility go the Board of Governors can relax these,* e.g., the Regulation of October 1. 1937 by which a finance company's paper is made eligible. Special considerations have been shown to farmers.

The rules on eligibility are all for liquidity of funds and concentration on the short dated papers. But the Board of Governors' policy in this matter is extremely liberal. What the rules are taken to mean is that no borrowing bank is expected to remain permanently in debt to a R. Bank. It does not restrict lending. "Strict eligibility requirements in the past did not save the banking system from

* The Board of Governors' interpretation of S. 106 added in 1935.

collapse. Greater emphasis on soundness and less on form is therefore a sound banking principles".* What is wanted is that a continuous shifting of illiquid assets from the borrowing to the lending in banks do not happen. The liberal policy is also indicated by the R. Bank's loans directly made to industries.

Management of the Federal Reserve Banking System.

The Board of Governors (7 members plus a President).

District Boards of Directors (3 to 7 members).

The Governors have the superior regulating powers in all matters, and are responsible to the Congress to which annual statements are to be made.

The Directors of R. Bank are however free to decide and act within the limits of general policy set down; for example, it is up to the Director to decide the rediscounting rate.

The Governors are assisted by a Committee of Market Operations and a Federal Advisory Council. The Committee is composed of 7 governors plus 5 representatives of the R. Banks. The Council that meets 4 times a year is composed of elected representatives from the member banks, each bank electing one member. (S.12 Federal R. Act).

The Federal system started with the National banks but has sought to include the State banks also all the time. Special facilities were and have been offered. But not these offers, but hard times drove some State banks to the system. The objections on the part of the State banks are (1) that the minimum capital requirement is yet too high for many; (2) exchange or collection charges on cheques as between members and (3) refusal by the R. Banks to pay interest on reserve deposits. The concessions proposed by the F. R. System included respect for the charters of the banks and relaxation of the inspection rules. The position in 1940, Dec. 31. was as follows:

Total Banks	Member Banks		Non-member Banks	
	National	State	Mutual Saving	Others.
14895 ..	5141	1342	551	7858

Though more banks are outside the system than there are in it, yet the reserve system holds about 70% of the resources of the country. On the same date the deposits were:

Federal Reserve System	46007	million dollars
Others --	19014	,, ,,

Control of Credit by the Federal Reserve Bank.

Discretionary control of credit is objected to on the following ground:

(1) Rediscounting or borrowing is required after the borrowing bank has completed transaction and refusal would be irksome at that stage.

(2) Geographical distances make discretion difficult to use.

(3) It is difficult to judge why and how the working reserves of a bank fall.

(4) There can be no uniform rules to regulate extension of credit in the case of particular banks.

(5) The customers of the borrowing bank suffer if the bank do not get rediscounts.

(6) Credit supply if organised on bureaucratic lines will be harmful when the prices are rising and quick decisions are required.

Supposing these objections are overruled there are no assurances that the raising of discount rates would meet an inflationary situation or its requirements. The inefficacy of the discount rate is due to:

(a) Divergences in customers' rates between country and city areas.

(b) Multiple expansion possibilities of the bank credit on the basis of the new additional cash reserves. If the R. Bank lends 1 dollar that would mean a credit of 10 dollars or more and what preventive can be there to it?

(c) The borrowing bank may bear the additional charge out of the profits made and need not pass the charge on to the customers.

(d) The short dated loans taken by themselves are of inelastic demand and can bear a lot of additional charge.

If the bank rate works at all that must be through a psychologic change caused by a change of opinion as indicated by the new rate.

As for the market operations these are required (1) to make the discount rate effective and (2) to discourage continuous borrowing. If not the former, the latter is sometimes made necessary in order to maintain the liquidity of the funds of the reserve banks.

Another control is the Board of Governors' power to raise the rates of the legal reserves within the limits set by the law. This may be more effectual and simpler also than the two previous checks.

The Federal Reserve System of the U.S.

At the end of the war the Board of Governors desired that the Congress should consider investing more powers of control over the federal system of banks, because an altogether new situation had been created by the government's methods of raising short-term and long term loans in the money market. In 1945-47 the banks were all discounting short-term papers, issued by the Government, with the Reserve Banks in order to invest in the long-term securities, with the result that the Reserve Bank has been about to be over flooded with such papers and that might prove embarrassing to the Reserve Banks, if the tendency persists. The Board of Governors therefore require (1) that the Board may order how much of a bank's funds shall be engaged in the long term bonds; (2) that its lendings and investments must be in a certain desired proportions to the demand deposits and savings deposits; and (3) that the Board shall fix at its discretion reserve requirements of member banks, and that there shall be no fixed rates of such reserves.

The congress has not yet given the powers required, and the member banks have already been protesting. But the Board thinks that unless these powers are given and

exercised, the inevitable consequence of the Treasury floatations on the strength of the bank credit would be a persistent inflationary trend. In this connection it may be pointed out that unlike in other countries the Board of Governors and the Treasury cannot co-operate fully in the U.S.A. The Treasury has been assuming more and more powers of control, and that put the Board sometimes in very awkward position. It is the Treasury and not the Board that is interested in the international commitments. The consequence of this and control over the banking system and the money markets cannot be preserved yet. But the Government's control over the economic system and costs and prices has been increasing, and the Board has got to adapt itself to the changed conditions. What it will lead up to cannot be guessed.

(3) Nationalised Banking System of The U.S.S.R.

By a decree of December 14, 1917 the Central Executime Committee for nationalisation, it was ordered that (1) Banking was to be a state monopoly, (2) all joint stock private banks were to be merged in the state bank; (3) All assets and liabilities were to be taken over as the mode of merging was decided on by a separate decree; and (4) provisional management was vested in the state bank; and (5) interests of small depositors were to be safeguarded.

By a decree of January 26, 1918 all funds of private banks were confiscated and all bank shares were annulled. The State Bank was renamed 'Peoples' Bank of the Republic" (Naroduy Bank), and all nationalised banks became cranches of the State Bank 12.7 millard roubles or 84.1% of the sums held previously by the private banks entered the balance sheet of the State Bank.

Besides the joint stock commercial banks, the pre-Revolution Russia also had the following institutions for short and long term credit;

1. Mutual credit societies. 2. City Public Banks under administration by Town Councils.	Short term credit to business.

Both these were liquidated at the end of 1918.

3. Joint Stock Land Banks.
4. State Nobles' Land Banks.
5. Peasants' Land Banks.
6. A number of small credit local institutions, e.g., Zemski Kassi; credit co-operations; State and Town Lombards; Union Credit Societies; etc., etc.

The first three of these were concerned for long term credit to land owners and peasants; and the last series were not simply financial or financing institutions. They all helped the agricultural population, proprietors and peasants in a hundred different ways. All were old institutions grown on the soil and to existing conditions. They might not be imposing; but they were helpful and were self-governing institutions as well. These were not suppressed at once, but were asked to register themselves. But a decree of January 27, 1920, ordered these miscellany of credit institutions to hand over assets and liabilities to local consumer societies, and their unions, along with technical equipment and personnel.

For a while credit institutions and instruments disappeared, there were no longer cheques, bills of exchange, securities, drafts, etc. etc. All financing was effected by the method of budgetary allocations, that is, by way of non-repayable grants through the Treasury that received in exchange produces free of charge. Outside this area, all transactions were in cash. But need for credit sums made itsely felt for supplying funds to big enterprises, to organise commodity markets, while licensed private capital investments also require credit to facilitate cash transactions. But the first step to it was to reform and reestablish a sound currency system. This task was entrusted to a newly created State Bank (Sept. 21—Oct. 3, 1931) that started business in November, 1921, in Moscow. Shortly 21 local branches and offices were opened. The objectives set for the State Bank—(Article I) were "to promote by means of credit and other banking operations the development of industries, agriculture, and trade, and concentrating mone-

tary transactions and fulfilling other measures for establishing a sound currency". The tasks of the State Bank were as usual (1) the issue of the chervonetz; (2) supply of short term commercial credit; and (3) management and financing of the Treasury. No sound currency was found until the chervonetz displaced Soviet token money issued previously by the end of 1922. The regulations governing the issue of the chervonetz (State Bank Notes) were:—

(a) The notes could be issued in denominations of 1, 2, 3, 5, 10, 25 and 30 chervonetz, but expressed in gold, at the rate of 1 chervonetz at 10 roubles of the old Russia = 78.24 dolya of fine gold.

(b) Bank notes issued were to be secured by (1) precious metals and stable foreign currencies to the extent of 25 per cent. of the value of circulating notes; and (2) easily convertible goods, short term bills, and other short term securities, 2/3rd of this part (3) must be in trade bills.

(c) Bank notes were convertible in prospect.

(d) The chief object was to increase the working capital of the State Bank to enable it to develop its commercial transactions, discount bills, grant loans, very precious metals, foreign currencies, drafts, foreign bills, and securities. The Bank might issue note to lend to the Finance Department. All loans made by the Bank were to be secured by gold at least up to 50%.

(e) Information was to be published on note issue twice a month, and separate statements would be made for the Issue Department, and a council for the issue was to be set up to advise and supervise.

Of course, the replacement was not easy. The old Soviet token money and the state bank notes continued to circulate, and in terms of gold the former depreciated heavily. The Treasury also issued notes, but these were kept in a constant ratio to the state bank notes so that the treasury notes could not be depreciated. The old Sovzneks did not drive the new good monies aground or into hoards. No fixed exchange value for it was also there. The Soviet token money exchanged with the new money at market

rates according to demands and supplies; and the two were not connected by any obligatory exchange rate.

The Issue Bank's resources were the Bank's own funds or capital, that rose from 50 million roubles in 1923 to 250 millions in 1928 plus surplus of 100 million roubles, plus other reserves. The Bank's liabilities were : (1) Deposits by the Finance Department, plus deposits by other state departments e.g., Industry, Transport, Trade, Co-operative Banks, etc. etc. plus deposits by private parties, the last being the least.

The investments by the Banks were or are divisible into two categories, viz., (1) gold and foreign currencies and cash balances abroad; and (2) credits extended to various institutions within the country. The latter were distributed into (1) Loans on Bills; (2) Loans against goods and transport documents; (3) Loans against securities and foreign exchanges and gold; (4) Special loans to industry; and (5) Operations in grains. Bills had about 50 to 60 per cent. of the loanable funds; and the next best item was industries about 40%. The loans to credit institutions came last in volume.

The State Bank is controlled by a Board appointed by the State.

So far as one can judge, the current principles worked by the state bank are: (1) liquidity of assets; and (2) flexible port folios, so that the seasonal variations in demands can be satisfied smoothly. The liquidity requires that the State bank should have a dependable clientele within the State and co-operative enterprises—such enterprises as would provide redemption of credit as promptly as possible. Where credit is likely to be free, credit is not granted in any large or considerable degree; for instance, the metallurgical industries did not get much credit until 1924.

What is rather new in the whole arrangement is the fact that the discount rate (18 per cent. on paper basis and 2 per cent. on gold basis)* does not work as it would in a

* The rate is small relatively to the market rate. Besides the Bank pays 6 per cent. interest on current account and 7 to 8 per cent. on deposits.

free gold standard monetary system. Its only use is that it measures out costs of production. It does not help to distribute available funds or credit among the various demands. That distribution is effected on the basis of the planned state allocations of funds. Credit is distributed as these allocations would be, so that there is always a credit programme—which need not have and does not have anything to do with the discount rate or bank rate.

Obviously a nationalised system must also be a system; but then it is based on the allocations of funds. And it is the State that would determine the amount of funds it might require. The banking credit is to be adjusted to that.

The State Bank can not work without a series of credit agencies to assist it. In the course of time a few types of credit agencies were set up or called into being. These were: (1) Banks of the joint stock type the biggest of which is "the Bank for long term credit for Industry and Electrification of the U.S.S.R. and the Bank for the Foreign Trade of the U.S.S.R." (2) Central Agricultural Banks (3) Bank of the Co-operative pattern; (4) City Banks (5) Mutual Credit Societies; (6) Industrial and Agricultural Credit Associations that have a tendency to merge with the Central Agricultural Banks (7) Agricultural Credit Societies; and (8) Town Lombards; and (9) Savings Banks. The first type is represented by what is called Prombank that started with issue of short term credit, but ended in issuing long term credit to industrial developments. Its funds are derived from Budgetary grants plus assignments out of profits of the state enterprises. It lends out for fixed capital mostly.

The Agricultural credit system is organised round the Central Agricultural Bank. The funds are supplied by the Treasury and receives considerable credit from the State Bank. Under it are the Agricultural banks and the Agricultural Credit Societies, to which are affiliated peasants credit and agricultural associations.

All this credit system grew up at a rapid pace in 1924-27, and such type was helped by the state as well as by the State Bank.

II. OTHER CENTRAL BANKS.

In modern times every country has a central directing bank, that has the task allotted to it by elaborate legislation or by the necessary rules of growth according to demands in time to maintain a certain level of money and credit supply within the country and a cetain level of exchange values of the national currencies for the world trade. From the particulars that are available regarding their functions and organisations, they are (1) the sole authorised Banks of Issue, and (2) bankers' bank or lender generally of the last resort to the money and capital market. The organisations of functions are adopted to local, historical and current conditions; but there is a traceable general pattern. Mostly these Banks are unitary and not federal. The U.S.A. pattern has not been copied fully anywhere—and regionalism is not preferred because of its complexity. What is noticeable, however, is the gradual elaboration of the functions of the Central Banks in arrangements made, with the help of the Treasury, and separate, but affiliated institutions, for industrial and agricultural credit supply for long term as well as intermediate terms. Probably this elaboration or comprehension is not possible or manageable except in a very limited extent. When the Central Banks have succeeded in any striking degree, e.g. the Bank of England or the Federal Reserve Banks, they have so succeeded by concentration on the commercial credit. This fact has been shown by the co-existence of other types of banks by special legislation for special purposes, most of which have to be financed in some way or other by the Treasuries.

Here a few examples of Central Banks are given:—

The Bank of Scotland.

By an Act of Parliament of Scotland which was a separate country at the time, the Bank of Scotland was incorporated in 1695. At first it had a monopoly of joint stock banking for 21 years only which ceased after that period. It is a limited liability concern but its peculiarity

in this respect is that the shareholders are liable to pay up to one-half of their original subscription over and above such subscription, in case the bank becomes unable to pay its debts.

Other Chartered Banks of Scotland.

The Scotch Bank Act was passed in 1845, before which sixteen more chartered banks were created, but most of them are now non-existent. The above Act empowered the Scotch banks to issue £ 1 notes. At present they can issue £ 5 notes also. The total issue of notes by these banks now amounts to £ 5,500,000, out of which notes for £ 2,600,000 are the authorised original issue and the balance is against holdings in gold, the total issue being covered by a total average reserve of £ 6,250,000 in gold and silver.

Some of the restrictions put on English Banks by the Bank Act of 1844 are not found in Scotch Bank Act of 1845. For instance, no English Bank (except the Bank of England) was allowed to exceed the authorised limit of its note issue, but the Scotch banks were allowed to do so, provided they held the necessary reserve in gold and while the issue of bank notes under £5 was not allowed in England, it was allowed in Scotland. The Scotch banks make a monthly return of their issue to the treasury, while the Bank of England has to make a weekly return as already mentioned.

The Bank of Ireland.

By a Royal Charter the Bank of Ireland was incorporated in 1783. It had the power of note issue under certain regulations. By the Act of 1825, joint stock banks were also given this right, against a proper reserve, provided they had no office in Dublin or within 50 Irish miles of it. A Bank Act was passed for Ireland in 1845 by which its note issue was fixed at £ 2,750,000.

Other Irish Banks.

The other banks numbering five at the time, also got the right of issue of notes up to £ 2,500,000, it being stipulated that a reserve of an equal amount in gold and silver must be held if this amount was to be exceeded and that notes are to be made payable at the office issuing them. The other provisions were almost similar to those made for the Scotch banks.

The Irish banks can still issue notes under £ 5. Their total at present is about £7,000,000, the amount of excess over the authorised issues being covered by a reserve of about £4,000,000. A point to be noted in this respect is that the Bank of Ireland notes are not legal tenders in England and Scotland.

The establishment of the Irish Free State since 1922 has led to the separation of the Free State Banks from the old Bank of Ireland. The Free State has not yet established a Central Bank—but has a body that acts like the central bank and controls the note issue. The organisation of the Issue Department is something on the lines of the Reserve Bank of India in so far as a considerable volume of the reserves in the Issue Department is in sterling securities or sterling. The volume of gold is the least value in the Reserves.

The old Bank of Ireland is now functioning in North Ireland only—but it is just an ordinary bank that is almost a branch of the Bank of England.

The Bank of France.

Like the Bank of England the Bank of France owed its origin to the desire of the government interests for a ready source of credit. It was founded in 1800 by Napoleon Bonaparte because he was unable to get satisfactory credit from existing banks. The Bank performs the three-fold functions of fiscal agent to the government, bank of re-discount, and commercial bank. In the last named capacity it is the biggest commercial bank in France, with over 600

offices and agencies. The capital of the Bank is privately owned, but its management is divided between the executive body (consisting of the Governor and two Deputy Governors), and the Board of 15 Regents and 3 Auditors elected by stock holders resident in Paris.

The Bank discounts trade or banker's bills with maturities of not over three months. It lends also on the security of French and colonial securities and gold. As an agent of the Government, the Bank lends short time loans and purchases and distributes the bond issues of the Government.

The Bank has a monopoly of note issue with a fixed maximum issue. In 1928 a law required of the bank that it must carry gold reserves of not less than 35 per cent. of its combined note and deposit liabilities without any restriction on the total value of notes. Notes are required in France much more than in England or the U.S.A. owing to the undeveloped banking system and use of cheques. An increased business activity would increase the demand for currency, which in turn leads to rediscounting, secondly, the Bank of France has very often to depend on new issue of notes because it can not use the reserve system prevalent in England or the United States of America. It depends mostly on discount rate for control of credit or cash; and though it possesses limited power in respect of market operations, it seldom uses these powers.

The German Reichsbank.

Founded in 1875 to act as a Central Bank or banker's bank, it dealt like the Bank of France with non-banking customers also who carried deposits with it and borrowed funds. It was also responsible for a clearing system to effect transfers of funds. It had to be re-organised fully by a law of 1924 after the inflation of 1922-23, when it was ruled that its note issue was to be secured by gold and foreign exchange to the extent of 40 per cent. of the circulating notes, and at least one-fourth of this reserve was to be

in foreign currencies. For the balance 60 per cent. the required cover was bills of trade, Treasury Bills, securities and call loans. It was a share holders' bank, privately owned by "German citizens of appropriate racial origin". It could sell and buy bullion and foreign exchanges, and discount bills. Other German banks both rediscounted and borrowed of the Reichsbank. It possessed open market powers, but these were exercised only to a limited scale, depending largely on the discount rate.

Both the banks and the general public carried "giro" or clearing accounts with the Bank, and as the cheque system was not largely used in Germany, payments were made either in cash or through the "giro" accounts. As the Bank had about 500 branches, it could maintain such accounts and economise gold or currency; and it had in addition set up clearing houses in all important trade centres, and it is closely connected with the Reichspost.

This whole system was developed after 1924 owing to the pressure of necessity. The Reichsbank was reduced in the long end to an instrument of the State and a clearing house only for the great and powerful Gold Discount Bank, the Renten-banks and gross-banken.* In Germany these all tended to become larger and larger through mergers and extended branch banking. Of these the Gross-banken were the biggest financiers to industry, and among these the D-banks or the five large Berlin banks together with three Provincial banks were most powerful. They were not very strictly regulated, and so were free. The Deutsche Bank for instance, financed trade, industry, and oversea trade, and deposit business, and also the long term requirements of the State. These Gross-banken were also busy building

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* The limit of reserves was cancelled by a Law of June 15, 1939.

The Gold Discount Bank had to be started under the pressure of foreigners who enforced the Dawes Plan. It was to control the exchange transactions and to Supplement the Renten bank to maintain flow of credit at home. It was ultimately taken over by the Reichsbank.

up foreign credits in foreign countries probably with the idea of broadening Berlin as a commercial centre.

The Reichsbank had a capital of 300 million Reichsmark and a Reserve Fund of 300 million R.M. also. The Reich was a beneficiary as usual increasingly, if dividends increased.

The Imperial Bank of India.

This Bank, though not a chartered bank, is incorporated by a special Act of the Legislature (The Imperial Bank Act of 1920). It was formed by amalgamation of the three Presidency Banks—Bank of Bengal, Bank of Bombay and Bank of Madras—and transfer of their assets and liabilities to it under provisions made by the Act.

Business the Bank is Authorised to Carry on.

The Bank can advance, lend and open cash credit under restrictions only, on the security of movable properties consisting of stocks and other securities, debentures, accepted bills of exchange, fully paid shares of limited companies, and goods; and on immovable properties or documents of title relating thereto, as collateral security under certain circumstances. It cannot advance for a period longer than six months and cannot discount a negotiable instrument for an amount exceeding a prescribed limit and having a longer period than six months to run, and also without the acceptance of its responsibilities by at least two other independent parties than the maker or the drawer. It cannot therefore finance import and export trade by directly purchasing bills of exchange, though it can rediscount such bills under the above conditions. The Bank can however advance or open cash credit or lend for the purpose of averting the winding up of any company or co-operative society or facilitating its winding up, for any period upon the security of its assets.

The Bank has centres in almost all the important towns in India and it performs *mutatis mutandis* some of the

functions for this country as the Bank of England does for Great Britain.* The bank publishes a weekly return showing its liabilities and assets including its cash balance. It has no power of note issue which is now a monopoly of the Reserve Bank in this country. Some of the functions of this bank has now been taken over by the latter.

The Reserve Bank of India.

In almost all the advanced countries of the world there is a "Central Bank" largely controlled by the State. These banks have been entrusted with the operation of the currency and credit system of the country and the regulation of issue of Bank notes. The Bank of England of the United Kingdom, the Commonwealth Bank of Australia, the Federal Reserve Banks of the United States, the Reichsbank of Germany, the Banque de France of France, etc., are all such Central Banks regulating the issue of Bank notes and controlling the credit structure of the country with a view to securing monetary stability of their respective governments. These banks are also bankers of the governments concerned. How these banks function for all the above purposes will be understood from the details given about the Bank of England. The *modus operandi* of

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* Ordinance No. VII of 1931 and the rules made thereunder gave some new functions to the Imperial Bank in respect of the sale of gold or sterling subject to the provision in this behalf of Sec. 5 of the Currency Act of 1927. This sale was strictly restricted. The restriction was considered necessary to safeguard India against the flight of capital out of the country—a contingency apprehended owing to depreciation of sterling in consequence of the suspension by England of some provisions of the Gold Standard Act of 1925.

The Bank under this Ordinance was made the authority to sell gold or sterling only to the banks recognized in this behalf by the Governor-General-in-Council and only for financing normal trade requirements, for reasonable personal or domestic purposes and for contracts completed before September 21, 1931. The Bank was given something like a discretionary power in this respect and the Government was controlling the exchange transactions through it under the Rules above referred to. These restrictions were however removed by the Government in 1932 by its notification and the sale of sterling under the pre-ordinance law was resumed.

all such banks is almost similar. Such a bank has now been established in India under the name of the Reserve Bank of India to take over the management of the currency from the Governor-General in Council and generally to function as a banking institution almost similar to those mentioned above.

Its Constitution.

The share capital of the Bank is five crores of rupees divided into shares of one hundred rupees each, which are fully paid up. This share capital is divided amongst several provinces, assignment for each being according to its importance. The general superintendence of the Bank remains with a Central Board consisting of eight Directors including a Governor and two Deputy Governors nominated or appointed by the Governor-General in Council, and eight Directors elected on behalf of the shareholders; but in the first Board they too were to be nominated by the Governor-General in Council to be replaced by two elected Directors every year until all of them are replaced by elected Directors.

The country is divided into five Areas. They are named the Western Area with its head quarters at Bombay, the Eastern Area with its head quarters at Calcutta, the Northern Area with its head quarters at Delhi, the Southern Area with its head quarters at Madras and the Burma Area with its head quarters at Rangoon. A local Board is constituted for each of these areas consisting of five members elected by the shareholders on the register of such area from amongst themselves and not more than three members nominated by the Central Board from amongst such shareholders.

Business the Bank May Transact.

The Bank may transact the several kinds of business amongst which may be mentioned the following:—

(a) The accepting of deposits without interest from the Secretary of State, Supreme and all Local

Governments, States, local authorities, banks and others.

(b) The purchase, sale, etc., of bills of exchange, promissory notes drawn on and payable in India, arising out of *bona-fide* commercial transactions, bearing two or more *good* signatures (including one of a scheduled bank) and maturing within ninety days from the date of such purchase.

(c) The purchase, sale, etc., of the above documents under the same conditions drawn or issued for the purpose of financing seasonal agricultural operations or the marketing of crops bearing two or more *good* signatures (including one of a scheduled bank or a provincial co-operative bank) and maturing within nine months from the date of such purchase, etc.

(d) The purchase, sale, etc., of bills of exchange and promissory notes under the same conditions bearing the signature of a scheduled bank and drawn for the purpose of holding or trading in Government securities and maturing within ninety days from the date of such purchase, etc.

(e) The purchase from and sale to scheduled banks of sterling in amounts of not less than the equivalent of one lakh of rupees.

(f) The purchase, sale, etc., of bills of exchange drawn in or on the United Kingdom and maturing within 90 days of purchase, provided that such purchase shall not be made in India except with a scheduled bank.

(g) The making of loans and advances to States in India, local authorities, scheduled banks and co-operative provincial banks repayable on demand or on the expiry of a fixed period not exceeding ninety days, against the security of stocks, funds, securities (other than immovable property) in which a trustee is authorised to invest, gold or

silver or documents of title to them, eligible bills of exchange and promissory notes and promissory notes of any scheduled bank or provincial co-operative bank, supported by documents of title to goods pledged to any such bank for a cash credit or overdraft granted for *bona-fide* commercial transactions or for financing of agricultural operations.

(h) The making of advances to the Supreme Government and Local Governments repayable not later than three months from the date of such advance.

(i) The issue of demand drafts and bank post bills made payable at its own offices.

(j) The purchase and sale of securities of the Government of India, Local Governments or any local authority in Indian State with certain restrictions.

(k) The custody of monies, securities and other articles of value and collection of proceeds from securities.

(l) The acting as agents of the Secretary of State in Council, the Governor-General in Council, Local Governments, local authorities and States in India in their transactions for purchase and sale of gold, silver, bills of exchange, securities, etc., and for collection of proceeds from such securities and for the management of public debts.

(m) The purchase and sale of gold coin and bullion.

(n) The opening of connection with international banks which are the principal currency authorities in their countries.

(o) The borrowing of money from the scheduled banks for a period not exceeding one month provided that such borrowing shall not exceed at any time the amount of the share capital of the bank.

(p) The making and issue of notes subject to the provisions of the Act; and other similar business.

In special cases powers have been given to the Bank to exceed its powers in regard to discounting of bills without *good* signatures, purchase and sale of sterling for less amounts than one lakh of rupees and making loans against various forms of securities, when such a course becomes necessary for the purpose of regulating credit in the interest of Indian trade, commerce, industry and agriculture.

Business Which the Bank May not Transact.

The Bank is specifically debarred from doing certain things under the Act. It

(a) May not engage in trade or have a direct interest in commercial, industrial and other undertaking;
(b) May not purchase its own shares or shares of any other concern or grant loans upon the security of such shares;
(c) May not advance money or mortgage on the security of immovable property or relative documents of title;
(d) May not make loans and advances;
(e) May not draw or accept bills payable otherwise than on demand;
(f) May not allow interest on deposits or current accounts.

Rights and Obligations of the Bank.

The Bank has the right to transact all Government business in India in places where it has got a branch or agency and it undertakes to transact Government business by accepting deposits and making payments. The management of the public debt, and the issue of new coins are entrusted to the Bank. The Bank has got the sole right to issue Bank notes in British and for some time the currency notes supplied to it by the Government of India. All the existing currency notes are taken over by the Bank, and the Government has transferred to the Bank in gold coin,

gold bullion, sterling securities, rupee coin and rupee securities an amount equal to the total liability transferred with these currency notes. The notes to be issued by the Bank shall be of the denominational values of five rupees, ten rupees, fifty rupees, one hundred rupees, five hundred rupees, one thousand rupees, and ten thousand rupees. All note issues shall be conducted by the Bank in an Issue Department which shall be kept separated from the Banking Department, as in the case of the Bank of England and other similar banks.

The Bank is under the obligation to sell sterling at a rate not below one shilling and five pence and forty-nine sixty-fourths of a penny for a rupee and to buy sterling at a rate not higher than one shilling and six pence and three-sixteenths of a penny for a rupee for immediate delivery in London, subject to a minimum of ten thousand pounds.

Each of the scheduled banks, that is the approved banks named in the second schedule of the Act, is required to maintain a balance with the Reserve Bank of not less than five per cent. of its ordinary demand liabilities and two per cent. of its ordinary time liabilities at the close of business on any day. The scheduled banks are to make necessary return to the Reserve Bank and it has to issue for publication, a consolidated statement each week embodying necessary particulars required by the Act.

As some important items of business are now transferred to the Reserve Bank from the Imperial Bank of India, certain compensation was allowed to the latter by provision of an agreement made between them.

The dividend payable to the shareholders is not to exceed five per cent. cumulative, but an additional dividend is payable from the surplus, if any, calculated on a fixed scale and the balance is payable to the Governor-General in Council, under certain conditions.

The Bank is exempted from the payment of income-tax and super-tax, but this provision shall not affect the shareholders in any way. It is under the obligation to submit

weekly accounts to the Governor-General in Council in the following form to be published in the *Gazette of India*:—

An Account pursuant to the Reserve Bank of India Act, 1934, for the week ending on the.....day of.....

ISSUE DEPARTMENT.

Liabilities.	Rs.	Assets.	Rs.
Bank Notes held in the Banking Department ..		A. Gold coin in bullion—	
Bank Notes in circulation. Total Bank Notes issued ..		(a) held in India ..	
Government of India Notes in circulation ..		(b) held outside India ..	
		Sterling Securities ..	
		Total of A.	
		B. Rupee coin ..	
		Government of India rupee securities ..	
		Internal bills of exchange and other commercial paper ..	
Total Liabilities.		Total Assets.	

Ratio of total of A to liabilities.....per cent.

Dated the.....day of.....19 .

BANKING DEPARTMENT.

Liabilities.	Rs.	Assets.	Rs.
Capital paid up ..		Notes ..	
Reserve Fund ..		Rupee Coin ..	
Deposits—		Subsidiary Coin ..	
(a) Government ..		Bills discounted—	
(b) Banks ..		(a) Internal ..	
(c) Others ..		(b) External ..	
Bills payable ..		(c) Government of India Treasury Bills ..	
Other Liabilities ..		Balances held abroad ..	
		Loans and advances to the Government ..	
		Other loans and advances ..	
		Investments ..	
		Other assets ..	
Total ..		Total ..	

Dated the.....day of.....19 .

Miscellaneous.

The Bank is under statutory obligation to create a special Agricultural Credit Department, to maintain an expert staff for consultation by the Government and banks regarding agricultural credit and to co-ordinate the operations of the Bank in connection with agricultural credit and its relations with provincial co-operative banks and other banking organizations engaged in the business of agricultural credit.*

The Central Board with the previous sanction of the Governor-General in Council has been given powers to make regulations consistent with the Act, to provide for all matters for which provision is necessary to give effect to the provisions of the Act.

The Reserve Bank Act has made some amendments of the Indian Coinage Act of 1906, by which it has been made obligatory for the Reserve Bank to receive gold coins coined at the Royal Mint in England or any of its branches elsewhere at their bullion value calculated at the rate of 8·47512 grains troy of fine gold per rupee, without their being considered as legal tender.

The Reserve Bank acquired during the war period the authority to inspect the records and workings of all banks and definite powers to allow or disallow new branches of banks. The necessity for all this arose from the fact that hasty and ill-considered branch banking became a feature of the war period expansion. At the end of the war the Bank also laid down for the first time that it would lend funds freely to the scheduled and non-scheduled banks against eligible papers and securities.

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* A drawback in the Reserve Bank Act seemed to be its ignoring the indigenous banking system. As matters stood, the indigenous bankers were entirely left out. The only provision made was that within two years the Reserve Bank had to report to the Government regarding the extension of the provision of the Act relating to scheduled banks to persons and firms engaged in British India in the business of banking. The Report has since been issued but it does not consider the linking of indigenous banks with the Reserve Bank as a practicable proposition.

However, recently a law has been made to nationalise the Reserve Bank on the lines of nationalising the Bank of England, that is, by the Government taking over the assets (including capital) and liabilities of the Bank on a plan of transfer that would be settled later on.

Nationalisation of the Reserve Bank of India.

The wave of nationalisation at the present date is not without sufficient causes. These causes are not all summed up in the remark that they are merely ideological or expected results of political left-wing movements.

Nationalisation may be now a logical result of all the forces that operated in the thirties and in the war period. The setting up of the International Monetary Fund, International Bank, and the World's Trade Organisation has imposed on all the engaging nations the task of controlling their financial and economic systems. Otherwise these international institutions cannot work.

The Reserve Bank of India has, since its inception, been a banker to the Government and has worked hand in hand with the Finance Department in matters of exchange control, credit, and issue. The relation of the Reserve Bank with the scheduled banks has not been very much inconvenient or obstructive, because the Reserve Bank did not usually demand of these banks much beyond conformity to the reserve rules and submission of the weekly statements. Only in 1944 and 1945, the Reserve Bank claimed and exercised powers of control through inspection at its will of the records of banks and over expansion of branch banking. In 1946-47 it considered and finally in 1947 agreed to be helpful as a lender of last resort to even non-scheduled banks on certain conditions. Of course, it was acting as a transmitter of funds for the non-scheduled banks also for some time. All this would indicate a relation that went on and has been going on towards a higher degree of integration of the Banking System. In the flotation of loans for the government or the redemption of loans, the Reserve Bank co-operates with the whole banking system and

depends on the co-operation. So internally and externally the Reserve Bank may be said to have been more of a state bank already than a share holder's bank, and the share holders did not usually have any voice in the more important operations by the Bank.

In such conditons and in view of the new commitments in the internal and external relations, the assumption of the Bank by the State or the Government is not a surprise. But the assumption has been on exactly the same lines as it has been in England. Only the Reserve Bank's capital would be assumed, and there will be a Governor, a Deputy Governor and a Court of Directors. The relation between the Treasury and the Bank will be not indirect, but direct. Instructions and directions shall be issued by the Treasury or the Finance Department that shall lay down the broad policies. The change may be at present only formal; and may not be fully given effect to, because even now the Reserve Bank is a banker to both the Union Government and the Pakistan Government. And the full implications are not yet possible to imagine, because the contemplated changes in the economic system have not yet been foreshadowed in any exact terms.

III. BANKS UNDER SOME GENERAL ENABLING ACT.

Joint Stock Banks under the Company Act.

The Joint Stock Banks are registered companies doing banking business. The capital is subscribed by the public and the banks are managed like the other joint stock companies with similar rights and liabilities. Both under the English and the Indian Companies Acts a banking concern having more than ten members must be registered as a company, while concerns doing other than banking business are allowed to be formed without registration, with members up to twenty persons.

The joint stock banks as well as other companies with limited liability have power to determine by special resolution that the whole or a portion of their existing uncalled

capital should not be called except in the event of liquidation. These are reserve liabilities of the banks. This reserve liability makes the position of the bank more sound by removing the somewhat natural apprehension and sometimes alarm in the minds of the depositors and other creditors to a great extent.

The operations of the joint stock banks registered in India are now confined to the ordinary banking business only. None of them at present is a member of the Exchange Banks Association and none therefore does foreign exchange business which is done by the branches of foreign joint stock banks here in addition to other banking business. The time has come when our big banking concerns should take up exchange business. It is therefore satisfactory that one Indian Bank has already taken steps to enter this field by opening an office in London.

Private Banks.

When any individual acts as a banker, or two or more persons not exceeding ten associate themselves in partnership for doing banking business, such individual and association are respectively called a private banker and bank or bankers. The law of partnership, and not the Companies law, applies to such banks. There were innumerable such banks in Great Britain before the advent of the joint stock banks, but they are practically non-existent now.

The number of private banks is not very considerable in India at present, though there are a good many private banking houses of repute in industrial centres like Calcutta and Bombay. A good many of such banks in England had the right of note issue, which, as already mentioned, lost this right, by and by, through lapse until the last one possessing this right, namely, Messrs. Fox, Fowler and Co. was amalgamated with the Lloyds Bank, Ltd., and its right of note issue was absorbed in February 1921 by the Bank of England which now enjoys the monopoly of note issue. Private bankers in India never enjoyed this right of note issue, though some of them were influential financiers.

III. BANKS BY SPECIAL LEGISLATION.

Functions of a Bank and Bank of Issue.

Banks generally receive deposits from customers and collect cheques and bills on their behalf keeping current or deposit accounts for them and discount bills of exchange. They also lend money on various forms of securities. Most of the banks also undertake the collection of dividends, etc., and disbursements for subscriptions, premiums, etc., for their customers and frequently receive for safe custody, jewels, bonds and other valuable properties as bailee.

The bank which has the right to issue its own notes is called a bank of issue. As already stated there is at present no bank of issue in England and Wales except the Bank of England. Some Scotch and Irish Banks still retain this right of note issue. In India no bank except the Reserve Bank has this right of note issue. This Bank has now the exclusive right like the Bank of England and other Central Banks of different countries to issue notes.

Exchange Banks.

The banks doing foreign exchange business in addition to the ordinary banking business, are termed exchange banks. This business, as already mentioned, is done in India exclusively by foreign banks.

The exchange business of the Indian branches of the foreign banks generally consists in purchasing bills against export trade and financing import trade through their London and other offices by purchasing the bills on the consignees in India. These bills are either D. A. (documents on acceptance) or D. P. (documents on payment). The D. A. Bills from India as a rule are discounted in London after acceptance but the D. P. bills are generally retained by the London offices of the banks, until they are retired. Bills drawn in sterling in London on the consignees in India are discounted with the exchange banks there which collect them through their Indian offices and never rediscount them. In their ordinary business these exchange banks in India

compete with the Imperial Bank of India as well as other Indian joint stock banks, and in England with the Bank of England.

Adjustment of Commercial Accounts Between India and England.

Here it is to be noted that the despatch of the export bills by the exchange banks in India means transfer of their funds to London, which are returned in the form of import bills purchased by their offices in London. Normally India's exports exceed her imports and hence there is deficiency in the import bills for the adjustment of the account between India and the foreign countries through London. This is made up by (a) the shipment of gold and silver from foreign countries, (b) transfer of Government rupee paper from London to India and (c) by the purchase of council bills, and telegraphic transfers in London.

Commercial and Industrial Banks.

Banks which do not grant long term credits and confine their advances to short term commercial transaction for their comparatively rapid return are called trading or *commercial banks*. There are banks which make long term advances on fixed capital, such as plants, machinery, etc., of industrial undertakings, or which hold stocks of such undertakings. These banks are called *industrial banks*. Their peculiarities consist in that while the former grant short term loans necessary in commerce and trade, the latter are supposed to allow long term credits specially on fixed capital account, required for industrial undertakings.

Agricultural Banks.

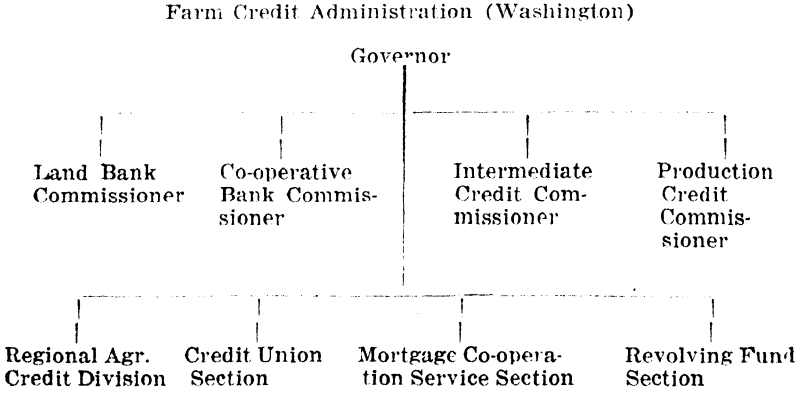
Banks which specially invest in granting agricultural credits to the farmers and others or make such investments in addition to doing other ordinary banking business, are termed agricultural banks. These credits are generally for one season and repayable on harvesting of the crop. They are granted on the security of the land, sometimes

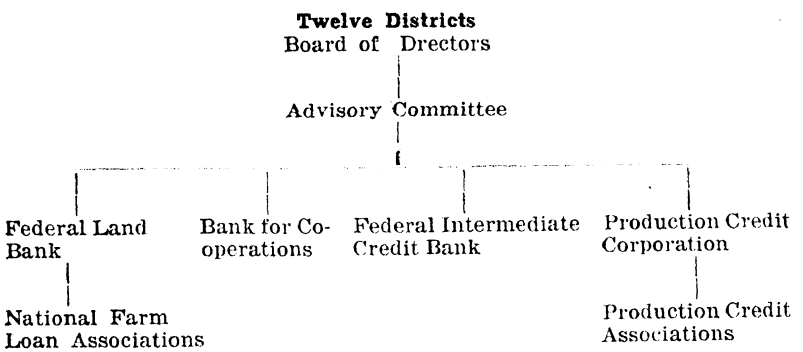
in addition to the crops. Though such banks are found in America and the Continent, their number in Great Britain is not large. In India there is no such bank worth the name. The rural co-operative credit societies in the interior are serving the purpose of such banks to some extent, as explained in the chapter on Co-operative Societies. Provision has been made in the Reserve Bank Act for agricultural credit, and the want of agricultural banks in the country may partially be removed if the Reserve Bank properly functions in this line. But the requirements of the Bank in this respect foreshadowed in its circular letter No. ACD 590/70-38 of the 14th May, 1938 seem to be rather strict and should therefore be modified.

A picture of the rural or agricultural credit as organised in the U.S.A. may be given here.

A farmer requires three separate types of credit:—

(1) Long range mortgage credit to purchase land, (2) intermediate term credit to finance purchases of fertilizer, stock, equipment and improvements, and (3) short term credit of not over than nine months to purchase seed and feed, and to finance storage of crops awaiting marketing. Without an agricultural credit organisation for supply of these, the finances required can be obtained only at very high rates of interest. This organisation as it has been built up under the Farm Credit Administration is as follows:—





Long term credit institutions are: (1) Federal Land Banks (12) in 12 districts, each with a capital of 750,000 dollars; (2) National Farm Loan Associations formed by not less than 16 persons; (3) Federal Farm Mortgage Corporation (1934). Intermedite credit is supplied by Twelve intermediate credit banks located at the same places and having the same management as the Federal Land Banks. Short term credit is supplied by; (1) Production credit corporations; (2) Production Credit associations (local lending units, operating co-operatively), (3) Banks for co-operatives (a Central Bank with 12 district banks and local co-operatives funds obtained from the Revolving Fund established under the Agricultural Marketing Act of 1929).

The management is invested in the Farm Credit Administration created on May 27, 1933.

It may be pointed out that the magnitude of credit required is very large. In an account of March 31, 1941, the magnitude of loans extended is such at over 3 billion dollars*. And all this is not intended to supplant or displace the rural banker, but only to supplement the existing sources of credit. The magnitude of the problem is not less discouraging than the complexity of it all, and the difficulty of keeping the credit from freezing in bad years. Records show that the U. S. Government had very big troubles with the long term credit supply or the Federal Land Banks e.g. in 1932 when the Secretary of the Treasury was permitted

*Farm Credit Adm., Monthly Report on Loans and Discounts, March, 1941.

to subscribe to 125 million dollars additional stock in the land banks; arrangements to buy first mortgages in 1941-42; loans under the Agricultural Marketing Act of 1929, that set up a Federal Farm Board with a 500 million dollar fund (revolving loan fund) for co-operative marketing associations and stabilising co-operations. Nowhere so vast scale of credit supply at such risks is possible without State funds or financing. The Federal Land Banks were originally financed by the Treasury, though it is proposed that the farm loan associations would buy stocks in amounts equal to 5 p.c. of their loans. But then the associations became inactive in the depression of the thirties, and the Treasury had to lend them money again and additional emergency financing took place, which was continued until 1941. The Federal Mortgage Corporation is Government owned, with a capital of 2 billion dollars. The Intermediate Credit agencies are Government owned each with 5 million dollars. So also have been the Production Corporations since 1933. The co-operative banks' capital is obtained from the Fund established under the Marketing Act of 1939, with all these supplies of money raised by issue of bonds by the State that the agricultural credit system has been built up. And this has been the regular feature every where for supplying credit to agriculture. There is little wonder that such organisation requires to be specially provided by legislation.

The usual agricultural credit supplying agencies are: (1) Land Mortgage Banks, and (2) Various classes of co-operative credit societies together with Unions, Central banks and Provincial co-operative credit banks. But unless all these are provided ample funds and necessary credit instruments and an organised market for such credit instruments, it is impossible to build up any system of rural credit.

Position of the Imperial Bank and Other Banks in India in Respect of Financing of Industries.

The business of the Imperial Bank of India is restricted by law in regard to loans and advances and it cannot enter the sphere of industrial finance by granting credits on the

security of immovable properties, its function being limited to make short term advances for a period not exceeding six months, on the security of goods only. It can therefore open cash credits only on the security of movable properties to help the industries, such credits being repayable on demand.

The exchange banks and other joint stock banks in India, though not precluded by law, do not generally undertake at present industrial finance, while India's need in this respect is great and she requires a good many industrial banks within her borders capable of financing the development of new and existing industries by making advances to such undertakings and by underwriting their debentures. The Tata Industrial Bank with a capital of rupees 12 crores was the only industrial bank in India but it lost existence by its amalgamation with the Central Bank of India, Ltd. At present there is no industrial bank in India though a few claim that they have been established for the purpose of supplying industrial finance. Some of such banks have their existence in name only.

Savings Banks.

Savings Banks may be divided into two classes—Trustee Savings Bank and Postal Savings Bank. The former is an association voluntarily formed and managed by the trustees appointed by the members for the benefit of the members themselves, while the latter is established and managed by the State. Some Trustee Banks exist in England, but in India there is no such bank, though there may be a few in name only and that also in a different form and without any statutory regulations.

Trustee Savings Bank.

The advantages of these trustee banks are that they receive deposits in small sums which can not be profitably invested by individuals, and the management being strictly economical the depositors receive a good return for their

money. The organizations not being of the capitalistic nature, practically the whole of the profits is divided among the depositors. It encourages habit of thrift amongst the poor and thus benefits the families of a large number of people with limited incomes.

In 1817 the first Savings Bank Act was passed in England. This Act was amended by the Acts passed in 1818, 1828 and 1844, but all these Acts were repealed by the Act of 1863 which consolidated the law in this respect. Elaborate provisions were made by this Act for proper conduct of these banks by those entrusted with their management. This Act was also amended in 1876 and 1880, and the Government took some powers by these amendments with reference to these banks. The present Act was passed in 1891 which provided for the appointment of a Committee having powers to inspect these banks and to ascertain if the trustees and the managers were complying with the provisions of the law. The Commissioners of the National Debt in England have got the power under this Act to close such banks and to transfer their business to the Post Office, on the report of the above Committee to the effect that the provisions of the law have been flouted by the authorities of the banks. As a matter of fact some such banks have already been transferred to the Post Office under this provision of the law.

Post Office Savings Bank.

The Savings Bank attached to the Post Office, which was opened in all parts of India in 1882 and 1883 is a Government institution for encouraging thrift among the middle class and poor people. Small deposits are received and facilities are given to the depositors to invest their savings in Government loans through the post office. The Government does not maintain any reserve against the deposits to these banks. The deposits are used for capital expenditure and are treated as unfunded debt.

In England the Post Office Savings Bank was established by a Parliamentary Act in 1861. The institution has since

made a rapid progress and has greatly retarded the progress of the Trustee Savings Bank which it has replaced to a great extent. As in India, the Government in England maintains no reserve against the Savings Bank deposits which are treated as unfunded debts and are used for capital expenditure.

The British Post Office maintains a Life Assurance and Annuity department for the benefit of the depositors and Government servants, any of whom may effect a life assurance or purchase an annuity through the Post Office. The Indian Post Office does the same for the benefit of the latter.

Co-operative Banks.

Co-operative Banks in India are the offsprings of the Co-operative Societies Act of 1904 since amended by a new Act in 1812. Central banks at the provincial head-quarters, were established under the provisions of the Act to assist the small village co-operative societies formed under the same Act to help the agriculturists generally. The co-operative banks are the unions of primary credit societies or unions of primary societies and individuals, their functions being, as stated by Prof. Shirras, (a) the attraction of deposits from non-agriculturists to supplement the finances of primary societies, (b) the utilisation of the excess funds of some societies temporarily to make up the shortage in others and (c) the supervision and guidance of the affiliated societies. The movement has made great strides in India, specially in Bengal and the Punjab, where a large number of such central and intermediate co-operative banks have been established.

Government Help.

According to the provisions of the Act, Government has appointed a Registrar of Co-operative Societies for each province to look after these societies. It has helped the co-operative central banks in various ways, specially by the

grant of initial advances to new institutions, by guaranteeing the interest of the debentures of at least one central bank and by special advances to meet their anticipated financial difficulties in two provinces, without of course taking any financial responsibility for them. One of the hindrances to the progress of these banks is the difficulty experienced by them for lack of any facilities to obtain financial accommodation against the securities held by them for loans advanced. This is hampering their business and a solution of the problem is to be found before the wished-for result can be obtained by these banks in this respect. Government can come to their assistance by making some sort of arrangement with the Imperial Bank of India for the discounting of their pro-notes.

Under the Co-operative Societies Act some special advantages, such as preferential claim over other creditors upon the assets of the borrowers, non-liability of attachment of shares, etc., are given to these banks and as a matter of fact to all co-operative societies. These have been mentioned in the chapter on Co-operative Societies.

Investment Trusts.

Besides the banks of various description, there are certain institutions in which deposits from the public are received for investment in such a way as to enable the investors to obtain a more certain return on their money than they would have probably received had they invested it themselves. These institutions are known as *Investment Trusts.*

Individual investment of small sums at a remunerative rate of interest on first class security is not always possible, while a combination of these small sums may produce a substantial amount, a careful investment of which by experts may be productive of much better result. Hence these institutions which are useful mediums through which capital is supplied to the money market, flourish in the West. Almost similar institutions have now appeared in

India also in the form of "Investment Syndicates" which issue Bonds in connection with various assurance and other companies. They cannot however be called Investment Trusts as they are understood in the West.

Their Investments.

The investment of the funds of these institutions is restricted to certain types of selected securities for dividend and to advances secured by mortgages for interest. Possible risks are thus reduced to the minimum. Purchase and sale of securities are also conducted by them very cautiously, only such transactions being taken up as are without any elements of speculation. The income from this line of business is generally treated as a reserve, only the income from interest and dividend being considered as distributable revenue. The investment is generally spread over a large variety of securities, thus securing a liquidity of capital which is so essential for such trusts. Some trusts confine their investments to one industry and to one country, but others extend their operations to more than one industry and to more than one country.

Fixed Investment Trust.

Some trusts specially select a number of securities for investment and never go beyond their approved list prepared on the basis of past records. Originated in America, this class of trusts which are known as *Fixed Investment Trusts*, allow division of the units of their shares which are in pretty large amounts for the purpose of transfer. They thus give facilities to the small investors to acquire their shares. The special merit of these trusts is that the channels of their investments being restricted to a few selected securities, financial jobbery by the authorities in lending out their capital is not very much possible.

Insurance Share Trust.

In the United Kingdom a Trust of Insurance Shares, constituted by trust deed, has been formed for the purpose

of investing in stocks and shares selected from a group of 31 British insurance companies. The duration of the Trust is 20 years and the investments are for the benefit of purchasers of " Insurance Unit " certificates, the current price of which is 20s. 6d. and any number may be bought in multiples of ten. The estimated yield is £3—9s. per cent. Not more than 10 per cent. of the Trust's funds may be invested in one company and not more than 5 per cent. of the issued share capital of any insurance company may be held. The purchase of certificates issued by the Trust enables an investor to obtain, free from liabilities, the advantage of the unimpeachable security afforded by the shares of insurance companies of the best standing.

Another Trust in the name of Bank & Insurance Shares Trust has been formed in London to deal in stocks and shares of 52 leading Insurance and Banking Companies of Great Britain, Canada, Australia, Newzealand, India and South Africa. It offers a most convenient method of securing a safe investment.

Its estimated initial gross yield at current prices, and based on cash dividends only, is from 3¾ per cent. to 4 per cent., and it is not unreasonable to expect that this return will increase in the future. The minimum initial purchase is 10 units (costing about £10—10s.).

Finance Companies.

There are Finance Companies in different countries which are formed almost for the same purpose as the banks or investment trusts. They ordinarily invest in securities considered to be safe and sound and do not restrict their operations in any way like the trusts. Besides, unlike the trusts they distribute dividends from the profits derived from purchase and sale of securities also. These companies may be in different forms and with different constitutions consistent with legal provisions of the country in which they are formed. Finance Companies are not met with in India, though the time has come when experiment may be started here with a few of them.

The classification of banking institutions according to functions was done most explicity in Japan with the New Savings Bank Act of 1921 and the New Banking Act of 1927-28. The classification is as follows :

Group. (A).

1. Ordinary Bank Commercial.
2. Savings Bank.

Group. (B). By Special Legislation.

1. Bank of Japan.
2. Bank for financing Agriculture and Industry.
3. The Hypollic Bank of Japan (for real estate mortgage), Agricultural and Industrial Banks.
4. The Yokahama Specie Bank (for purchase and sale of gold and foreign exchanges).
5. Mutual Loan Societies.
6. Negotiable Paper Instalment Sale Companies.
7. The Central Chest for Co-operatives.
8. Trust Companies.

The relations of these to the money market are not always simple, nor it is always correct to expect that the supplies and demands of Funds would always be in equilibrium. So far as the Central Banks are concerned, they manage to maintain contact with the money market through discounting of bills. Some banks rediscount, e.g. the Federal Reserve Bank of the U.S., the Bank of France, the old Reichsbank; the Australian Commonwealth Bank; the Norges Bank of Norway; etc. etc., and the result is expansion of the reserves of other banks. The Bank of England, however, followed a different method. All central banks except the Bank of Canada and the Federal Reserve Bank of the U.S., deal directly with the business community. Only the Bank of England and the Federal Reserve Bank of the U.S. try to control the money market by open-market operations.

The attitude of commercial banks to finance industries or agriculture with long term loans for fixed capital is negative generally all over. So also the attitude of the Central Banks. This is due to the nature of deposit banking. Industrial and Agricultural banking requires quite different methods of raising capital and funds and in all such events the assistance of the State, if not direct instrumentality, is required.

QUESTIONS BEARING ON CHAPTER XXIV.

1. Describe the importance of the bank.
2. Trace the origin of the banking system and give a brief history of its development into the present form.
3. What are the several forms of banks now met with ? Enumerate them with examples.
4. Give a short history of the origin and development of the Bank of England.
5. What do you know of the Bullion Committee ? Why was it appointed ?
6. What do you know of the controversy between the Banking and the Currency schools ? What were their view points about note issue ?
7. What were the main provisions of the Bank Act of 1844 and what have been their effects ?
8. What are the two separate departments of the Bank of England and what are the functions of each ?
9. What are the assets of the bank of England against which it can issue notes ?
10. What are the items shown as assets and liabilities of the Bank of England in its weekly reports ? Explain them.
11. What do you understand by the cash reserve of the Bank of England ? Why is it necessary ? State its importance.
12. What is the position of other British Banks in respect of reserve ?
13. Explain internal and external drains and state why and how they are caused.
14. State briefly the methods adopted by the Bank of England to prevent these drains.

15. Explain how these drains can be checked by an increase of the rate of Bank interest.

16. Why was the Bank Act suspended several times in England and what were the effects of these suspensions ?

17. What has the policy of the Bank of England been after the War in respect of the rate of interest to be charged and why ?

18. How is Foreign Exchange adversely affected by inconvertibility of paper currency ? How is now England affected in this respect ?

19. What were the arguments for and against the resumption of gold payment after the great War I?

20. What do you know of the Gold Standard Act of 1925 and what were its main provisions ?

21. Mention in brief the main functions of the Bank of England.

22. Why has Britain suspended the Gold Standard Act and what is the effect of this suspension on the exports and imports of England, India and also of other Gold Standard countries ?

23. Describe the constitution of the Bank of Scotland and the special features of Scottish Banks.

24. What are the special features of the Irish Banks ? What do you know of the constitution and power of note issue of the Bank of Ireland ?

25. Describe the Constitution of the Imperial Bank of India and the Reserve Bank of India.

26. What are the businesses which the Imperial Bank of India and the Reserve Bank of India are authorised and not authorised to do ?

27. What were the new functions given to the Imperial Bank by Ordinance No. VII of 1931? What are the effects of the restriction on sale of Gold or Sterling imposed by the above Ordinance, on the Exchange transactions ?

28. What is a joint-stock bank ? Why are the Joint-stock banks registered in India, not doing any foreign exchange business ?

29. What do you understand by private banks ? Have they now got power of note issue in England ?

30. Mention briefly the functions of a Bank.

31. What are Exchange Banks and Banks of issue and why are they so called ?

32. What is the Exchange business of a Bank ?

33. What are D. A. and D. P. Bills ? How are they generally disposed of by British exchange banks ?

34. How are commercial accounts between India and England settled through bills ?

35. What do you understand by Commercial or Trading Banks ? What is an Industrial Bank and what are its special features ?

36. What is an Industrial Bank ?

39.

37. What is the position of the Imperial Bank of India regarding industrial finance in this country ?

38. What is an Agricultural Bank and what are its special features ?

39. What are Savings Banks ? Classify them.

40. Compare Trustee Savings Banks with Postal Savings Banks mentioning their advantages and disadvantages.

41. What are Co-operative Banks ? What are their main features ?

42. What are special advantages of Co-operative Banks ?

43. What is an Investment Trust ? Differentiate it with a bank.

44. What are the special characteristics of Investment Trusts in regard to their operations ?

45. What is the policy which the Investment Trusts follow to secure liquidity of their capital ?

46. What are the special characteristics of a Fixed Investment Trust ? What is the special merit of such an institution ?

47. Explain the Insurance Share Trust formed in the United Kingdom.

48. Explain the difference between a Finance Company and an Investment Trust.

49. The rate of interest for the first half of the calendar year is different from that during the second on current accounts in some banks in Calcutta. Give your views as to the probable reasons for the same.

50. What is an Investment Trust ? What are its special features of safety ?

CHAPTER XXV.

BANKS AND SUPPLY OF CAPITAL.

(Continued).

THE MONEY MARKET.

Capital and Interest.

AS the various banks of the country control and determine the money market not only of that country but also of other countries to some extent, it is necessary that the reader should form a clear idea about what the money market means and how its rate of interest is fixed.

The banks conserve the available capital of the country the supply of which depends on the national savings. This saving is also regulated by the rate of interest it can earn. It should be borne in mind that there is the demand side as well as the supply side of the capital, and the rate of interest is the result of the interaction of the forces which influence both the borrowers and the lenders. On the demand side we have to take note of the advantages that may be obtained with capital by the businesses, that is, facilities for production and distribution, and on the supply side we have to note the inducement to the capitalist for lending money, that is, the rate of interest obtainable and the security of investment.

Gross and Net Interest.

The word interest however may mean a gross interest or a net interest. Hence their difference is to be understood. The interest we always find to be charged and paid is generally gross interest and its rate varies according to the risk of the investment of the capital. One business may be more risky than another and even the most sound business is risky to some extent, as no business can be free from the fluctuation of the market due to the commercial

and industrial changes; besides there is the work for watching, calling and reinvesting the capital. Hence the interest we find charged and paid in business, is not only the charge for the use of the money, but it includes something more to cover the risk of loss and for work and worry above referred to. This interest is the gross interest and it varies according to the presence of the above elements in the investment.

Net interest is the charge for the use of the capital when there is no risk and trouble in the investment, for which generally no payment is asked for separately, but which we find merged in the gross interest. So the gross interest is the net interest *plus* the payments for risk, work and worry. As there cannot be any investment in which there is absolutely no risk and which is free from the other elements mentioned above, however sound the investment may be, it is almost impossible to find the net interest in our every day life; but interest on Government stocks may be taken to be the nearest approach to it.

All credits of course depend on confidence which underlies all credit securities. The more this confidence the less the rate of interest, for the net rate of interest is charged when the security is absolutely sound and when there is no trouble in its collection—the gross interest depending on correspondingly increased risk and exceeding in special circumstances even cent. per cent. in the peculiar circumstances of some countries.

Strong and Slack Demand of Capital.

The demand for capital is due to the advantages that it brings and the facility which it gives to the conduct of business. But as is the case with labour, so is the case with capital. If you have plenty of it, the demand for it will not be so strong as it will be in case of its scarcity. Beyond a certain amount the advantages due to the employment of capital will diminish, until at a given rate of interest, it is only just worthwhile to borrow. The higher the rate of interest the less is the inclination to borrow.

How Savings and Prices of Savings are Regulated.

The supply of capital, as already noted, is due to the inducement to lend, *i.e.*, to the rate of interest and the nature of the security. When the rate of interest is very high, capital will be available in abundance; and a large overflow of capital, *i.e.*, capital in excess of demand, will have the effect of lowering the rate of interest and its supply will fall. Security is a very important factor in inducing the capitalist to lend money. In Europe, in the middle ages, and in India, until very recent times, people used to hoard money under the ground, because life and property were not then secure. With the establishment of stable governments in all civilized countries, and the establishment of a large number of banks, the state of things has changed and is changing. Very few literate and cultured people now think of putting by their money in that primitive way. So the savings of the people are now becoming more and more available to business, though obeying the above law. How the savings and prices of capital are regulated by interaction of its demand and supply and how a market rate of interest is produced, that is, how the price of capital is fixed, will be seen from the following illustrative table :—

Net rate of interest	Annual savings in lakhs of rupees	Demand for new capital in lakhs of rupees
0	15	100
1	20	70
2	40	60
3	50	50
4	55	45
5	60	40

We find that it is at 3 per cent. interest that equal quantities of capital will be demanded and supplied, in other words the interaction of demand and supply will produce a market rate of interest at 3 per cent. in the circumstances represented in the above table.

As there are different gross interests in different cases, the demand prices of capital in each case would express the

amount demanded at different rates of gross interest, and the supply prices would express the amounts that would be supplied at different rates of gross interest.

Function of the Banks in This Respect and Different Rates of Interest.

The function of the Banks in which we include all Financial Houses, Discount Houses and Bill Brokers' Firms is to organize and regulate as intermediaries between the lenders and borrowers, this supply and demand of the capital available for the loan and to fix the rate of interest for such loan, having regard to and perforce obeying the law above mentioned. So the money market may be said to comprise the aggregate number of lenders and borrowers for different periods and on different conditions. The Bank of England may be said to stand outside this money market in England, though the rates of interest fixed by it at different times, called the Bank rates, form the basis on which the other banks fix their interest rates for deposit and lending of money, in different circumstances. So we find different rates quoted. These rates are generally, *Bank rate*, *Discount rate* (market), *Short loans rate* (day to day), *Deposit rate at Call*, and *Deposit rate at Notice*.

Bank rate is the rate for discounting approved bills of exchange by the Bank of England in Great Britain or the Imperial Bank of India in this country for persons who are outsiders, that is, not their customers; but market rate is the rate charged by other bankers for discounting first class bills.

Short or Day to Day loan rates are the rates charged by the bankers for short loans, that is, loans repayable at call or within a week.

Deposit rate at Call means the rate allowed by bankers to the depositors of money with them, repayable at call, and that at Notice means the rate allowed for the deposits repayable at notice for a specified period.

From the above it will be seen that increase or a decrease in the bank rate of discount affects the other

discount and deposit rates, which increase or decrease in accordance with the bank rate that is to a large extent the basic rate of the money market.

Loanable Capital and Financing of Trade and Industry.

As already pointed out, interest is the price at which loanable capital is obtained and this price is higher or lower according to the intensity or slackness of the demand and supply of such capital.

The demand and supply of capital principally depend on the state of the trade—brisk trade increasing the necessity of discounting more bills than when the trade is stagnant with less bills to be discounted. Character of the trade also plays an important part in this respect, for sound trade readily attracts and obtains more capital than the trade of speculative nature, in which people have not much confidence. Capital also becomes comparatively shy when the political or social condition of a country is disturbed by wars or rumours of wars or any violent social upheaval affecting the nation. The activity of the stock exchange market also influences the money market— more money for investment in securities being required when the stock exchange market is brisk and less when it is inactive.

This loanable capital on account of the existence of the banking system is generally in the form of credit instruments, that is, cheques, bills of exchange, etc., etc., which are readily convertible into legal tender when necessary. The actual money in circulation is therefore much less than the amount which passes hands for business transactions. The savings of the nation remain in deposit with the banks in the form of loanable capital, and through banks it finds its way into the hands of those requiring its services for feeding and sustaining the commerce and industry in which they are engaged.

As stated above the banks in addition to performing various other functions, help in financing the industry and trade to a considerable extent. This is done by the banks' purchasing and selling bills of exchange (as explained in the

chapter on Negotiable Instruments), granting letters of credit, allowing cash credits and arranging many other forms of credit for trades and industries.

Types or Credit.

Business concerns may require at different times—

(a) A Short term credit.
(b) An Intermediate credit.
(c) A Long term credit.

The first is required for temporary use only for the purpose of purchasing stock or financing sale or for any other purpose in which the money obtained would be locked up for a short time only. The second is necessary in the case of hire purchase sales where the ownership of the goods sold is not transferred to the purchaser until the payment for them is completed, and for advances against deferred payment in which the ownership of the goods is transferred with the sale. Intermediate credit also becomes necessary in big long-term contract transactions like construction of roads, building of factories, etc., in which the final payment by the owner does not become due before the completion of the work. Such credits are generally arranged for a year or two and sometimes even for five years. The third is used when provision is to be made for investment of a permanent nature as in the case of erecting machinery and plants.

Short term credits are generally provided by the joint stock banks, the intermediate credits by some special organizations for the purpose and occasionally by the joint stock banks, and the long term credits by the general capital market in England as already described and by the Industrial Banks in Germany, the U. S. of America, Japan and some other countries.

Forms of Loans Granted by Banks.

The banks grant loan to their customers in different forms. It may be by arrangement of an *overdraft* on the current account or an *advance* of a *fixed sum* on loan

account. It may also be in the form of *discounting* of bills of exchange or promissory notes.

The customer in overdraft system is allowed to draw up to a certain amount in excess of his deposit by cheques on his current account. Interest in overdraft is charged on daily balance only. So the interest is reduced with deposits by the customer from time to time. The rate of interest is comparatively high in overdrafts. Besides, sometimes a commission is charged by the bank on the turnover.

The customer in fixed loan method receives an advance of a definite sum which is credited to his current account, the amount being debited to a loan account. Interest on loan account is comparatively low and any commission over and above the interest is scarcely charged.

From the point of view of the bank the method of financing by discounting bills is very satisfactory, as there is no uncertainty about the time of repayment which is known from the outset in such cases, the bill being payable at maturity, and lending on documentary bills is a safe investment for a bank. Besides, the bank, when discounting a bill, has the right of recourse against both the drawer and acceptor instead of its customer only as in the case of an overdraft.

Securities for Loan.

The bank will not in the ordinary course grant any advance to its customer without security of proper value for the amount lent and a margin for interest and other probable contingencies. These securities may be in different forms, the principal amongst which are the following:—

Stocks and Shares constitute ideal forms of securities and the bank will ordinarily advance up to 80 p.c. of the current value of first class stable securities. Gilt-edged securities and debentures of local bodies, for obvious reasons, are given much preference by the bank to other stocks and shares. Bearer securities are also given preference to registered securities inasmuch as the former can

be used as such by mere deposit while the latter require transfer and registration.

The bank would frequently advance on the security of *land* and *buildings* in which case it will either accept an *equitable mortgage* of the property in the form of deposit of its title deed or a *legal mortgage* in the form of a document transferring its ownership. The bank will generally prefer the second course; for, while by an equitable mortgage the bank does not acquire any right to realise the property without the order of the court, though it prevents the debtor from dealing with the property any further, by a legal mortgage the bank obtains the legal ownership of the property giving it full protection.

Document of title to the goods, such as bills of lading, etc., are also treated as securities for loans by banks. In such cases the domuments are handed to the bank with a *letter of hypothecation*, as it is called, acknowledging the bank's right to the goods and authorising it to dispose of the goods in case of failure of repayment of the money advanced on their security. As the value of goods frequently fluctuates, this form of security is not looked upon with much favour by the banks and ordinarily only a certain percentage, generally 50 to 70 per cent. of the invoice value of the goods, is advanced. Sometimes a higher percentage is allowed to parties having credit with the bank.

Advances are made by the banks on the security of a *life policy* either as a collateral or primary security. Not more than the surrender value of the policy for the time being is advanced by the bank and an assignment of the policy in its favour is always taken from the borrower.

When any of the above securities cannot be furnished, the bank would sometimes accept as security a substantial *third person* who would guarantee the payment of the loan. A written document is prepared in such a case by which the guarantor takes the responsibility of repayment when the principal fails to pay. The bank would sometimes ask the directors of a limited company to be the

guarantors for the repayment of a loan to the company, to make them personally liable.

Advances are generally made by the banks to the companies secured by *debentures* creating a *fixed* or *floating charge* on some or all the assets of such companies. This form of security is sometimes considered to be convenient for both the parties. Sometimes the *book debts* of a company are assigned by it as security. These book debts may be in relation to *specified contracts* or *specified creditors*.

These securities which secure to the lender the right of action collateral to or side by side with his right of action against the debtor personally for the overdraft or loan, are called *collateral* securities.

Financing Policy of the British Banks.

By the very nature of the sources from which the major portion of British, or its counterpart the Indian banks' funds are derived, these banks cannot grant *long term* loans. The bulk of deposits to these banks which forms a substantial portion of their resources, is *short-termed* or *current*, withdrawable by short notice, or without notice by cheque or otherwise, and hence they are not in a position to entertain an application for loan which is required for a long period. If on enquiry the bank finds that the loan asked for is likely to be reduced or repaid in a short time, that is, if it is satisfied that the applicant is likely to use the money as *liquid capital*, the application is granted ; but if it has reason to believe that the loan is likely to become "*frozen*," that is, to be employed as *long term capital*, the application is not entertained. As a result of this policy industries and agriculture have not obtained the required accommodation from the banks in England and India.

Financing Policy of the Banks of Other Countries.

Unlike the policy of the British banks, the policy of the Continental banks, specially the German banks, and the American and the Japanese banks, has been to encourage and help industries of their countries by granting *long term*

credits. As these banks help industries and commerce by big advances, they naturally remain in intimate touch with them and generally take power to appoint directors on their Boards, thereby controlling their operations. In France, generally the industrial issues are mainly subscribed by the banks which control the concerns to some extent. In the United States of America, practically all the big industries from their inception are connected with particular banks which sponsor their issues. The speculators and investors also receive accommodation from these banks. The State in all these cases is behind these banks and would come to their help if and when any untoward circumstances happen.

Japanese banks are of similar type and are supported by the State in their infancy. This support and control of the State enable the banks to help the commerce and industry of the country within a regulated sphere.

Need of India in This Respect.

As industries cannot flourish without long term credit, industrial banks are now indispensable for this country, but as money market is not likely to respond to a call for adequate help to such banks without proper guarantee, the State should be at their back to create public confidence in them. Various provincial Legislative Councils have passed State Aid to Industries Acts to afford relief to the industrialists in this respect, but they have not yet practically effected any material change in this direction, though provision has been made for granting loans, cash credits, overdrafts, etc., to those who may be in genuine need of them. Before any thing, however, can be done in this respect, finance must be secured by the Governments for the purpose, without which these provisions of the law will remain as dead letters and nothing but pious wishes. A State Bank for the purpose with Government guarantee for the investors at its back is what is needed under the present condition of the country.*

* For a fuller discussion about the necessity and constitution of such a Bank the reader is referred to the present author's book—*A State Bank For India.*

THE BANKERS' CLEARING HOUSE.

Most of the Payments in Credit Instruments.

We have mentioned before that one of the important functions of the bank is the extension of public credit. Cash payments in legal tenders for goods and other things purchased are not generally made, except in retail sales. Most of the purchases are effected on credit basis for payment at a future date and the payments are made not in legal tenders but by cheques and bills of exchange, etc. About 95 per cent. of payments immediate or future, it is computed, is made by these credit instruments, in all the great commercial centres of the world. These credit instruments are generally paid up into the banks for collection and credit to the account of the payee. Hence not much of legal tender, *i.e.*, currency, becomes necessary in such cases, as these payments are generally adjusted into the accounts of the bank and not asked for in cash. This system thus extends public credit to an enormous extent.

The following example will make the matter clear. Suppose A and B have the same banker X. A gives a cheque to B which is sent to X. The only thing X will have to do, is to debit A's account and credit B's account with the amount of the cheque and settle by book entries alone the accounts without interfering with the amount of currency in his possession. But let us assume the parties paying and receiving have different bankers, X and Y respectively, as is frequently the case. Now suppose X has cheques for Rs. 5,000/- on the customers of Y, and Y has cheques for Rs. 4,000/- on the customers of X. The only thing necessary for X in such a case will be to credit the account of his customer sending the cheques, with Rs. 5,000/- and debit other customers' accounts with Rs. 4,000/- for cheques presented by Y. Similarly, the thing necessary for Y will be to credit the accounts of his customer sending the cheques with Rs. 4,000/- and to debit other customers' accounts with Rs. 5,000/-. Here the payment of the difference of Rs. 1,000/- by Y to X will settle the whole series of accounts. This is not done by a direct payment by Y to X, but the

account between them is settled in a more simple method, through Bankers' Clearing House as explained below.

Clearing House in London and Its Members.

The great Clearing House in London is situated in Post Office Street. A huge amount aggregating about thirty-seven millions of pounds in cheques and bills only changes hands annually through this House without occasioning the use of any form of currency. The Clearing House is managed by a Committee of its members which draws up necessary rules and appoints a number of officers for its administration. The House provides accommodation for the officers of the banks which are the members of the Clearing House. These members are known as the London Clearing Banks. They are eleven in number. The majority of cheques drawn on English and Wales Banks passes through this Clearing House. There are separate Clearing Houses for cheques drawn on Scotch and Irish Banks.

All clearances are effected through the Bank of England which keeps an " Account of the Clearing House." All these Clearing Banks have also got their individual accounts with the Bank of England which are credited or debited according to the result of the day's clearing.

There are separate clearings for the cheques on the banks of the town of London (Town clearing), for the cheques on the non-metropolitan banks, that is, banks in London outside the town clearing (Metropolitan clearing), and for the cheques on the provincial banks (Country clearing). Town cheques are cleared twice—one in the morning and again in the afternoon. For the convenience of sorting, all cheques and other instruments of credit are marked "T," "M," or "C," standing respectively for town, metropolitan and country.

System Followed.

All the cheques received by the clearing banks are taken to the Clearing House by their respective clerks called runners, for settlement of claims against each other

and deposited on their respective desks there. All the cheques are then entered in the necessary books according to the system in force. Summaries are made and entries are totalled. A balance is then struck against each other. These balances are entered in a list with Cr. and Dr. columns. When all these are thus entered, the list is balanced and the amount owed by or to a particular bank, as the result of the day's clearing in respect of all other banks, is found out. From these balances of each bank a summary sheet is prepared. Orders are then made out signed by the Superintendent of the Clearing House or an Inspector, addressed to the Bank of England to make the necessary transfer from the "account of the Clearing House" to its own account or from its own account to the "account of the Clearing House" according as it has to receive or to pay, as shown in the balance sheet. This system, which works almost automatically, simplifies the whole transaction.

When the compilation of accounts and balancing are going on, cheques payable by the respective banks are carried there by their respective runners. If after scrutiny it is found that any of these cheques cannot be paid, the reason of refusal is entered in it and it is taken to the clearing house again where it is entered in the Dr. side of the list of the presenting bank and the final balance is struck before payments are made, by transfer entries.

Metropolitan and Country Clearing.

The Metropolitan clearing is effected in the same way as the town clearing, in which are included only the effects payable at the head offices and town clearing branches of the banks. The metropolitan clearing is for the cheques and bills, etc., payable by a large number of nearer suburban branches of the clearing banks and other banks outside the town clearing.

In the country clearing the cheques, bills, etc., payable by the provincial banks and outlying branches of the London clearing banks are included. The country banks

have their agents or offices in London and cheques are cleared through them. The clearing of the effects in these cases therefore involves some delay, as a day or two are generally required for their return from the country offices of the banks where they are sent to ascertain the condition of the accounts of the drawers, as in the case of town clearing.

The important provincial cities of England have got their own Clearing Houses through which the effects payable at the local banks are cleared. The clearing banks with rare exceptions have got accounts with the local branches of the Bank of England which perform the same functions in respect of these clearings as their head office does in the case of town clearing.

Scottish and Irish Cheques.

Scotland and Ireland have got their own Clearing Houses in account with the Bank of Scotland and Bank of Ireland respectively, through which the clearings are effected almost in the same way as the town clearing in London. There is no Central Clearing House for the clearance of the cheques on all the three countries, and cheques, bills, etc., payable by Scottish or Irish banks are cleared by post. A commission is therefore charged by the receiving banks for such clearing.

Banks on the "Walk."

Some banks which collect not through the Clearing House but through "walk clerks" or messengers, are said to be on the "walk." Foreign and colonial banks as a rule follow the system of making payments of cheques drawn on them through messengers, though they collect the effects paid to them through the Clearing House.

Clearing Houses in India.

There are Clearing Houses in India in Presidency towns and some other chief cities. The transactions are effected almost in the same way as they are done in England. In

Calcutta, the clearing is conducted by a supervisor appointed by the General Committee of the Clearing Banks' Association while the clearing houses at Bombay, Delhi, Madras, Lahore and Karachi are managed by the Reserve Bank of India. The clearing house at Cawnpore is conducted by the Imperial Bank of India.

QUESTIONS BEARING ON CHAPTER XXV.

1. What do you understand by money market? How and to what extent do the banks control it?

2. Explain how the rate of interest is the result of interaction of the forces influencing the lenders and the borrowers of capital.

3. Distinguish between gross and net interests and explain how the former varies in different businesses.

4. What are the principal factors which influence the savings of capital? Show by an example how a rate of interest is produced by an interaction of demand and supply of capital.

5. Explain strong and slack demand of Capital.

6. What do you understand by demand price and supply price of capital?

7. Explain bank rate, market rate, short term rate and deposit rate of interest of the bankers.

8. What do you understand by loanable capital? What are the factors which generally influence its supply and demand?

9. What are the functions of the bank in the conservation and distribution of loanable capital and how do these take place?

10. How do the banks finance the trade and industry of a country?

11. What are the main types of credit granted by the banks to those in need of it?

12. Explain Short term credit, Intermediate credit, and Long term credit, with examples.

13. By whom are these credits generally provided?

14. What are main types of loans granted by banks?

15. Explain overdraft and fixed loan mentioning the advantages and disadvantages of each.

16. What are the points of advantage for a bank to advance by discounting of bills of exchange?

17. What are generally the securities on which the banks advance? Compare their advantages and disadvantages from the point of view of both the bank and its customer.

18. Differentiate between equitable mortgage and legal mortgage.

19. Explain a letter of hypothecation. When does it become necessary?

20. What is the general policy observed by banks in advancing on the security of Life Policies?

21. What is the procedure followed by the banks in advancing to the companies on the security of their debentures and book debts?

22. What do you understand by collateral security?

23. What is the general policy followed by British and Indian banks in granting loans? Compare their policy with that of German, American and Japanese banks.

24. What are the advantages enjoyed by these foreign banks in respect of granting long term loans to the industries and commerce of their countries and what are the drawbacks of the British banks in this respect?

25. What are the difficulties in India which stand in the way of obtaining industrial finance by those who require it? How can these difficulties in your opinion be removed?

26. Sketch out a plan of establishing a State Bank for India with a view to giving facilities to the people of this country to secure industrial finance.

27. What is meant by bankers' clearing house? Show by an example how the system of clearance by banks extends public credit.

28. Describe the constitution of the Clearing House in London; who are the members of this House?

29. How is the clearance effected through the Bank of England? Describe the system followed in clearance.

30. Explain Town clearing, Metropolitan clearing and Country clearing. Why are they so called?

31. How are the clearances by the provincial clearing houses of England effected?

32. Describe the system of clearance by Irish and Scotch clearing houses.

33. What do you understand by the banks on the "walk"?

34. Describe the system of clearance in India and state the function of the Reserve Bank of India in this respect.

SOME UNIVERSITY QUESTIONS.

1. Describe the different methods of financing a business in India.
2. What part is played by exchange banks of India in financing international commerce?
3. Describe the different methods in which a bank can function as money-lender. Use the exact technical terms.
4. Estimate the services of a clearing house organization for banks.
5. Explain clearly how movements in the Bank rate affect the price of securities in the Stock Exchange. Also show how trade is affected by a low Bank rate.
6. Can a bank help to develop the inland and foreign trade of a country? Explain fully by giving suitable examples, showing clearly the different steps taken by banks to safeguard their interests.

CHAPTER XXVI.

INSURANCE.

Preliminaries.

INSURANCE is a commercialised form of distributing risks amongst a group of persons. It is in fact nothing but an economic co-operation in particular undertakings by the society. Unfortunately it is not for every one to win in the battle of life; misfortune leads many to failure. But if those who are fortunate, contribute a small portion of the fruits of their success towards the keeping of their unfortunate brethren afloat, those unsuccessful combatants can still save themselves in the struggle of life. As none can predict as to who will win or who will lose in this struggle, every one of this co-operation is called upon to take upon himself the task of protecting one another from the probable future misfortune by subscribing to a common fund. This protection against future misfortune and failure is Insurance. Everything has a monetary value. It is insured in order to prevent the loss of this value. Every person can fix a value on his life or property and can insure against its loss.

The Insurer, the Insured and the Premium.

Insurance is therefore a safeguard against many of the risks to which life and property are exposed. Those who take this risk in consideration of a payment called the *premium* are the *insurers*, and those who enter into contracts with them to be compensated from the common fund to which they have contributed, if and when the risk materialises, are the *insured*.

Rating up the Risk and Its Effect.

While providing against loss of life and property, insurance helps appreciably to reduce the chance of such

loss. This is done by penalising those who expose their lives and properties to unnecessary risks and encouraging those who take proper care for them; for instance, where a person is exposed to undesirable risk for being employed in a hazardous occupation in an unhealthy surrounding, he is charged higher premium, but one whose employment does not involve any such risk is charged a lower rate; and where a building with a defective construction is "rated up" in fire insurance, a reduction of premium in the shape of discount is allowed to a properly constructed building with fire extinguishers installed in it. This encourages healthy mode of life and due precaution against loss of property, minimising the chance of any injury to them.

Difference Between Assurance and Insurance.

These two words are synonymous and are generally used without any discrimination in this country by those who are concerned with the subject. In England, however, a fine distinction now-a-days seems to be observed between these two words, specially by those in authority, and a certain statutory recognition of this distinction is found in the nomenclature of some Acts of Parliament in which the word "Assurance" has been applied to contracts guaranteeing the payment of a sum certain on the happening of a specified event which is sure to happen and the word "Insurance" has been used in connection with contracts stipulating the payment of some compensation on the happening of a certain event which is not sure but may or may not happen and which is therefore a contract of indemnity against a contingency. Most of the life assurance policies comes under the former heading, while the fire, the marine and the burglary, etc., policies come under the latter. It is therefore more correct to use the word "Assurance" in connection with life policies and "Insurance" in connection with other policies as above mentioned.

LIFE ASSURANCE.

Life Assurance is a contract by which the assurer in consideration of payment of a premium agrees to pay to

the assured or to his estate in case of his death, certain sum after a stipulated time or at death, as the case may be. The most important use of Life Assurance is to provide for old age and dependants; but in the Western countries it is often used for the repayment of capital on the death of a partner, as a collateral security for a loan and for making provision for death duties.

Mortality and Premium.

At first the rates of premium were fixed by some kind of guess work and no difference was made in respect of persons of different ages. But with experience it was found that the rate of mortality has a fixed course, and that out of a given number of persons alive, it can be approximately foretold from past experience how many will die within a given time, even war, famine or pestilence not affecting this number very appreciably. It was also found that with the increase of age the rate of mortality has a tendency to increase, that is to say for instance, that out of a thousand persons aged fifty, a greater number will die in a year than out of a thousand persons aged twenty-five, within the same period. A more scientific method of charging premium varying according to age was therefore adopted. The investigators in this line then began to embody the results of their experience in tabular forms and these tables may be said to be the forerunners of what are now called the Mortality Tables.

Different mortality tables have been prepared in different countries of Europe and America, which have formed the basis of all calculations of assurance companies in those countries. The most recent table on which many of the Life Offices are now basing their premium rates is the O.M. table embodying the British Offices' mortality experience of ordinary male lives.*

* This latest table is also now becoming almost obsolete for the progressively improving longevity of the British nation. Within the last half a century the national health of the English people has greatly improved. While in the decade 1871—80 expectation of life at birth was 41 years for boys and 44 years for

As life assurance is founded on a co-operative basis, a community is formed, and a proportionate contribution for his age and prospects of life is equitably allotted to each of this community. Those of this group who happen to live long pay rateably for those who happen to die early; but as it cannot be ascertained first which of this group of persons at a given age will survive a long period and which of them will die soon, a premium rate is fixed on the basis of mortality chance for each age.

Premium Table.

The funds of life assurance companies are invested on interest. There are compound interest tables at different rates prepared by the Actuaries in which the result of investments on various rates has been calculated and tabulated. The premium tables have been constructed by a mathematical combination of these mortality and interest tables.

As already mentioned the rate of mortality increases with the increase of age. It therefore follows that the rate of premium should increase year by year as the life assured grows older, if it has to pay each year's premium at the rate calculated on this basis. This system, it is clear, will involve a premium at the old age that would be so high as to be prohibitive for life assurance to most people, as none would care to keep the policy in force by paying premium at such an exorbitantly increasing rate. It is on account of this, that instead of increasing the rate of premium with age, the system in vogue is to charge the premium at a level rate throughout the period of assurance or the whole life, as the case may be.

Valuation, Policy Reserve and Surplus.

A policy-holder therefore actually pays at the commencement, at a higher rate than is required for a single

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girls, to-day it is 56 for boys and 60 for girls. The death rate in the interval has been reduced from 21 per thousand to 12 per thousand and infant mortality rate from 140 per thousand births to 60 per thousand births.

year in order to make up the lower rate to be paid later in life for a single year. That is, the amount paid in excess of what is required to meet the claims of each year in early life, increased at compound interest, makes up for the deficit on account of the low rate of premium paid later in life. It is therefore apparent that on each policy a certain sum must accumulate every year to be increased at an interest, to form a fund to meet the future liability of the policy. This accumulation is called the Reserve on the policy. It is not to be taken as the surplus or the profit of the company, as this must be set apart against the future liability of the policy. At the time of the periodical valuation of the company this Reserve is to be calculated on all policies and it is the excess, if any, of the total assets, over it, that is to be considered as the Surplus.

A portion of this surplus is generally allotted to various funds of the Company for the purpose of strengthening its position and the balance, if any, is distributed according to the provisions of the Deed of Settlement or the Articles of Association as the case may be, amongst the policy-holders of different descriptions in mutual offices and according to the Articles of Association amongst the policy-holders and share-holders in Proprietary Offices.

Retrospective and Prospective Method of Valuation.

Valuations are made by Actuaries at least every five years, but some companies value their assets at shorter intervals, say, one or three years according to the provisions of their Articles of Association or Deed of Settlement. The object of the valuation is to ascertain the condition of affairs of the company by a sifting investigation. It consists in ascertaining the amount to which the excess premium paid in earlier years of a life, as mentioned above, would at compound interest accumulate as at the date of the valuation. This method of valuation is known as Retrospective method. This sum being accumulated at compound interest would just suffice to make up the deficiency which would otherwise have occurred on account

of the premiums to be received in later years being less than what is necessary for meeting the claim as it arises in future.

This sum can also be ascertained by finding the excess of the present value of the claim payable under the policy in future over the present value of the premiums receivable in future. This method is known as the Prospective method, and is in practice generally followed. The result, it will be noted, arrived at by both the methods would be the same. The amount thus ascertained is known as the *Reserve* or the *Policy Liability* which, as will be understood from what is stated above, is nothing but the present value of what the company will have to pay to the policy-holder on its maturity minus the present value of what the company will receive from him in premium subsequent to the valuation. This Reserve therefore is necessary to keep the company alive and as a matter of fact for its very existence.

Annual Account, Balance Sheet and Life Assurance Fund.

The total premiums collected and other incomes of a Life Office in any year, less the expenditure including the claims arising during the year, as disclosed in its Revenue Account, should not therefore be taken as the profit or surplus of the company, nor should the excess of the expenditure including the claims, over the premiums collected and other incomes, should be taken as the loss of the company. In the periodical Revenue Account or the Profit and Loss Account as the case may be, and in the Balance Sheet, of concerns other than a Life Assurance company, only the true incomes and all liabilities are respectively taken into account and therefore the difference as disclosed in the revenue account between incomes and expenditure is the true profit or loss of the concern. But the premium income shown in the periodical revenue account of a Life Assurance company can not be regarded as true income of the company, neither does the balance sheet show all the liabilities of the company.

The excess, if any, of the income side of the revenue account of a Life Assurance company over the expenditure side, goes year after year to form a fund called the Life Assurance Fund. Should there be any shortage, it operates as a diminution of that fund to the extent of the shortage. The liability which is not shown in the periodical balance sheet of a Life Office, as referred to above, arises from its policy obligations. This liability is ascertained by the periodical valuation generally at longer intervals and the amount to which the Life Assurance Fund has grown as at the date of valuation, less this liability, is the true *profit* or *surplus* as disclosed in the *Valuation Balance Sheet* prepared after the valuation. Should the former fall short of the latter, the balance is the *loss* or *deficit* of the company. So it is this valuation balance sheet which shows the profit or loss of a Life Office.

Proprietary and Mutual Offices.

Life Assurance Companies are divided into two classes —Proprietary and Mutual. The joint stock Life Assurance companies are proprietary inasmuch as the share-holders of these companies who have invested money with a view to make profit, are entitled to a portion of it according to the arrangement made by the Articles of Association when the company was started. A Mutual Office has no such share-holders and the preliminary expenses for the formation of the company were advanced by a group of insurants who afterwards received their money back from the fund of the company. The insurants have therefore not to share the profits with any group of capitalists and the whole of the distributable profits goes to the policy-holders. There are some minor sub-divisions of these two classes of Life Offices, but for our present purpose these can be ignored.

Sources of Surplus or Profits.

We have now come to understand what is meant by the profit of a Life Assurance company, but when the rate of premium is generally settled on the basis of a fixed rate

of mortality, interest and establishment, where does the profit come from? We find no source of prospective profit in the rates of premium charged as they are calculated on the basis of what is required to cover the risk on the lives assured and to meet the incidental charges in that connection. Let us now therefore trace the sources of this profit and consider the various causes at work which determine the result of working of a Life Assurance company.

Profits From Favourable Mortality.

The rate of premium charged by Life Assurance companies is based on the mortality table (of which there are many) adopted by the company. Sufficient margin for safety is always kept in calculating the rate of premium charged from the insurants on a stringent mortality basis. In well managed offices where the selection of lives is properly regulated, the mortality rate is generally found to be favourable than the rate assumed for the purpose of calculation of premium, and as a result the company pays less than its estimated amount for death claims. Thus a saving is effected and as the periodical valuation is made on the basis of mortality assumed in the beginning, a surplus is disclosed on this account, which improved at compound interest, becomes a source of profits for the company. Efficient and sound management is of course the condition precedent to obtain good result in this respect.

Profits From Loading.

To understand this source of profits, it is necessary to understand the difference between "office premium" and "net premium." The premium paid by the insured for his policy is not the net premium, but it is the office premium charged by the company. The *net premium* is the bare sum which, improved at a certain assumed rate of interest, is required to meet the amount of the policy when it becomes a claim; but this is not the only sum required by the Life Office to conduct its business. For in addition to

e meeting of its policy claims on maturity or death, it th[is] to meet the office expenses for management of the affairs of the company, to pay the agents to secure business and to make some provision with a safety-margin to meet emergencies on account of unforeseen circumstances. There are to be provided for, by adding an extra amount to the net premium, and the amount arrived at by this addition is the *office premium* which the insurants pay. The extra charge thus made on the net premium is called "loading." Extra charges are sometimes made on lives considered to be under-average by the company for various reasons, which are also called loading.

Now the emergency provided for, may not happen and the establishment charge and agents' commission may be reduced by economic and judicious management. Something, therefore, can be saved from this loading and as a matter of fact those companies which have added a substantial amount to net premiums as a loading, save not an inconsiderable sum from it. This annual saving improved at compound interest becomes a source to yield a surplus at the time of valuation and increases the profits of the company to be distributed according to its regulations. Here also we find that good result depends on economic and judicious management.

Profits From Interest.

Then comes the rate of compound interest earned on the fund of the company over and above the rate assumed in the premium table. This requires some explanation. There are premium tables on the basis of different rates of interest, and different tables are adopted by different companies. With careful and sound management, specially in respect of investment of the company's fund, the rate of interest earned frequently exceeds the rate of interest assumed in the premium table adopted resulting in a surplus. This happens so frequently that a profit from this source is very common to assurance companies, as the premium table adopted by companies is calculated on the basis of generally

a very low rate of interest, while the companies without much exertion may earn a higher rate than the rate assumed in the table.

Profits From Other Sources.

Last though not the least is the surplus from forfeitures, lapses and surrenders. For various reasons, chief amongst which are wilful misstatement and false declaration in the proposal, the policy is sometimes forfeited to the company during its continuance. Many policy-holders, for change of circumstances or any other reason, are compelled to discontinue payments of premiums on their policies. Some policy-holders for the same reason surrender their policies to the company and receive their surrender value. The Reserve created on the premiums paid on these policies, less the amounts paid as the surrender value in the last case, is retained by the company, which increased at compound interest, swells the surplus at the valuation or in other words adds to the profits of the company.

Distribution of Profits.

The profits made by the company from the above sources are distributed amongst those who are entitled to receive them according to the Deed of Settlement or Articles of Association of the company, in the shape of bonus addition to the policies or cash, at the time of the valuation. This distribution of profits is a very complicated affair and various nice procedures are followed to safeguard the interests of different classes of insurants. The bonus is not generally paid in cash but sometimes its cash value is allowed to be drawn by the policy-holders. The process of distribution of profits is very subtle and there are many varieties of the methods of allotment of surplus to the different classes of policy-holders.

Apportionment of Profits in Proprietary and Mutual Offices.

In proprietary offices the capitalists obtain a portion of the profits of the company or in some cases an interest on

their money or both, according to the arrangement made in the beginning of the company by its Articles of Association or their subsequent amendment. The portion of the profits that generally goes to the proprietors is about 5 to 25 per cent. of the divisible surplus in such cases. In the mutual offices the whole of the profits set apart for division is distributed amongst the policy-holders only, subject to the conditions in their Deeds of Settlement or Articles of Association.

With and Without-Profits Policies.

There are "without-profits" policies issued by almost all the Life Assurance companies and those who assure under this system, of course, are not entitled to any share in the profits of the company. Those who assure under the "with-profits" system get a share of the profits, but these shares are not the same in the case of all such policy-holders, as the profits of the company are not the same from the premiums paid by the different classes of policy-holders. Policies of long duration bring more profits to the company than the policies of short duration. Comparatively more profits accrue to the company in the case of premium paid by the insurants with a "loading." Policies running for only two or three years do not generally bring any profits to the coffers of the company.

For these and for some other reasons it becomes necessary for Life Offices to ascertain means and to adopt devices for equitable distribution of their profits. The practices followed by different companies are not exactly the same in this respect; but generally, unless the policy is in force for at least two or three years, no company allows any portion of its profits to its holder. There are, however some companies which would declare a bonus on policies from their very beginning but others would not allow it to vest unless the policy has been in force for at least a few years. As a result no profits become payable to these policy-holders unless their policies have completed this period.

Different Rates for Different Classes.

Life Offices make very strict calculation as to the profits accruing from different classes of policies and fix the rate per cent. on the face value of the policies, to be adopted in distribution of profits amongst them in strict conformity with the actuarial advices in this respect; but it is not possible to ascertain how far the actuaries can be accurate and just to all the policy-holders in recommending a level rate for adoption. Substantial justice is, however, done to all the policy-holders by adoption of the under-mentioned two systems of distribution which are now followed by almost all the life offices in regard to their allotments of profits to each class of policy-holders, though some offices specialise in and claim equitable treatment by introducing *deferred bonus* system meaning the vesting of the bonus, only on the premiums paid amounting to the face value of the policy at a stated rate of interest.

Compound Reversionary Bonus.

This system is believed to be the most equitable form of distribution of profits. Under it a bonus per cent. is declared at the periodical valuation of the company for all the policy-holders of different classes, irrespective of the form and duration of the policy and the age of the assurant, and the bonus is calculated in subsequent distributions not on the face value of the policy only, but on the sum to which the amount of the policy stood after addition of the bonus declared in the previous valuation, thus compounding the bonus additions at each distribution.

An example will make the matter more clear. Take one rupee to be the rate per cent. on the face value of a policy to be the bonus declared by a Life Office from year to year for some time and let us assume that the valuation and distribution of profits are made by the company every five years. The following table will show what a policy for Rs. 1000/- will amount to, under compound reversionary bonus system, at the expiry of different bonus periods:—

Duration of the policy (in years.)	Amount of the policy before the bonus addition (in rupees.)	Bonus (in rupees.)	Amount of the policy after the bonus addition (in rupees.)
5	1000	50	1050
10	1050	52-8	1102-8
15	1102-8	55-2	1157-10
20	1157-10	57-14	1215-8
25	1215-8	60-12	1276-4

and so on

Fraction of an anna has been ignored in this calculation. It will appear from the above table that the bonus-additions to the policies under this system of distribution will proportionately increase with the increase in the period of duration of the policy, and thus justice and equity will be secured to older insurants when their claim to bonus is compared with that of the newer entrants.

Simple Reversionary Bonus.

In this plan of distribution of profits the same system is adopted only with the difference that the bonus is not calculated on the amount arrived at after the previous bonus addition to the policy, as in the compound Reversionary bonus system, but simply on its face value, every time a distribution takes place.

For example, let us take one rupee and eight annas to be the rate of bonus, instead of one rupee as assumed in the previous case, the other conditions being the same. We assume a higher rate of bonus in this system of distribution as it is always possible to declare a bonus at a higher rate where the amount after bonus addition is not compounded, as in this system, but the bonus is declared on the face value of the policy, again and again, requiring a smaller amount for distribution. Now let us see the result from the following table on a policy of Rs. 1000/-.

Duration of the policy (in years.)	Amount of the policy before the bonus addition (in rupees.)	Bonus (in rupees.)	Amount of the policy after the bonus addition (in rupees.)
5	1000	75	1075
10	1075	75	1150
15	1150	75	1225
20	1225	75	1300
25	1300	75	1375

and so on.

It will appear from the above tables that the amount of the policy after bonus additions is greater in the Simple Reversionary system than in the Compound Reversionary system up to 25 years, but if the process of calculation is continued for some more years, the amount under the "Compound" system will exceed the amount under the "Simple" system, and after 40 years, it will be seen, this greatly exceed the amount under the "Simple" system, as the amount under the "Compound" system will continue to add to its volume at an increasingly higher proportion at every distribution. Hence the longer the duration of the policy, the better the bonus in the "Compound" system.

Other Systems of Distribution.

There are companies which probe the sources of surpluses more carefully and adopt more subtle and accurate methods of distribution. There are also companies which are not making any profit at all for years, and no question of bonus arises in their case; but there are companies on the other hand which are declaring a bonus at much higher rates than those assumed above. Some companies distribute bonus on what is known as the "contribution" basis, which means giving the highest return to the policies longest in force.

When the Bonus is Payable.

There is likely to exist a misunderstanding amongst the uninitiated that the bonus declared by the companies is payable to the policy-holder immediately it accrues to the

policy. This is not the fact except in cases where it is otherwise arranged. The reversionary bonus is payable with the amount of the policy when it becomes a claim either on death or on survivance, but there is always a cash value attached to the bonus, and this is available to the policy-holder, either in cash or towards the abatement of the future premiums of the policy either up to the time of the next valuation year or throughout the whole future duration of the policy. It is needless to state here that the cash value of the bonus will be the smallest if taken at the time of the declaration, but will increase with the lapse of time over which the payment of premiums is spread—the full amount being reached at the time when the policy becomes a claim.

Bonus in whole Life and Endowment Assurance Policy.

It should be observed here that all Life Assurance Offices do not declare bonus at the same rate on their whole life and endowment assurance policies; but they regulate these bonus additions to their different classes of policies in such a way that the cash value of the bonus on all the policies may approximately be the same. Thus as the average duration of a whole life policy is longer than that of an endowment policy, it becomes necessary for these Offices to apportion their distributable surplus at a higher rate per cent. to the whole life policy-holders than to their assurants under the endowment assurance plan, as otherwise the cash value of the bonuses declared for both the classes of policy-holders, cannot approximately be the same. This practice is however sometimes deviated from for various reasons.

Interim Bonus.

An important thing to be mentioned here is that claims for payment on policies frequently arise during the intervening period between two valuation years, and the rate of bonus to be declared for the period between the previous valuation and the time of the policy becoming a claim can-

not be ascertained before the next valuation is finished. In such cases Life Offices ordinarily allow to such policy-holders a bonus at the rate at which it was declared at the last preceding valuation; but some companies make an exception to this practice and allow a bonus at a lower rate than that declared at the last valuation, to these policy-holders. This practice, however, is now being discarded by most Life Assurance Companies which are adopting the system of allowing a bonus at the current rate in such cases. The bonus for this intervening period is called Interim Bonus.

Immediate and Deferred Bonus.

Most of the Life Offices issue policies which may either be with profits or without profits at the discretion of the proposer. The former participate in the distributable surplus of the company at the valuations and the latter do not. A with-profits policy may also be with immediate bonus or with deferred bonus. In the former the assured begins to participate in the surplus immediately from the time of taking the policy or after a short period, but in the latter he is allowed to participate after the fulfilment of a certain condition, generally on the premiums paid by him, increased at a certain rate of interest, amounting to the face value of the policy or after a stipulated number of years.

Surrender Value and Loan.

Generally, a very hazy idea exists amongst the public about the surrender value of Life Assurance policies. Many are apt to think that the companies always treat the policy-holders unjustly in this respect. But this is not the case.

The surrender value is the amount which the company pays to the policy-holder in total discharge of his interest, in case he does not wish to continue the policy by payment of further instalments of premium. It represents a portion of the Reserve on the policy and naturally increases with continued payment of premium. It has however no direct

relation with the premiums paid, though a practice is now growing amongst assurance companies to allow as surrender value a fixed percentage of the premiums paid, commonly 40 p. c. in with-profits and 30 p. c. in without-profits policies inclusive of bonus already added to the policy in the former, minus the first year's premium which is generally spent for expenses for securing the policy-holder and on miscellaneous heads. Many companies would, instead of giving such a guarantee, pay outright a certain portion of reserve, as surrender value; but many others instead of following either of the above courses will allow a surrender value dependent on a calculation on the basis of age of the policy-holder, duration of the policy, nature of the policy, and some other matters. The policy-holder, however, in no case can claim the return of the premiums paid, for the risk on his life has been covered during the currency of his policy and this cover must be paid for.

All the policies do not normally carry a surrender value, for instance, in temporary assurances and some other special forms of assurances no surrender value is allowed. A policy also does not acquire a surrender value unless it has been in force generally for at least 2 or 3 years.

Life Assurance Companies as a rule grant loans to their policy-holders or their legal representatives on the security of the policies at a moderate rate of interest, though it is always higher than the bank rate for the time being. The loan value of the policy is usually 95 p.c. of the surrender value acquired by the policy—the balance 5 p.c. being retained by the company as a margin for arrears of interest.

Automatic Non-Forfeiture.

The system of automatic non-forfeiture was at first introduced by Australian Life Offices, on the basis of a measure enacted by one of the American States. This provision of the law, however, had the effect of only postponing the lapsing of the policy. The Australian Offices improved on it and many other Offices adopted the system of this non-forfeiture, as it is called. It can briefly be stated in this way :

When the assured becomes unable to pay or does not pay the premium, the policy in the usual course lapses. Against this contingency many of the companies have made provisions to keep the policy in force by advancing the premium from the surrender value then available, without any move on the part of the assured. An interest is charged at a fixed rate and the policy automatically remains in force, until the exhaustion of the surrender value by such advances, after which, if the payment of premium is not resumed, the policy lapses. The automatic non-forfeiture system has now been adopted by almost all the progressive Life Offices.

Paid-up Policies.

The amount to which the sum assured with any bonus that might have accrued to it would be reduced, if the assured does not want to pay any further premium and would request a resettlement of his policy contract, is the paid-up value of the policy. Generally after the premiums have been paid for at least three years, the policy may be surrendered for a paid-up policy instead of taking the surrender value. In cases where the premium is payable for a stated number of years, the amount of the paid-up policy will be in proportion of the number of premiums paid, to the total number of premiums payable. Where the premium is payable throughout whole life, the company quotes the amount of the paid-up policy on receiving application. Some companies would issue paid-up policies without any request, instead of advancing the premium from surrender value.

Claim and Reduction of Premium.

A claim on a policy may arise either by death or survivance according to the terms of the contract. Claims on policies maturing during the life time of the assured, are paid at once on proof of age if not already proved, but claims on death are not paid before satisfactory evidence of death is produced and the legal title of the

claimant to receive the proceeds of the policy is established. Proof of age is necessary in all cases. Suicide does not vitiate a policy unless it takes place, ordinarily, within one year from the date of the policy.

It is the common practice of the companies doing business in India to allow a reduction in the rate of premium if the assured leaves India to live in a country which is comparatively healthy. This is generally done when the life assured proceeds to Europe or to America north of 33° North Latitude. On return of the party to India he is again charged at the policy rate.

Under-Average Lives.

Proposals are often received by Life Offices on lives which are considered by them to be below the average. Such proposals are treated in different ways by different companies. Some Offices decline outright to accept such lives but others accept them by charging in different forms, an extra premium for the extra risk. Generally, this extra is charged in the form of a percentage on the face value of the policy, but there are Offices which prefer a "loading" or "rating up," meaning adding a number of years to the age of the life assured according to the extra risk involved. Another system, called the "lien" system, is followed by some other Offices, under which the usual rate of premium is charged but the sum assured is reduced in the event of death within a stipulated period. This reduction diminishes year by year and disappears altogether at the end of that period, when the policy becomes entitled to the full amount of the assurance on its becoming a claim.

Days of Grace.

Life Assurance companies as a rule allow a certain time, generally 30 days in the case of yearly, half-yearly, and quarterly payments and 15 days in monthly payments of premium, for payment of premium without any penalty after the due date of payment of same. These days are

called the days of grace. The policy is not affected in any way, if payment is made within these days.

Assignment of a Life Policy.

A life assurance policy is always assignable for valuable consideration, that is, for money, friendship, love for blood relationship or marriage, or for any other benefit from the assignee. The assignment is to be in writing and a notice of such assignment is to be given to the company for registration with a fixed fee for it. If the assignment is made by an indorsement to that effect on the policy itself, then no separate stamp on it is necessary, but in case it is made by a separate document, proper stamp is to be affixed to it. An assignment may be absolute, that is, irrevocable, or conditional, that is, revocable on the fulfilment of the condition attached to it; for instance, when a policy is mortgaged, the assignment is revoked on payment of the money for which the assignment was made in favour of the mortgagee. A life assurance policy forms part of the estate of the assured or his assignee just like other properties, and is treated like them after his or her death, unless it is under the Married Women's Property Act which, *inter alia*, provides, that a man may take a policy on his own life for exclusive benefit of his wife and/or children or any of them.

The Proposal.

A person willing to assure his life is required to make a proposal for it on the company's prescribed form. He is to answer questions in it with the utmost good faith and to sign a declaration which forms the basis of the future contract of the assurance. The facts stated in the proposal are legal warranties and are treated as such in the policy. The proponent after the completion of the proposal is medically examined by an appointed or recognised medical man and the proponent has to make certain statements to him in reply to the queries contained in the medical examination form. These statements are not of course warranties but they are representations of facts which must be substantially accurate.

Insurable Interest.

A person can of course assure his own life, but he can assure another person's life also, provided he has an insurable pecuniary interest in that life. For instance, when a person has stood security for another in a loan transaction, the former is entitled to assure the life of the latter, or when a person is in business in partnership with another, he is entitled to assure the life of such another person, as the death of the partner will affect his pecuniary interest probably in the necessity for a return of the capital brought by the partner in the business. In the beginning of life Assurance business, Law did not interdict assurance without insurable interest, as will appear from the *facsimile* of a policy on the life of Napolean Bonaparte next to this page.

KINDS OF LIFE POLICIES.

There are various kinds of life policies granted by companies according to the requirements of the public, on different rates of premium, all based on the calculation according to the mortality and interest tables, as the most important amongst which may be mentioned the following :—

Whole Life Assurance.

As its name implies the assured amounts in such policies are payable at death only, the premium being payable either throughout whole life or for a certain stipulated number of years—the claim being always payable at death of the assured to the person entitled to it. The less the number of years over which the payment of the premiums is spread, the higher its rate—the lowest rate being for payments throughout whole life and the highest being for a single payment only. The policy may of course be with or without profits at the option of the assured.

Endowment Assurance.

This class of policies provides for payment of the policy amount, with profits if so arranged, after a stipulated number of years, or on attainment of a specified age by the

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assured or at death, if previous. This form of assurance therefore provides for old age or for the dependants in the event of early death. As it thus covers two risks, that is, confers two alternate benefits, the premium in it is higher than that in whole life assurance, for it must combine two premiums—one for the temporary assurance and the other for the endowment on expiry of the specified period.

Double Endowment Assurance.

This form of assurance is generally offered to persons whose lives are considered to be under-average. In it a much higher rate of premium is charged. The sum assured is payable in the event of death within the term of years selected, and double the sum assured is payable in the event of survival after the term. It is a combination of an endowment assurance and a pure endowment.

Joint Life Assurance.

In this form of assurance the sum assured is payable at the end of the endowment period selected or in the event of death, if previous, of either of the life assured. The plan is suitable for two members of a joint family or for two partners of a business to re-imburse the loss sustained by the survivor in case of death of either of them.

Children's Endowment Assurance.

These policies are taken by parents or guardians to provide for educational or marriage expenses of their children on attaining a stipulated age, or for giving them a start in life at the proper time or for any other such objects. The policies being taken on the lives of children at their early ages, the rate of premium is low in this form of assurance. It is generally stipulated in these assurances that should the child die before the endowment period, the premium paid would be returned with or without interest. These policies are now generally issued with the risk on the life of the parent or guardian, that is, a provision is made in the policy that should the parent or guardian paying the

premium die before the endowment period, further payments of premium would cease, and the policy would at once become a paid-up one for its face value payable at the end of the endowment period. This plan is now becoming very popular on account of its advantages.

ANNUITY.

Periodical payments at equal intervals made to a person throughout his or her life, generally by a Life Assurance company, in consideration of a payment either in a lump sum or spread over a number of years, are termed Annuities. Life assurance in its present improved form is an institution of about 100 years, while the system of annuity can be traced to a time before Christ. This allied branch of life assurance has not however received in India the attention it deserves.

Its Antiquity and Old Method of Calculation.

A system of calculation for annuities seems to have been prevalent in Rome before the beginning of the Christian Era. The system is traced to 40 B.C. At that distant time under the provision of the Falcidian Law, then governing the usage of the Romans, no one had the right to bequeath more than three-fourths of his property to a person other than his legal heir, that is, every one was bound to leave at least a quarter of his property to his natural heir. When a person died leaving an annuity for a person not being his legal heir, the value of the annuity had to be ascertained in order to give effect to this provision of the law ; in other words, it was to be ascertained whether the value of the annuity exceeded three-fourths of the value of the property left by the deceased.

The practice prevailing at the time for this was to take the value of the annuity to be thirty times of what is called its annual rent, when the age of the annuitant was thirty years or less, but when the age of the annuitant exceeded thirty years, then the value of the annuity was ascertained by multiplying the annual rent by the number obtained by

deducting from thirty the number of years by which the annuitant exceeded that age, that is, the calculation was based on the assumption of the average duration of life to be sixty years and the *interest* was not taken into consideration.

National Loans by Annuities.

After this period the practice of granting annuity is found in many countries in many forms. Most of the European countries raised national loans at different times through and on the basis of annuities—the system being generally termed Tontines. This calculation of the contingency of life and death has therefore played an important part in solving many financial problems of the world.

In England annuities are now granted by the Government through the Postal Savings Bank. Depositors may purchase annuities on their own lives or the lives of other persons over five years of age for any sum from £1 to £100 per annum. The Government of India also grants annuities to its servants through the Post Office. Annuities are generally paid in equal half-yearly instalments.

Annuity and Assurance.

The amount for which the life is assured is payable either at a fixed time or at death, but the annuity is payable only during the life time of the annuitant, whether he or she lives for a few years or many. The annuity is purchased by the payment of a lump sum at a time or by making payments at a fixed rate for a certain specified period. The payment of annuity ceases after death and the principal is not returned. So the annuity is the reverse of the assurance in a sense, inasmuch as while in the former payments are made in instalments during the life time of the annuitant, in the latter the policy amount is paid in a lump sum after a fixed period or at death. Calculations in respect of annuities are based on the mortality and interest tables as in the case of life assurance.

Different forms of Annuities.

Annuities are of two classes—Annuity Certain and Life Annuity. The former is not connected with life, death or any other contingency. It depends on the calculation of compound interest alone and ceases at the end of a fixed period. The latter is very intimately connected with life assurance, being dependent on life and death contingency. A person having a capital which he need not leave behind for the benefit of others may obtain as large an income as possible by purchasing an annuity which he may either enjoy himself or with which he can make provision for some other during the latter's life time.

Benefits of Annuity.

Annuity therefore seems to be better than assurance in a way to make provisions for declining years of the person for whose benefit it is purchased, for it places the income for those years on a sound and stable footing. A pure life assurance policy giving the same advantage cannot protect the proceeds of the policy from risky investments or from being spent up within a short time in other unintentional ways. As the capital invested in purchasing annuity is not returned, the income from annuity is necessarily higher than from other classes of sound investments and any one who can afford to pay down a lump sum at a time or spread over a few years, necessary for the purchase of an annuity, may secure tranquility for himself or his nominee in his or his nominee's declining years.

It is not an easy matter to earn an income by personally investing a capital, for there is the risk of depreciation and loss, but by purchasing an annuity one need not worry himself in this respect, for he remains assured of an income from this capital, which income necessarily is much larger than what he could expect from investments through other channels. Purchase of annuities is therefore a very attractive system of investment, either of large or moderate amounts, to meet all conceivable circumstances of persons requiring future provision and resultant peace of mind and comfort.

Annuities on Male and Female Lives.

It is interesting to find that there is a difference in the rate of annuities purchased for a similar amount by or for a male and by or for a female annuitant. The amount of consideration being the same, a man would receive it at a higher rate than a woman in their declining years for the provision of which annuities are purchased, though in life assurance a woman would generally be called upon to pay a higher rate of premium than a man. So to the uninitiated this arrangement may appear to be a little unfair, but it is in strict conformity with the experience of mortality of the two sexes. The following mortality table of the Institute of Actuaries giving average duration of life and probability of living more than one year, of both the sexes, will be interesting :—

Table Showing Average Duration of Male and Female Lives.

Average Duration of Life.			Probability of Living More than 1 Year.	
Age.	Male.	Female.	Male.	Female.
20	42·061	40·815	·993671	·993122
30	34·681	34·503	·992299	·988150
40	27·399	28·253	·989694	·987453
50	20·306	21·616	·984050	·985547
60	13·830	14·851	·970322	·976319
70	8·495	9·082	·937808	·944357
80	4·719	5·450	·855348	·878214

It will appear from the above table though the average duration of female lives is less than that of male lives in early ages, it is longer than that of male lives at forty though the probability for a female of living more than a year at that age is less. At fifty and all subsequent ages, both of these are in her favour. Annuity being generally purchased for the benefit of the people in advanced ages, specially for the benefit of females, the insurance company, for the above reason, would have to pay the annuity to the female annuitant for a longer period than it would have to pay to

the male annuitant of the same age. The company can therefore afford to pay her only a smaller annuity for the same amount of purchase money. But at the ages when people generally effect assurance on their lives, the above factors are against her and necessarily she is called upon to pay a premium at a higher rate.

INVESTMENT OF LIFE ASSURANCE COMPANIES.

Accumulation of Funds.

The reader will understand from the foregoing discussion that a large amount of money will accumulate with an Assurance Office after only a few years of its working, provided the management is sound and honest. This fund must find outlet at a remunerative rate of interest, as compound interest is always taken into account in all calculations in life assurance. Unlike the bank on which there may be a run at any time, the life assurance company need not always keep any substantial fluid assets in hand, for its time of payment is fixed by a policy contract and it is therefore known beforehand what amount will be necessary at any particular time to meet its commitments. Hence the life assurance company can afford to invest the major portion of its funds in longer term securities, in contrast with the bank which can grant only short term loans.

In What They Invest.

The very position of a Life Assurance company in relation to its policy-holders, precludes any possibility of a run on it and the company generally invests in Government Securities of different types, Railway, Corporation and Port Trust Debentures, Shares and Stocks of sound Public companies and other reliable securities, on which a regular and sometimes a liberal rate of interest or profit is obtainable. The Life Assurance company also invests on the mortgage of real properties and on the security of other first class

assets of companies or private persons and frequently keeps large amounts in fixed deposits with banks, the interest accrued being again invested to earn compound interest.

Life Assurance Company and Bank.

Though the Bank feeds the Commerce and Industry of a country directly, the Life Assurance company practically does the same thing indirectly and not exactly in the same way, for the duty of a Life Office is to see more to the interest of its policyholders than to the interest of commerce and industry of the country. The fund invested by it, however, finds its way to the capital market through the banks and other channels of its investment.

A specimen of a modern life assurance policy will be found at the end of this chapter.*

QUESTIONS BEARING ON CHAPTER XXVI.

1. Explain fully the term Insurance and state what you understand by the words—Insured, and Premium.
2. What is the effect of **rating up the risk** in Insurance ?
3. Explain the difference between the terms—Insurance and **Assurance.**
4. What is Life Assurance ?
5. How does a life assurance company determine the amount of premium to be charged on each policy ?
6. How are the rates of premium in life assurance adjusted between lives of different ages ?
7. What are the mortality tables ? What is their utility ? How have they been prepared ?
8. What is meant by Policy Reserve in Life Assurance ? How is it ascertained ? What are Valuation and bonus in Life Assurance ?
9. Differentiate between Proprietary and Mutual Life Offices.
10. What are the sources of surplus in Life Assurance ? Explain them.

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* For a detailed study of the principles and practice of Life Assurance, the reader is referred to the present author's book—*Guide to Life Assurance.*

11. How are the apportionment of profits made in proprietary and mutual offices ?

12. What is the policy generally followed by Life Offices in apportioning profits to the different classes of policyholders ?

13. Differentiate between Compound Reversionary bonus and Simple Reversionary honus, giving examples.

14. What are the systems other than the above, followed in the distribution of profits ?

15. When is the bonus payable ? How is its cash value calculated ?

16. What do you understand by Interim bonus ? On what basis it is paid ?

17. Explain the difference between the Immediate bonus and the Deferred bonus systems.

18. Explain Surrender value. On what does it depend ?

19. Explain Automatic Non-forfeiture and Paid-up policies.

20. What do you understand by Days of Grace ?

21. How can a life policy be assigned ? What is the difference between absolute assignment and conditional assignment ?

22. Explain Insurable interest with examples.

23. What are the kinds of policies generally issued by Life Offices ?

24. Explain Joint life assurance and Childrens' endowment assurance.

25. What is Annuity ? Trace its antiquity. What was the basis of its calculation during the Roman period ?

26. How is a National loan raised through the Post Office by granting annuities ?

27. Contrast between Annuity and Assurance.

28. What are the different forms of Annuities ?

29. Explain the advantages and disadvantages of the annuity system.

30. Why is there a difference in the amounts of annuity granted to male and female lives, for the same amount of purchase money ?

31. What is the general policy adopted by Life Offices in the investment of their funds ? Compare this policy with that of banks.

32. In what do the Life Assurance Offices generally invest ?

33. Compare the function of a Bank with that of an Insurance Company in financing trade and industry.

34. What is the necessity of a 'quinquennial valuation' in life insurance office ? What do you understand by 'a bonus of 25 per thousand has been declared on endowment policies' ?

..... LIFE ASSURANCE COMPANY LIMITED

HEAD OFFICE:.....

(INCORPORATED IN INDIA 18....).

WHEREAS THE.....LIFE ASSURANCE COMPANY, LIMITED, hereafter called the Company, has received a Proposal and Declaration for Assurance which Proposal and Declaration with the statements contained and referred to therein the Proposer named in the Schedule hereto has agreed shall be the basis of this Assurance and has received the first Premium for an Assurance of the amount and on the terms stated in the said Schedule.

NOW THIS POLICY WITNESSETH, that in consideration of the Premises and on condition that there shall be duly paid to the Company the subsequent Premiums as stipulated for in the said Schedule, the Company will upon proof to the satisfaction of its Directors that the Sum Assured has become payable in terms of the said Schedule be subject and liable to pay the amount thereof, but without interest, to the person or persons mentioned in the Schedule as entitled thereto.

PROVIDED ALWAYS that proof of age of the Life Assured, and of the title of the person or persons claiming payment, shall be furnished to the satisfaction of the Directors before payment of the Sum Assured as aforesaid, and that when the Premium is payable half-yearly, quarterly or monthly and death takes place before all the Premiums have fallen due for the Policy year then current, the unpaid premiums falling due before the next anniversary of the Policy shall be deducted from the Sum Assured at settlement.

PROVIDED ALSO that in case the said Premiums shall not be duly paid as aforesaid or in case any special condition endorsed hereon shall be contravened, or in case it shall hereafter appear that any untrue or incorrect averment is contained in the Proposal and Declaration above mentioned, or in the statements referred to therein, or that any of the matters set forth or referred to therein have not been truly and fairly stated or that any material information has been withheld, then and in every such case, this Policy shall be void, and all claim to any benefit in virtue of these presents shall cease and determine, and all moneys that have been paid in consequence thereof shall belong to the Company, excepting always in so far as relief is provided in terms of the Privileges printed on the back hereof, or may be lawfully granted by the Directors of the Company.

PROVIDED ALSO that, in case the Life Assured shall, within one year from the date of commencement of this Assurance, commit suicide, whether insane or not at the time, the liability of the Company shall be limited to the extent of any beneficial interest which any person (other than Life Assured) shall prove to the satisfaction of Directors to have been acquired in the Policy *bona fide* and for valuable consideration and of which notice in writing shall, at least one Calendar month previous to his death, have been given to the Company at its Office in.....and save and except to that extent this Policy shall be void and all claims to any benefit out of, or interest in the Funds of the Company, by virtue of the presents shall cease and determine.

AND IT IS HEREBY DECLARED that this Policy of Assurance shall be entitled to the Privileges printed on the back hereof, and that the following Schedule shall be deemed part of the Policy.

SCHEDULE.

POLICY NO.	CLASS ENDT. ASSOC.	PROFITS.	DATE OF PROPOSAL.
Name, Residence and Occupation of the proposer (the Person to whom this Policy is issued).			
Name, Residence and Occupations of the Life Assured (the Person upon whose Life the Policy is issued).			
SUM ASSURED		PREMIUM	
TO BECOME PAYABLE		WHEN DUE	
TO WHOM PAYABLE	The Proposer or his Assigns or his proving Executors or Administrators or other Legal Representatives who shall take out representation from any British Court to his Estate or limited to the moneys payable under this Policy.	FOR WHAT PERIOD PAYABLE	
SPECIAL PROVISIONS			

IN WITNESS WHEREOF these presents have, by order of the Board of Directors, been Sealed with the Seal of the Company, stamped, and signed on its behalf at....., this day of Nineteen Hundred and

EXAMINED

MANAGER
DIRECTOR
DIRECTOR

THE

..... LIFE ASSURANCE COMPANY LIMITED.

.....

ENDOWMENT ASSURANCE POLICY.

No. on the life of

for Rs.

Premium Rs.

due

and thereafter

Agency

N.B.—You are requested to examine this Policy, and if any mistake be found therein, to return it immediately for correction.

ENDORSEMENTS.

PRIVILEGES WITHIN REFERRED TO

DAYS OF GRACE.—One calendar month but never less than 30 days is allowed as Days of Grace for payment of yearly or half-yearly premiums, and 15 days for quarterly or monthly premiums. If death occur within that period and before payment of the premium then due, the Policy will still be valid, and the sum assured paid after deduction of the current year's premium.

REVIVAL OF DISCONTINUED OR LAPSED POLICIES.—When the premium is not paid within the days of grace, the Policy lapses, but may be revived during the lifetime of the Life Assured on the following terms:—

(1) Within six months from the due date of the first unpaid premium without evidence of health on payment of the premiums in arrear with interest at the rate of 1 per cent. for each month or portion of a month reckoning from the due date of each premium paid late, subject to a minimum payment on this account of 8 annas.

If revival is completed within seven days from date of lapse a simple revival charge of 8 annas only will be required, no matter what the amount of the premium may be.

(2) At any time after the first six months from the due date of the first unpaid premium on production to the satisfaction of the Directors, of an approved Medical Report, at the Life Assured's own expense, regarding his health and habits and on payment of the premiums in arrear with interest thereon at the rate of 9 per cent. per annum compounding half-yearly reckoning from the due date of each premium paid late.

Arrangements will be made by the Company for Medical Examination by an appointed Examiner, the fee for which is required to be paid in advance.

NON-FORFEITURE REGULATIONS.—If, after at least three full years' premiums have been paid in respect of this Policy, any subsequent premium be not duly paid, this Policy shall not be wholly void; but in the event of the premiums being limited in number, the sum assured by it shall be reduced to such a sum as shall bear the same ratio to the full sum assured as the number of premiums actually paid shall bear to the total number originally stipulated for in the Policy, provided such reduced sum be not less than Rs. 250. In the event of the payments being unlimited in number and provided the Policyholder makes application in writing and sends the Policy for endorsement within one year from the date of lapse, the sum assured by it shall be reduced to such sum as can be allowed according to the rates of the company provided such reduced sum be not less than Rs. 250. The Policy so reduced shall thereafter be free from all liability for payment of the within-mentioned premium, but shall not be entitled to participate in future profits. If the Policy be on the With-Profit Scale, the existing vested Bonus Additions (if any) will remain attached to the reduced Paid-up Policy.

GUARANTEED SURRENDER VALUE.—This Policy can be surrendered for cash so long as it is in force for the full sum assured or at any time after it has become paid-up for a reduced sum in terms of the immediately preceding conditions as to Non-Forfeiture, provided always that the premiums have been paid either for at least three years or to the extent of one-tenth of the total number stipulated for in the Policy, if limited in number.

The minimum Surrender Value allowable under this Policy is equal to 30 per cent. of the total amount of the within-mentioned premiums paid excluding the premiums for the first year and all extra premiums that may have been paid on account of profession or occupation. If the Policy be on the With-Profit Scale the cash value of any existing vested Bonus Additions will also be allowed.

The Surrender Value will be paid to the person legally entitled thereto at any time while the Policy is in force either for the full sum assured or as a paid-up Policy for a reduced amount. If payment of premiums be discontinued after a Policy has acquired a Surrender Value as above provided, but before a sufficient number have been paid to entitle the Policy, under the above printed conditions as to Non-Forfeiture, to remain in force for a reduced sum of Rs. 250 or more, the Surrender Value will not be entirely forfeited, but will be held at the disposal of the Policyholder or his legal representatives for a period of Five Years from the due date of the first unpaid premium, and if not claimed within that period will become forfeited.

LOANS.—These are granted for amounts within the Surrender Value of the Policy subject to production of satisfactory title. When the Policy has not been assigned or otherwise dealt with the only expense to the borrower is the Stamp Duty on the Loan Bond.

INDISPUTABILITY OF POLICIES.—Notwithstanding what is within stated, after the Policy has been in force for two years and provided the Age has been admitted, it is, except on the grounds of Fraud, indisputable in connection with any statement made or referred to in the Proposal.

TRAVEL, RESIDENCE AND OCCUPATION.—This Policy is free from all restrictions as to Travel, Residence and Occupation.

REDUCED PREMIUMS FOR RESIDENCE IN EUROPE.—If the Life Assured proceed to Europe, or other part of the world which the Directors may consider equally healthy, the premium shall be temporarily reduced during residence there.

PAYMENT OF CLAIM OUT OF INDIA.—In the event of payment of a claim under the Policy being required to be made out of India, Burma, or Ceylon, the sum due will be paid at the rate of exchange current on the date of peyment.

ASSIGNMENT OF POLICIES.—Assignments, or notices of assignment, are received and registered in the books of the company on payment of a fee of Rs. 2-8 for each Policy. Assignments or notices thereof should be sent in duplicate to the Manager in.....

CHAPTER XXVII.

INSURANCE (*Continued*).

MARINE INSURANCE.

Its Practice in Olden Days.

THE system of Marine Insurance law can be traced to very remote past. We read in the works of Livy that the contractors who had undertaken to supply provision to the Roman Army in Spain, stipulated with the Government that the latter would be responsible for loss due to perils of the sea. He further tells us of the case of one Posthumius who during the second Punic War was found to have practised fraud and deception on the Government in one of such cases. Seutonius has left a record how the Emperor Claudius undertook maritime risks to encourage importation of corn. Accounts are not wanting in the writings of Cicero which bear testimony to the transactions of this kind.

The Italians seem to be the first to introduce contracts like Insurance Policies to cover risk in transit and they most probably carried the system along with themselves into Portugal, Spain and Flanders. Testimony is not wanting that the system of Marine Insurance was first conceived in the great commercial cities of northern Italy in the thirteenth or fourteenth century A. D. Contracts entered into in 1318 A. D. are found amongst the old documents of the Chamber of Commerce of Florence, which bear testimony to the custom of insurance against loss of property in transit. In a Genoese Policy dated 1347 A. D. it is found that there was a promise to pay a certain imaginary sum to the owner in the case of loss of some goods insured. From this old origin an elaborate system of Marine Insurance has grown up and commercial people of all the civilized countries are taking advantage of it to cover their risks in transit of goods.

Contract of Indemnity Freely Assignable.

Unlike Life Assurance, Marine Insurance, as is now practised, is a Contract of Indemnity, that is, a contract to indemnify against loss, as in the case of Fire Insurance. But the theory and practice of Marine Insurance are necessarily different from those of the two other forms of Insurance above referred to. It is an arrangement under which the underwriter, so called, as he signs his name under the Policy, undertakes to compensate the owner of a ship or cargo for loss due to perils of the sea. Land transit and transit by inland waters from one place to another are also covered by Marine Insurance, the risk in them being considered to be similar to that of marine adventure.

A marine policy is freely assignable merely by *blank* or *special* indorsement, for while the goods are covered by such a policy, they may be sold several times over when on the water, and the insurable interest in them may pass hands several times before the goods reach the party actually taking delivery of same.

Charter Party.

When any contract is made for such carriage of goods it is called a *Contract of Affreightment.* The contract may be for hiring the whole ship or it may be for sending a small consignment in a ship. In the former case the contract is entered into by a Charter Party, while in the latter only a Bill of Lading serves the purpose. When the ship is hired for a particular voyage or voyages it is a *Voyage-Charter,* and when it is hired for a definite time it is a *Time-Charter.* In either case the Charter Party contains the terms and conditions of the contract, in which the mutual obligations and responsibilities of the shipowner and the shipper regarding the destination of the voyage, the seaworthiness of the ship, supply of cargo, payment and rate of freight, loading and unloading of cargo, time for such loading and unloading and demurrage, etc., are set forth. The days allowed by the contract for the purpose of loading and unloading are called the *Lay days* and demurrage is charged

STEAMER

SPECIMEN CHARTER-PARTY.

A

LONDON, Jan. 8, 19 .

Stamp 6d.

IT IS THIS DAY MUTUALLY AGREED BETWEEN *Morning Steamship Co., Ltd.*, Owners of the good Steam Ship called the "Sunrise" of the measurement of 1.500 Tons Nett Register. 2,700 tons dead weight cargo capacity guaranteed, classed 100 A 1 Lloyd's or equal thereto, now *lying at Valencia* and *Jones Jones & Co., of Liverpool* Charters, THAT the said Steamer being tight, staunch, and strong, and in every way fitted for the voyage shall with all convenient speed, sail and proceed to *Liverpool and Glasgow*

or so near thereunto as she may safely get, and there load, always afloat, from the Factors of the said Affreighters, a full and complete cargo, consisting of lawful merchandise,

which the said Affreighters bind themselves to ship, not exceeding what she can reasonably stow and carry over and above her Tackle, Apparel, Provisions, and Furniture; and being so loaded shall therewith proceed as ordered on signing Bills of Lading to

Bombay,

or so near thereunto as she may safely get, and deliver the same, always afloat, on being paid Freight as follows:—

Twenty-two shillings per ton,

being in full of Port Charges as customary.

1.—The Freight to be paid at Port of Discharge on unloading and true delivery of the Cargo in Cash at current rate of exchange.

2.—As much Cash as Master may require for Ship's ordinary disbursements at Port of Loading, not exceeding £30 to be advanced (if required), subject to 3 per cent. for Interest and Insurance.

3.—Merchants have the full range of Vessel's holds, including cross and halfdeck bunkers, if any, and right of shipping Cargo on deck (at their risk), in so faras compatible with Steamer's seaworthiness.

4.—Five days. Sundays, and holidays excepted, are to be allowed the said Merchant (if Ship be not sooner despatched, Charterers having liberty to load up to midnight) for loading and discharging, but time occupied in shifting ports not to count, and *two* days on demurrage over and above the said laying days at *three* pence per nett register ton per day. Lay days in each port to count from Captain's notice of readiness for loading and discharging. Charterers to have option of loading and discharging on Sundays and holidays, such days to count as lay days for time actually occupied.

5.—The Act of God, perils of the sea, fire on board, in hulk of craft, or on shore, barratry of the Master and Crew, enemies pirates, and thieves, arrests and restraints of princes, rulers and people, collisions, stranding, and other accidents of navigation, excepted, even when occasioned by negligence, default or error in judgment of the Pilot, Master, Mariners, or other servants of the Shipowners. Not answerable for any loss or damage arising from explosion, bursting of boilers breakage of shafts, or any latent defect in the machinery or hull, not resulting from want of due diligency by the Owners of the Ship or any of them, or by the Ship's Husband or Manager.

6.—The Ship has liberty to call at any port in any order, to sail without Pilots, to tow and assist vessels in distress, and to deviate for the purpose of saving life or property.

7.—The Cargo to be brought to and taken from alongside the Ship at Merchants' risk and expense.

8.—The Captain to sign Bills of Lading as presented, if in accordance with Mate's receipts, and at any rate of Freight, without prejudice or reference to this Charter-Party if not at variance therewith, the owners having a lien on the Cargo for Freight, Dead Freight, and Demurrage. Should the total Freight shown by Bills of Lading amount to less than the Freight stipulated by this Charter the Difference to be paid to Captain before sailing, and should the Freight shown by Bills of Lading amount to more than the Freight stipulated by this Charter, the Difference to be paid before sailing to Charterers by Captain's Draft on Owners, payable 48, hours after arrival at discharging port.

9.—The Captain to telegraph arrival at outward discharging port to.....*Owners at Newcastle*, also to telegraph them his departure for loading port.

10.—Steamer not answerable for leakage, or breakage, unless occasioned by bad stowage of cargo.

11.—Lay days not to commence before the *25th day of March*, 19 and should Steamer not arrive and be ready to load at first loading port on or before *5th day of April* Charterers to have the option of cancelling this Charter.

12.—Any difference respecting the interpretation of this Charter to be settled in accordance with the customs of the port where it arises.

13.—*Five* per cent. Address Commission is payable to Charterers at port of loading. Vessel to be addressed at ports of loading and discharge to Charterers or their Agents, paying the customary fees for transacting Steamer's business, and to employ Charters stevedors for loading and discharging at not exceeding customary rates. Charters to have the use of Steamer's winches, Captain supplying necessary men and coals to work same.

14.—*Five* per cent. Brokerage on the amount of Freight is due by the Ship on the signing hereof to ship lost or not lost.

15.—Penalty for non-performance of this Agreement, estimated amount of damages.

Morning Steamship Co., Ltd.,
A. Coxton, Managing Director,

Witness to the Signature of *M. S. S. Co.,*
A. H. Green.

pp. Jones Jones & Co.,
Hughes Jones.

of Jones Jones & Co.,
W. M. Hughes.

by the shipowner according to the stipulated rate when the ship is detained beyond those days.

Bill of Lading.

A bill of Lading similarly contains the terms and conditions of the contract and serves the purpose of a receipt for the goods shipped. The Bill of Lading is a document of title to the goods and is transferable by indorsement and delivery by the holder. When the shipper draws a bill of exchange and discounts it with a banker for immediate accommodation, this Bill of Lading is generally attached to the Bill of Exchange, as already explained. The consideration for the shipowner in a voyage is the freight paid by the shipper which is generally paid beforehand in the case of the contract by a Bill of Lading, and at port of destination in the case of the contract entered into by a Charter-Party. The goods carried by the ship are also sometimes called freight.

Risk of Parties.

It will appear from the above that the parties—the shipowner and the shipper—run considerable risk in sea voyages, the former in respect of his ship and the latter in respect of his shipment, and a marine policy becomes necessary for the owner for protection against total loss or damage to his ship or any loss to the freight earned, and for the shipper for protection against loss to his shipments. There are certain responsibilities of the shipowner as carrier, in respect of the goods consigned by the shipper both under the Bill of Lading and Charter Party contracts, but they of course do not cover the risk on account of any acts of God, perils of the sea, fire on board, etc., and the underwriter's responsibility begins where that of the shipowner ends under the contract. Marine Insurance therefore plays a very important part in the transaction of business involving transit of goods.

With Whom Marine Insurance Can be Effected.

A marine policy may be taken from any big joint stock company of which there are many, or from the underwriters

of Lloyd's. The former is called a Company Policy while the latter is termed a Lloyd's policy. While a Lloyd's policy must be taken through a broker, a Company policy need not necessarily be effected through a broker. In case of risks for big amounts, the company reinsures the whole or part of the risk with another company or the members of Lloyd's will not reinsure, as they take individual risks according to their own capacity.

The brokers through whom marine insurance is effected with Lloyd's receive a commission of 10 p.c. on the premium arranged by them, the shippers not being called upon to pay anything to them except the actual premium paid through them. It takes some time to prepare and issue the policy after the receipt of the premium, but the *Slip* initiated by Lloyd's underwriters when consenting to take the risk and the *Covering Note* issued by the companies are binding on them in the meantime. This slip or covering note is also assignable by blank or special indorsement like the policy itself.

UNDERWRITING BY LLOYD'S.

Lloyd's has a romantic history of its origin. In the seventeenth century Edward Lloyd had a coffee house in London where captains of ships, merchants, underwriters and other people interested in maritime commerce used to resort. Here they used to insure ships and cargoes in addition to conducting other business. Edward Lloyd for the convenience of his customers at first began to collect information about shipping and publish such information. The coffee house thus came to be very popular and became a centre for marine insurance business when the underwriters of Lloyd's became famous. A big insurance concern thus developed.

The coffee house was originally situated in Tower Street but was shifted to more than one place with the spread of its name and fame. The Lloyd's is now located in Leaden-

hall Street in its own palatial structure known as Lloyd's Building.

The name of Lloyd's of London is well known all over the world as underwriters and the public are aware of the fact that its members undertake the risk of almost every contingency that may happen on our Globe. Few, however, know what it exactly is and what is the precise nature of its world-wide business of insurance against all possible risks.

There are many Insurance companies which conduct business of Insurance against various contingencies, but Lloyd's has a special method of its own and it takes risks against many contingencies which an ordinary Insurance company would not undertake.

Its Constitution and Underwriting Business.

To understand the nature of the business undertaken by Lloyd's, it is necessary to understand its constitution. Like the various Insurance companies Lloyd's is also incorporated into a Society, though not under the Life Assurance Companies Act, but the business of this incorporate Society is not underwriting. The Society in its corporate capacity publishes a daily Shipping List, called *Lloyd's List*, which gives all necessary information about almost all matters connected with the shipping of the world, and the members of Lloyd's as well as other people interested not only in Insurance, specially Marine Insurance, but also in other affairs of life, obtain their guidance about shipping business, from this List. The List generally contains description of all movements of different ships in all the principal ports of the world, which the Society daily obtains at its London office from the signal stations, correspondents and agencies which it maintains throughout the whole world. Lloyd's in its corporate capacity also publishes annually a Statement of ship building and ship repairing industries of the world with statistical tables to help its underwriters and others in their business of accepting risks in Marine Insurance.

Besides the above, Lloyd's publishes a *Register of shipping*. This register is not compiled by the incorporated

Society but by a Committee of its members. This register classifies the ships in three divisions about their seaworthiness, the premium for insurance of the first class ships being lower than the premium to be charged for second and third classes, and that for the second being lower than what is to be charged for a third class ship. Rate of premiums for insurance also varies according to the packing of the goods forming the cargo of these ships, the charge for zinc and wood packing, for example, being lower than that for mere wood packing.

As stated above the business of this marine underwriting is not taken up by the incorporated Society of Lloyd's which publishes the above literature and maintains signal stations and correspondents throughout the world to help their members who are the actual underwriters in their individual capacity. This is a unique feature of Lloyd's, not met with elsewhere in the world.

Procedures of Companies and Lloyd's Compared.

It is well known that the companies take up this business directly or through agents, and Marine Insurance for considerable amounts can be placed with them, though these companies, in policies involving large amounts reinsure a part of the risk with other companies and thus distribute the risk involved in these policies amongst more than one office. This precedure of reinsurance, however, does not affect the policy holders in any way and they obtain their policy money directly from the insuring company in case the contingency insured against happens.

The method of underwriting by Lloyd's is different, for the Society of Lloyd's does not undertake Insurance business as an incorporate body, and the risks are accepted by its members in their individual capacity. Each candidate for membership has got to satisfy the Committee of the Society that he is in possession of sufficient means to discharge the responsibilities of a marine underwriter and to deposit a heavy amount with the Committee as a pledge for the fulfilment of the obligations in the underwriting

business. No reinsurance is allowed to a member of the Lloyd's.

Besides, the Committee has for some time past recommended the audit of these individual underwriters to be done by an accountant approved by the Committee, to secure an insurance fund for each underwriter sufficient to meet his outstanding risks, by the certificate of this auditor.

Lloyd's may thus be regarded as an Exchange where the individual proposers and the individual underwriters meet for the purpose of transacting business when they can come to terms with each other. The business transaction takes place in this way.

Methods of Transaction of Business.

There are recognised Insurance brokers to arrange business with Lloyd's and the party wishing to insure with it, has to approach one of these brokers with his proposal. The broker will then quote his rate of premium, and if it is accepted, will draw up a memorandum called the *Slip*. He will then approach these individual underwriters with the slip and will enquire from them how much risk each of them is willing to undertake. He will thus go from one underwriter to another until the whole risk has been distributed by its acceptance by several underwriters by their signatures for the respective amounts on the slip. When the slip is thus fully underwritten, the broker prepares a policy on Lloyd's form and gets it signed by the underwriters for the proponent and hands over the policy to him. In this way the risk is distributed among several members of Lloyd's and in case the contingency insured against happens, each of them is called on to pay according to the amount of risk undertaken by him.

Other Risks Undertaken.

The underwriters of Lloyd's not only undertake marine risks but they insure against all sorts of contingencies—against chances of wars, against chances of changes in ministry, against chances of imposition of a duty and against

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Other Risks Undertaken.

The underwriters of Lloyd's not only undertake marine risks but they insure against all sorts of contingencies—against chances of wars, against chances of changes in ministry, against chances of imposition of a duty and against

various other chances—many of which are sometimes indistinguishable from a wager or betting. These are not recognised by law and an insurance contract that is nothing but a wager cannot be enforced in a Court of law. But Lloyd's in such cases is honour-bound to respect such contracts and as a matter of fact always pays the claims in such cases. The insurance companies would not take up such betting risks and the public gambling in such matters would go to Lloyd's for the purpose. The policies effected by persons not having an insurable interest in the object insured against, are also honoured by Lloyd's in the same way, though such contracts are not enforceable in law. A specimen Lloyd's policy is given at the end of this chapter.

MARINE POLICIES

Classification.

A marine policy "is a contract of indemnity against all losses accruing to the subject matter of the policy from certain perils during the adventure," and as stated before, it can be assigned to another person by mere indorsement and delivery. Policies of different descriptions are issued according to the necessity of the shippers, under different circumstances.

When an agreed value of the goods insured is inserted in the policy it is a *valued policy*, but when this is not done, it is an *open policy* in which the value of the goods is to be proved in case of a claim. Sometimes the limits of the risk are defined by termini in a particular voyage, *i.e.*, from one place to another, or by a specified period of time, *i.e.*, from one date to another, the policy under the former plan being called a *voyage policy* and that under the latter a *time policy.*

Very often regular shippers of goods take out a policy for protection of their goods in which the name of the vessel is not mentioned, and according to the terms of the contract it applies to any ship or ships of the company plying between the ports mentioned in the policy, up to the amount

insured for. As and when the shipments are made, the value of each is declared by the shippers and the declared amount is written off the policy until the full amount of the face value of the policy is reached, when another policy is taken. This kind of policy is called a *floating policy.*

As already stated the proposer must have an insurable interest in the subject matter of the insurance without which a policy, if issued, is legally invalid, as it is nothing but a gambling contract. Such a policy may be termed a *wager policy.* It is of course not enforceable by an action in a law Court but the underwriters respect it as an affair of honour and will dispense with any proof of interest. The words "Policy proof of Interest" or "Interest or no interest" are inserted in such policies which are known as P. P. I. policies.

Warranties.

All conditions to be complied with by the insured in a marine insurance contract are not mentioned in the policy, but some of these are implied as a rule: for instance, the seaworthiness of the vessel and the legality of the adventure are implied conditions of the voyage. When the policy is on hull and cargo, the implication is that when the vessel will begin its voyage she will be reasonably fit to encounter the ordinary perils of the sea, that she will be manned by efficient officers and crew, that she will not be overloaded and that she will be reasonably fit to convey the cargo to its destination, etc. The voyage must also be legal, that is, for a lawful purpose. A voyage for the purpose of smuggling is not a lawful voyage and the policy issued to cover the risk of such a voyage is void. These conditions though not mentioned are implied and are called *implied warranties,* while the conditions mentioned in the contract are termed *express warranties,* such as, "warranted to sail on or before a certain date," "warranted Free from particular Average," etc.

Any misrepresentation or fraud invalidates a marine policy contract as also all other contracts. There must also be a full disclosure of facts about the risk, and good faith

on the part of the proponent when applying for insurance, as any concealment of material facts will invalidate the policy. In case of misrepresentation the policy becomes void, but if there is no fraud, the premium paid by the insured is returnable. To prevent future complications proponents should always be careful in this respect.

Subjects of Insurance.

The risk insured against may be—

(a) On the hull, that is, the vessel.

(b) On the cargo.

(c) On the freight.

While the underwriters generally undertake to insure for the full amount of the declared value of the cargo with profits and of the freight, the owner of the ship is called upon to take some part of the risk on himself in respect of insurance of the ship. This is due to the reason, that while the owner of the cargo and the owner of the ship in respect of freight, have no control over the cargo and the freight after the shipping of the goods, the vessel is always under the control of her owner and an over-insurance on an old and risky vessel is possible for him on the chance of her being lost.

F.G.A., F.C.S. and R.D.C. Clauses.

A marine policy may be on the basis of Foreign General Average (F.G.A.), Free of Capture and Seizure (F.C.S.) and Running Down Clauses (R.D.C.).

Foreign General Average or the letters F. G. A. on the policy imply that in the event of a General Average claim (explained later on) arising under the policy, the average settlement made in a foreign country shall be the basis of the settlement of the claim.

When the letters F.C.S. appear on the policy it is to be understood that the policy is free of capture and seizure, that is, in the event of war, the underwriters will not be responsible for any loss through the seizure or attempted seizure of the ship by the enemy. In times of peace this

clause is generally omitted from the policy, but during war it is inserted in it unless an extra premium is paid for war risk.

The letters R. D. C. when appearing generally in a slip of paper attached to the policy, mean that the arrangement between the parties is, that if the vessel be found to be at fault by a law Court in the event of a collision, the underwriters will be responsible for a part of the sum which the owner may be called upon to pay for damage and cost. This is known as the 'running down' of 'collision' clause.

Lost or Not Lost Clause.

This clause in the policy entitles the insured whose goods are exposed to the perils of the seas to the protection of the policy before such exposure is known to him. Advice of shipment may not reach a merchant till the merchandise had been on the high seas for twenty-four hours or more. In such cases the policy is effective by the presence of this clause. The clause has evidently no application to *open* or *floating* policies.

Waiver Clause and Memorandum Clause.

There is also a Waiver clause in the policy which provides that in the event of casualty "it is specially declared and agreed that no acts of the insurer and insured in recovering, saving or preserving the property insured, shall be considered as a waiver or acceptance of abandonment," that is, one party will be at liberty to incur expenses to minimise the loss without any prejudice to the rights of the other party.

Provision is made at the end of the policy for limitation of the underwriter's liability in respect of Particular Average (explained hereafter) about corn, fish, salt, fruit, etc. This is called the Memorandum clause by which the underwriter is also exempted from small particular average claims.

Sue and Labour Clause.

This clause in the policy provides that the insurer will be bound to bear the expenses incurred by the assured or

his agent in proportion to the amount of the policy, when these are incurred for averting or minimising a loss insured against. The assured is at liberty to incur such expenses under this clause.

E.P.A., F.A.A. and W.P.A. Clauses.

The first means that the insurer is free from all liability for Particular Average claims "unless the vessel or craft be stranded, sunk or burnt or in collision, or unless any package or packages be totally lost in transhipment."

The F. A. A. clause means Free of all Average and the insurer is exempted by its insertion in the policy from his liability both from Particular Average and General Average.

When the policy is *with* Particular Average it is a W.P.A. or W/A insurance in which Particular Average is payable, of course subject to the terms of the memorandum. This is in contradistinction to the E. P. A. Policy.

There are various other phrases, too many to mention here, used in a marine policy, the explanations of which will be self-evident from the wordings of a Lloyd's marine policy given at the end of this chapter.

Perils Insured Against.

Losses or injuries through the perils of the seas are covered by marine policies. These perils include fire at sea or port, but if the fire occurs for a cause for which the insured himself is responsible, the policy does not cover the loss thereby caused. Ordinary wear and tear incidental to carriage by sea, are not included in the perils. Barratry, that is, unlawful dealing with the ship or cargo, by the Master or the crew, such as, smuggling, blockade running, privateering in war time, acts of piracy, etc., by which the owners could be defrauded, is included in the perils of the seas. Barratry and capture by enemies or pirates are now very rare in peace time.

Claims and "Causa Proxima."

Claims generally are made on Particular Average loss and General Average loss which are included in the perils

of the seas, and also on Total loss. Claims under barratry, as already stated, are normally very rare. In order to make the underwriters liable, the peril insured against must be the proximate cause of the loss and it must not be due to the fault or misconduct of the insured. If the loss is the effect of two causes, it is necessary that the nearer cause must be the peril insured against, in order to hold the underwriters responsible, though the loss would not have been caused without the distant cause. Suppose a shipment of mangoes is insured against loss through agrounding of the vessel. The vessel is agrounded and the mangoes are reloaded into another vessel for which much handling becomes necessary, as a result of which the mangoes are found at the destination to be materially damaged. Now handling and reloading which are the proximate causes of the damage, are not the perils insured against, and hence the underwriters are not liable to pay for the damage, though this handling and reloading would not have been necessary but for the agrounding—a peril insured against which was the distant cause of the loss.

TOTAL LOSS.

Actual Total Loss and Constructive Total Loss.

When marine insurance is effected on total loss only, Particular Average or General Average is not payable by the underwriters. Total loss may be caused in two ways. In either case the underwriters are liable to pay a "total loss" claim.

When the subject matter of the insurance is destroyed or damaged in such a way as to become a different thing from what was insured for, or where it is irretrievably lost to the insured, an actual total loss occurs. When a vessel is foundered or when merchandise becomes so damaged as to be valueless or when a ship is posted as missing, it is an Actual total loss.

When the subject matter of the insurance, though not actually lost in the above way, is reasonably abandoned,

when its actual total loss is unavoidable or when it cannot be preserved from total loss without an expenditure which would exceed its value when preserved, it is a Constructive total loss. Suppose a vessel is stranded and the cost of repair and for getting her off the rock into a port, is estimated to be Rs. 26,000/-. The value of the ship when repaired and brought into port is estimated to be Rs. 20,000/- only. It is a constructive total loss. But the value of the ship when repaired is taken to be the value insured for the payment being subject to the extent of the maximum amount of the insurance. So in this case if the insured value of the ship is Rs. 27,000/-, there is no constructive total loss.

Claim in Total Loss.

If any of the crew survives an Actual total loss of a ship, his account of the casualty is to be sworn before an officer authorised to receive a sworn testimony in such cases and filed with the claim on the underwriters. In the case of Actual total loss of goods, the Invoice and the Bill of Lading are to be produced with policy.

When any claim is made for Constructive total loss, a notice of abandonment must be given by the insured to the underwriters. This notice while claiming a total loss, implies surrender of what remains of the subject matter of the insurance to the underwriters with its proprietary right. This notice must be given as soon as the insured is in possession of sufficient information about the details of the casualty, to entitle him to claim a total loss. When the underwriters accept the abandonment, they pay the total loss and realise what they possibly can by disposing of the abandoned property of which they become the lawful owners.

PARTICULAR AVERAGE LOSS.

What it is.

When the ship or the cargo is damaged or the freight is partially lost, through violent weather in the heavy seas,

such damage or loss is a Particular Average on the ship, cargo or the freight as the case may be. This damage or loss must not be occasioned for the benefits of all the parties, (as in the case of General Average explained later on) and should be sustained through accident, storm, fire, collision, agrounding, leak; etc. The Particular Average loss can not be partially shifted to others and must be borne by the persons directly affected or the underwriters.

By the Memorandum clause of the policy, it will be seen, provision is made to exempt the underwriters from a crop of small claims for Particular Average in respect of damage which might be the result of ordinary wear and tear and might not have arisen from perils of the seas insured against. Ordinarily no claim for Particular Average is payable by the underwriters unless the loss amounts to at least 3 per cent. of the value mentioned in the policy. In the case of some goods of perishable nature this is 5 per cent.

So under the Memorandum clause the claim for the whole loss is paid when it exceeds the agreed percentage. This is the general practice, but in continental insurances, only the claim in excess of this percentage is paid in all cases loss up to this is excluded. This system is called "Franchise." The word "Corn" in the Memorandum does not include Rice, but it includes Peas, Beans, Malts, etc.

Separate Valuation and Valuation by Series.

When the insurance is for very big amounts, a very big loss under the Memorandum clause becomes necessary to entitle the insured to a Particular Average claim. When the loss falls short of that percentage, the insured gets nothing though this loss on goods of very high value might be considerable. For instance, if a ship insured for P/A loss is valued at Rs. 10,00,000/- and if there is damage to the extent of Rs. 29,000/- the insured gets nothing for Particular average loss, though the damage is very considerable, as the stipulated 3 per cent. is not reached unless the loss is for at least Rs. 30,000/- in which case only he is entitled to a Particular Average claim.

In order to obviate this difficulty and to lessen the severity in this respect it is sometimes agreed to take the goods insured, part by part or in units of packages or a number of packages, and to entitle the insurer to a Particular Average claim if any of the parts or packages or series of packages is injured to the extent of 3 per cent. For instance, separate valuation for the hull, machinery, fittings, etc., of a ship for payment of particular Average separately on each may be made, or agreement may be made for payment of the Average on each bale of a consignment of 100 bales of cotton. Without this valuation or agreement a claim for particular average will require a 3 per cent. loss on the full value of the ship with machinery, etc., or 3 per cent. loss on the value of the whole consignment of 100 bales of cotton. When a shipment is not divisible into complete sets of series, the last series remains a smaller series, *e.g.*, in 24 chests of tea (the series being of 10 each) the last series, called a *tail series*, would be of 4 chests only.

Particular Average on Ship, on Cargo, and on Freight.

When there is a Particular Average claim on a ship, the underwriters' liability is to pay the cost of repair (not exceeding the insured value) incurred by the insured which must be reasonable, the repair being prudently effected. The underwriters will generally scrutinize the repair bill before payment. The insured value of the vessel in such cases has nothing to do with the settlement of claim except for ascertaining if the claim exceeds 3 p.c. of the value.

The case is different in Particular Average claims on cargo, for the value of the cargo is taken into account to ascertain the liability of the underwriters. The claim is based on the difference of the value of the damaged goods with the value that they might have fetched had they arrived at destination in sound condition. The depreciation is generally expressed at a percentage of the gross value in sound condition of the goods. When this value is more than the insured value, then the underwriters are liable in proportion; for instance, if a certain consignment of goods

valued at Rs. 1,000/- is damaged and the damage is estimated to be 50 p.c., the underwriters will pay Rs. 500/-, provided the consignment was insured for Rs. 1,000/- or more, but if it was insured for Rs. 800/- only, then the underwriters will pay only Rs. 400/- though the actual damage was to the extent of Rs. 500/- on the estimated value of the goods had they arrived undamaged. Percentage of depreciation is shown on the gross value before deduction of charges for survey, cartage, etc. When only a portion of a consignment of packages is damaged its insured value is ascertained by its comparison with the invoice value on the basis of a Rule of Three. The insured is entitled to the extra charge made for adjustment, etc., in addition to the amount of the claim arrived at.

The loss of freight is caused through damage of the cargo, for instance, loss of a part of the consignment of sugar for sea water entering the hold of a vessel and melting a portion of it, may occur in a voyage. Such a loss is always partial, for it is not capable of sustaining physical depreciation. It cannot therefore depreciate in value. So the Particular Average on freight must be on partial loss of it. When the freight is payable in advance, the shipowner has no risk to cover, but the shipper has. So he insures the freight with his goods, when the policy is caled an " included policy." Under English law the shipowner is not entitled to freight unless the goods are delivered to the port of their destination, though the goods might have been carried for a part of the journey. But in laws of most of the foreign nations there is provision for proportionate freight according to the mileage actually accomplished by the ship. The underwriters are liable for the actual loss of freights sustained by the insured for these reasons.

GENERAL AVERAGE LOSS.

Its Meaning.

It may be necessary for preserving all the interests imperilled in the common adventure, *i.e.*, *interests* on ship, cargo and freight, to suffer voluntary loss or damage or to

incur reasonable expenditure. This extraordinary sacrifice is a "' General Average." It may be occasioned for instance, by jettisoning of the cargo to lighten the ship, damage to cargo by water used to extinguish fire, incurring of cost to tow a disabled vessel to port and other such causes. This loss, damage or expenditure must be borne by the interests benefited at a proportionate rate for they are occasioned for the common good of all of them.

It is therefore obvious that the existence of General Average is outside and apart from Marine Insurance, but the different interests are called upon to contribute for this loss, etc., in proportion to the benefits obtained by them respectively, for the sacrifice. The merchant or the owner of the ship generally insures against this liability to pay. They also insure against loss of properties or freight for a General Average Act. In the latter case the insured can recover from the underwriter the General Average loss to his goods, vessel or freight and the underwriter in his turn can recover the proportionate General Average contribution from the parties benefited by the sacrifice of his goods, etc.

Special Characteristics.

The General Average loss must have the following essential elements in it :—

(a) The loss must be intentional and not accidental.
(b) The loss or expenditure incurred must be for the securing of common safety of the vessel and cargo.
(c) The expenditure incurred must be reasonable.
(d) The loss must be directly due to the consequence of the General Average Act.
(e) There must not be any default on the part of the person whose interest is sacrified.

The General Average contribution is payable either on (a) Sacrifice of property or on (b) expenditure incurred.

Examples.

(a) It may be necessary to sacrifice a part of the ship by voluntary destruction or to put her appliances

to a use not intended; for instance, to use a sail for the purpose of stopping a leak, etc. In such cases the reasonable cost of repairs will be the amount of the General Average contribution.

(b) It may be necessary to sacrifice cargo by jettisoning it to lighten the ship when in peril, or to use it as fuel when the supply of the coal runs out. This sacrifice may involve loss of freight also. In such cases the amount to be made good by General Average contribution will be net value of the goods thus sacrificed in the case of cargo, and the net freight sacrificed in the case of freight.

(c) It may be necessary to incur extraordinary expenditure to preserve the ship and the cargo at the time of peril; for instance, when a ship in gale requires the help of a steam tug to keep her off the shore for safety and an extraordinary expenses are the amounts to be made good by General Average contribution.

General Average When Less Expensive Method is Adopted.

When as a result of Particular Average loss, a ship happens to seek a port of safety and it is found that the cost of towing her to the port of destination will be than could be involved in discharging and reloading her cargo for the purpose of repairing the ship, then the prudent course of adopting the less expensive course may be decided upon. In such a case the expenses incurred in the less expensive course will take the place in the General Average of the expenses that would have been incurred in the alternate course being adopted, and would be apportioned in the same rates as the expenditure would have been borne, had the alternate course been adopted. The expenses in such less expensive course is called *substituted expenses.*

General Average on Loss on Sale.

When any extraordinary expenditure becomes necessary for any purpose as above stated and the Master of the

ship can not secure necessary fund for it by any other means, he can sell a portion of the cargo to raise the required amount. In such a case the owner of the goods sold is entitled to the net proceeds of such sale. If such proceeds are less than the amount which the goods would have brought to him, had they been sold at the port of destination, then he is entitled to the difference also, which is to be made good by General Average contribution. The necessity for selling cargo however is very rare now-a-days, for the required fund can at present be obtained by a simple cable requisition.

Bottomry and Respondentia.

Before the introduction of modern facilities of communication, a not uncommon system to raise money in the above cases was to practically pawn the ship and cargo or to pawn the cargo only, Bottomry and Respondentia respectively, by execution of bonds by the Master in favour of the lenders, the stipulation being the return of the amount advanced with interest at a specified time after the *arrival* of the ship at her destination. As the repayment was conditional on arrival of the ship and or cargo, the lender lost his money if she was lost. Respondentia and Bottomry are practically out of date now, on account of the modern facility of remittance by Telegraphic Transfers.

Which are the Contributing Interests.

In a General Average claim all the parties interested contribute. This contribution is in proportion to the interest involved, that is, according to the value of the property saved from destruction. The General Average payment is generally made by the owner of the ship, when he becomes entitled to recover the contributions proportionately due by the other parties benefited. Three interests are generally concerned in a General Average loss. They are: (a) the ship, (b) the cargo, and (c) the freight. Now suppose Rs. 5,000/- were the General Average charge to save their loss and also suppose that

the value of the ship saved was	--	Rs. 10,000/-
the value of the cargo saved was	--	Rs. 8,000/-
and the value of the freight saved was	--	Rs. 2,000/-
Total	--	Rs. 20,000/-

The contributions of the General Average loss which was one-fourth of the total value, will, in this case, be as follows:—

The ship,	¼ of	--	Rs. 10,000/-	=	Rs.	2,500/-
The cargo	¼ of	--	Rs. 8,000/-	=	Rs.	2,000/-
The freight,	¼ of	--	Rs. 2,000/-	=	Rs.	500/-
		Total	--	Rs.		5,000/-

Parties to Contribute.

When freight has been prepaid, it is considered to be included in the value of the cargo and the owner of the cargo pays the G/A contribution, but the freight to be paid is not treated in this way and the G/A contribution is paid on it by the shipowner. The amount of the loss which is made good in G/A is also required to contribute to the General Average, as the owner of the goods sacrifice being for mutual good, and he is thus placed in the same position in respect of the loss as the owners of the goods which have been saved by the sacrifice. So the owner of the goods sacrificed is treated for the purpose as if his goods have been saved with those of others.

The York-Antwerp Rules.

The contributions to be paid by the several interests in G/A loss are adjusted by a class of professional experts known as Average Adjusters. The adjustments are made when the voyage has terminated or has been broken, according to the law of the port of destination or the port where the voyage is broken as the case may be, unless otherwise provided for in any contract.

As the law varies in different countries, much inconvenience results in adjustments on account of the above rules.

So a set of rules has been adopted by the maritime countries for guidance of the parties, to maintain a uniform practice in this respect. These rules were framed by a conference of international experts, first at York, then at Antwerp and subsequently at Liverpool in 1890. Hence they are called York-Antwerp rules. These rules were revised at Stock holm in 1924.

As the G/A contributions are paid by the owner of the ship, he has a lien on the cargo for the share of contribution due by it, and he can enforce his claim either by demanding a *General Average bond* or a *General Average deposit* from the consignee before releasing his goods. The ship-owner instead of demanding a bond or a deposit may however release the goods on the guarantee of the underwriter.

Liability of the Underwriter.

The underwriter under the marine insurance contract is liable to pay the insured value of the property scrificed to its owner, but is entitled to receive the G/A contributions to be paid by the interest of the insured. The underwriter in the same way is liable to pay any G/A damage to the cargo, freight or the hull and to make good contributions to General Average. The loss in these cases is assessed on the insured value in the same way as in Particular Average, except in the case of hull where the insured value is disregarded; but in assessing the loss to make good the contributions to G/A, the insured value of the goods is taken into account and the underwriter pays only a proportionate amount, for instance, when goods found worth Rs. 10,000/- have to pay Rs. 1,000/- for G/A contribution, the underwriter will pay Rs. 1,000/- if the goods were insured for Rs. 10,000/- or more, but will pay only Rs. 800/- if the goods were insured for Rs. 8,000/- only.

OTHER PROVISIONS.

Letter of Subrogation.

When the underwriter pays a total or partial loss, he naturally requires an authority to acquire the rights and

remedies belonging to the assured in respect of the loss. The subrogation letter executed by the insured transfers these rights and remedies to the underwriter by which he becomes entitled to what remains, if any, of the subject matter of the insurance. Thus when goods are jettisoned for general safety and the underwriter pays a total loss, he takes the place of the assured by virtue of this letter and becomes entitled to the G/A compensation to be contributed by the interests concerned, or when any third party is in fault he acquires the right of suing him in the name of the assured.

Re-insurance and Continued Insurance.

The underwriters in all kinds of marine policies may always re-insure the whole or a part of their risk with other underwriters, "subject to the same clauses and conditions as the original policy or policies." When the time of protection covered by a marine policy expires while the ship is at sea or at a port of refuge or call or is in distress, the insured can cover the risk by payment of a *pro rata* premium, if provision is made for that by a *continuation clause* in the policy, provided previous notice is given to the underwriters.

Salvage Award.

Under maritime law, a reward is payable to a party not interested in the adventure who saves or helps in saving property at sea. The Salvor, as he is called, has a lien on the property saved and he can also enforce his claim by a suit in the Law Court when the property saved is not in his possession. When a Salvage Award is made by a Court or when an adjustment is made in respect of a salvage payment, the insured can recover the amount from the underwriter. For the G/A contribution the insured value of the property saved is taken into account.

India and Marine Insurance.

India's export trade is enormous and the Marine Insurance for this trade is effected with Insurance Companies,

generally foreign, who have got their agencies here. Calcutta and Bombay are the two great exporting cities in India and both of them are rich enough to appropriate a major portion of this huge business by opening more joint-stock companies for the purpose or by establishing a Society of private underwriters like Lloyd's England, to the great benefit of the country.

QUESTIONS BEARING ON CHAPTER XXVII.

1. Give a short history of the antiquity of Marine Insurance.
2. How is the Marine Insurance a contract of indemnity?
3. What do you understand by Charter Party?
4. Exlain a Bill of Lading in Marine Insurance and state its utility.
5. From whom can a marine policy be taken?
6. Describe the constitution of Lloyd's.
7. What are the methods of transaction of effecting a Marine Insurance with Llyd's?
8. Explan—Voyage Policy, Floating Policy and Wager Policy.
9. What do you understand by Warranties in a Marine Insurance contract?
10. What are the subject matters of Marine Insurance against perils of the seas and how are the risks distributed between the parties in each case?
11. Explain F. A. G., F. C. S. and R. D. C. clauses in a marine policy.
12. What are the effects of the Waiver clause and the Memorandum clause in Marine Insurance?
13. Explain Causa Proxima. How is it applied to the loss insured against?
14. Explain Actual total loss and Constructive total loss. What is the procedure to be followed by the insured when there is a Total loss?
15. What is particular Average loss? What do you understand by Franchise in Marine Insurance?
16. What is valuation by Series? What is its importance?
17. What are liabilities of the underwriters in Particular Average on Ship, on Cargo, and on Freight?
18. What do you understand by General Average in Marine Insurance?

19. What are special conditions for a General Average contribution?

20. On what are General Average contributions payable? Explain by examples.

21. What do you understand by Substituted Expense?

22. Explain Bottomry and Respondentia.

23. What are the contributing interests in a General Average loss and how are the claims adjusted?

24. What are York-Antwerp Rules?

25. What is a Letter of Subrogation?

26. Explain the provisions about Salvage Award.

SOME UNIVERSITY QUESTIONS.

1. Explain in full the system of marine insurance known as Lloyd's.

2. Give a short account of the Lloyd's insurance organization explaining in particular the method of operation of Lloyd's underwriters in effecting an insurance.

3. What is meant by the following in Marine Insurance—Particular average, subrogation, Causa proxima and Jettison?

4. Define and discuss P. P. I. policy, insurable freight, lost or not lost clause, as applied to Marine Insurance policies.

5. What is Jettison? Explain fully the principles governing general average and give an example of general average adjustment.

6. When is a Marine policy assignable? How can it be assigned?

7. What do you understand by the following terms? (a) Charter Party; (b) Bill of Lading; (c) Demurrage; and (d) Salvage.

8. A. Define the expressions: (1) Valued Policy; (2) Open Policy; (3) Time Policy; (4) Floating Policy. B. What are the principal clauses of Marine Insurance Policy. C. Distinguish between actual loss and constructive loss.

9. In G/A sacrifice, how are the contribution of ship, freight and cargo determined?

10. State and explain the various implied warranties in the case of a marine policy.

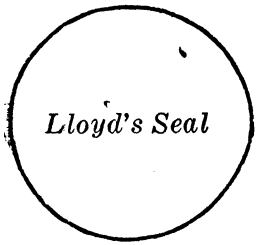
11. What is a charter party? Discuss the clauses dealing with Excepted perils in a charter party.

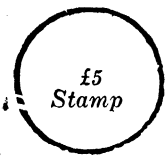
12. Distinguish between Bottomry and Respondentia Bonds. Very fully discuss the peculiar features of these two kinds of bonds.

13. Give a short account of the origin, development and present method of working of what is known in the shipping world as the Corporation of Lloy'd.

14. A contract of Marine Insurance is a contract founded on the utmost good faith. Examine this statement and show how far it is justified.

SPECIMEN LLOYD'S POLICY.





BE IT KNOWN THAT

[1] *Hammer & Co.*

as well in *their* own Name, as for and in the Name and Names of all and every other Person or Persons to whom the same doth, may, or shall appertain, in part or in all, doth make assurance, and cause *themselves* [2] and them and every of them, to be insured, lost or not lost [3] at and from 12 *mos* @ 1 *Jany.* 19.. G.M.T. (4) upon any kind of Goods and Merchandises, and also upon the Body, Tackle, Apparel, Ordnance, Munition, Artillery, Boat and other Furniture, of and in the good Ship or Vessel called the *Corrubia.* [5]

S. G. [17]

£ *20,000*

say twenty thousand pounds.

whereof is master, under God, for this present Voyage, [6] *John Brown* or whosoever else shall go for Master in the said Ship, or by whatsoever other Name or Names the same Ship, or the Master thereof, is or shall be named or called, beginning the Adventure upon the said Goods and Merchandises from the loading thereof abroad the said Ship *as above* upon the said Ship, &c.,

and shall so continue and endure, during her Abode there, upon the said Ship, &c.; and further, until the said Ship, with all her Ordnance, Tackle, &c., and Goods and Merchandises whatsoever, shall be arrived at *as above.*

upon the said Ship, &c., until she hath moored at Anchor Twenty-four Hours in good Safety [7] and upon the Goods and Merchandises, until the same be there discharged and safely landed [8], and it shall be lawful for the said Ship, &c., in this Voyage, to proceed and sail to, and touch and stay at any ports or Places whatsoever [9] *and wheresoever, and/or all purposes necessary or otherwise, particularly for orders and/or to discharge and/or take on board passengers and/or cargo, and with liberty to tranship the interest hereby insured, including all risks and accidents arising from transhipment and/or incidental to steam and steam navigation; with leave to dock, undock; and change docks as often as may be required; with leave to sail with or without pilots, to tow and be towed; and to assist vessels and/or craft in all situations and to any extent, and to, render salvage services to lives, vessels; or property; without being deemed and deviation* and without Prejudice to this Insurance. The said Ship, &c.; Goods and Merchandises, &c.; for so much as concerns the Assured by agreement between the Assured and Assures in this policy; are and shall be valued at *stay on* [10]

Hull Machinery &c.

valued at £ 100,000.

[11] TOUGHING the Adventures and Perils which we the Assures are contended to bear and do take upon us in this Voyage, they are, of the Seas, Men-of-War, Fire; Enemies; Pirates, Rovers; Jettisons; letters of Mart and Countermart, Surprisals, Takings at Sea, Arrests, Restraints and Detainments of all Kings. Princes, and People, of what Nation, Condition, or Quality soever, Barratry of the Master and of all other Perils, Losses, and Misfortunes that have or shall come to the Hurt, Detriment or Damage of the said Goods and Merchandises and Ship, &c.; or any Part thereof [12] and in case of any loss or Misfortune, it shall be lawful to the Assured, their Factors, Servants, and Assigns, to sue; labour, and travel for, in and about the Defence, Safeguard and Recovery of the said Goods and Merchandises, and Ship, &c., or any Part thereof; without Prejudice to this Insurance; to the Charges where of we, the Assurers, will contribute, each one according to the Rate and Quantity of his Sum herein assured [13]. And it is especially declared and agreed that no acts of the Insurer or Insured in recovering, saving or preserving the property insured, shall be considered as a waiver or acceptance of abandonment [14]. And it is agreed by us; the Insurers: that this Writing or Policy of Assurance shall be of as much Force and Effect as the surest Writing or Policy of Assurance heretofore made in Lombard Street; or in the Royal Exchange, or elsewhere in London. And so we the Assurers are contented, and do hereby promise and bind ourselves, each one for his own Part our Heirs, Executors, and Goods, to the Assured, their Executors, Administrators, and Assigns, for the true Performance of the Premises, confessing ourselves paid the Consideration due unto us for this Assurance by the Assured at and after the Rate of [15]

fifty shillings per cent.

IN WITNESS whereof we the Assurers have subscribed our Names and Sums Assured in

LONDON, 5 January, 19 .

N. B.—Corn, Fish, Salt, Fruit, Flour, and Seed are warranted free from Average, unless general or the Ship be stranded [16], Sugar, Tobacco, Hemp, Flax, Hides, and Skins are warranted free from Average under Five Pounds per Cent; and all other Goods, also the Ship and Freight, are warranted free from Average under, Three Pounds per cent., unless general, or the Ship *or Craft* be stranded, *sunk, burnt, on fire or in collision.*

£10,000—R. H. Hart, £6,000—C. Brend, £4,000—W. Blomfield,

CHAPTER XXVIII.

INSURANCE (*Continued*).

FIRE INSURANCE.

THE growth of Fire Insurance in its present form is more recent than that of Marine Insurance. Its theory, however, of distribution of the losses of the few by fire, over the whole community was known several centuries ago. After the Great Fire of London, the present system began to develop and in the year 1681 "The Fire Insurance office" was established in London. From that time Fire business began to be transacted in a systematic way and a good many Fire Insurance Offices were soon established.

Though attention has rightly been focussed on Life Assurance company in this country, Fire Insurance business has not received here the amount of attention it deserves. A huge amount of business is written in this branch of insurance in India, but the major portion of it goes to the foreign companies, as the number of Indian companies doing Fire business here is very few.

Its Points of Difference With Life Assurance and Marine Insurance.

Unlike a policy of life assurance, a fire policy is a contract of indemnity, that it secures against actual loss or damage. While the event on the happening of which the amount on a Life policy is payable, is bound to take place, such event may or may not take place in the case of a Fire Insurance policy. Hence, while an increasing Reserve must be built up to meet the obligations under the policy contracts in the former case to provide against the risk of the event which must happen sooner or latter, no corresponding fund is needed in the latter, as such an event may or may not take place in this case and if and when it does take place, the policy does not necessarily entitle its holder to the full sum covered by it.

Let us explain this by an example. Suppose a person takes a fire policy for Rs. 1,000/- and the goods covered by it are destroyed by fire or lightning (fire generally includes lightening in this class of insurance) and the market value of such goods be proved to be Rs. 1,000/-; then he receives Rs. 1,000/-, but if the market value of the goods destroyed be found to be less than Rs. 1,000/-, then he receives that market value only and not Rs. 1,000/-. Here its difference with Marine Insurance is to be carefully noted. A holder of a marine policy may recover not only the value of the goods lost or damaged, but he may make a profit on it, just in the manner he would have made, had the goods been sold in the market in the ordinary course of trade; but in Fire Insurance, he is not allowed to make any profit. He is entitled only to an indemnity pure and simple.

Its Rate of Premium.

The theory of Fire Insurance therefore is that a number of persons combine and each contributes a fixed amount annually to pay for the damage caused by fire to the whole body of the insured. This contribution which is apportioned according to the character of the risk, is called the premium. Like the premium charged by Life Offices, this premium includes a loading necessary for office establishment and dividend for the shareholders of the company, etc., and is therefore in excess of the requirements to cover the actual risk determined by experience, based on statistics of the occurrence of fire and consequent loss in particular areas, particular traders and particular class of properties.

The premium rates are the result of observations over a long period and are the average of the figures collected on such observations. Of course they are not as exact they are in life assurance in which they are based on mortality tables, prepared on the basis of actual experience and mathematical calculations scientifically combined, but are sufficiently accurate for practical purposes. A revision of the premium rates is possible in fire insurance on actual experience differing from what was the experience on which they were based before, as these contracts are yearly and

at the end of the period they can be terminated either by the company or the policy-holder. Some big Fire Offices now help or maintain organizations of Fire Brigades and encourage institutions of fire appliances for extinguishing or preventing fire to reduce their risks and the existence of these devices affects the rates of premium charged by them, as the diminution of risk means a reduction in the rate of premium.

Who may Insure.

A fire policy may be taken out by the owner of the property to be insured or by the mortgages, trustee, administrator, executor or assignee of the property. One agreeing to purchase a property or having advanced money on it or having an interest in it in any other way may also insure, but like life assurance there must be an insurable interest of the party either legal, as in the case of the owner, or equitable, as in the case of the other parties mentioned above.

Classes of Fire Offices.

Fire Offices are generally divided into two classes—(a) Tariff offices and (b) Non-tariff offices. There is an Association called Tariff Association composed of the members from different Fire Offices which fixes the premiums for different risks. By contract all these offices are bound to charge the rate of premium thus fixed for the different types of Fire business written by them. These offices are tariff offices. There are also offices which are not members of this Tariff Association and they are free to determine their own rates of premium according to their own estimation of the risk to be undertaken. There being unwholesome rate-cutting competition amongst these latter class of offices, their number is small and they are not as powerful as the tariff offices.

The Proposal.

As in the case of Life Assurance, the utmost good faith is to be observed in making a proposal for Fire Insurance

as the statements in the proposal form amount to warranties. If any fraud is detected, then the contract becomes null and void. In common and simple cases, such as proposals for insurance of dwelling houses or goods warehoused in well known safe places, a quotation of the premium rate is given by the company at once, and a policy is issued as soon as the premium is paid; but in other cases, specially when the location of the properties is not at an admittedly safe place, the risk to be undertaken is first investigated and on consideration of the report of the investigating surveyor of the company the rate of premium is fixed according to the tariff of the class in which it falls, or the proposal is rejected. When accepted, a policy is issued on receipt of the premium charged.

Sometimes the company undertakes a provisional risk on a consideration of the proposal, pending the receipt of the surveyor's report and issues a receipt for the premium paid which protects the policy-holder on the terms of the company's policy, till the risk is finally accepted and a policy issued or an intimation is received from the company to the effect that the risk has been declined. When the company can not fix a premium on perusal of the proposal, sometimes a deposit is received from the proposer on the basis of the proposal, pending settlement of a rate. The deposit receipt gives him similar protection. Any change which may increase the risk or any change of location of the property insured is to be intimated to the company and its indorsement obtained on the policy.

Claim Payable on Loss of Profits and Rents.

When there is a fire, not only the property insured against is lost, but the profits obtained or the rent received from the insured property if any, is also lost with it. Fire Offices have therefore extended their scope of operation to cover these losses also by their policies. In the case of loss of profits, consequent on the dislocation of business on account of the loss of buildings and other things by fire, this is ascertained by taking into consideration the shortage

between the turnover of the business in each of the months after the fire, not exceeding the time mentioned in the policy, and the turnover of the corresponding months of the preceding year, the difference being taken to be the amount on which the actual loss has occurred. The company in such cases will pay such a percentage on the shortage as the amount insured bears to the turnover for the preceding year.

Take for instance, a merchant took a policy for Rs. 5,000/- and the turnover for the preceding year is found to be Rs. 50,000/; he is then insured for one-tenth of the turnover. Now suppose, after the fire the shortage of turnover for six months comparing with the corresponding six months of the preceding year is Rs. 15,000/-; then the insured will get from the company one-tenth of Rs. 15,000/, that is Rs. 1,500/-. He will also receive any extra cost of working for interruption of the business, but in no case exceeding the amount of the policy. Rent of buildings can be insured under such policies as it is nothing but a profit on them, but it can be insured in the ordinary policy also. When a building is damaged or lost by fire, it takes considerable time for its repair or reinstatement and for this period no rent is received for it. Hence this rent is frequently insured with the building itself. Sometimes it happens that under the terms of the lease the tenant remains liable to pay the rent for the period of the lease even in the case of the buildings being rendered unfit for occupation by fire. In such cases it becomes necessary for the tenant to take out a fire policy insuring the loss for the rent he has to pay, while the landlord insures for the buildings.

Specific Policy.

Several kinds of Fire policies are issued according to the circumstances and requirements in different cases.

A policy may be taken for a specific sum payable to the policy-holder in case the loss by fire reaches that amount, no matter what the actual market value of the property insured was. If a person takes out a policy for Rs. 5,000/-

on properties worth Rs. 20,000/- and the damage done by fire is estimated to be Rs. 5,000/-, he gets Rs. 5,000/- in spite of the fact that he insured for only one-fourth of the value of the properties damaged. Had the damage been for Rs. 1,000/- only, for example, then of course, the policy-holder would have got that amount only as under a fire policy the holder is not entitled to any thing more than an indemnity. Had the damage been more than Rs. 5,000/- the policy-holder could have necessarily recovered up to Rs. 5,000/- the amount for which he insured. These policies are termed *Specific policies.*

Average Policy.

A policy is often issued under "average clause" as it is called. In such cases the insured bears a rateable portion of the loss, that is, if he insures for Rs. 5,000/- for property valued at Rs. 20,000/-, then he has insured for only one-fourth of the value; and in the case of loss or damage by fire say to the extent of Rs. 5,000/-, he will get from the company only Rs. 1,250/- the balance of the loss—Rs. 3,750/—being borne by the insured. This average clause is ineffective when the property is insured for the full value as in that case the insured is protected to the extent of his total loss. The average clause in fire policies, though very common, is now becoming unpopular. The policies with average clause inserted in them are termed *Average policies.*

Floating Policy.

Sometimes the properties insured may be situated in different places. One policy may be taken for them. This frequently becomes necessary in the case of goods lying at the dock and other warehouses, pending removal by ships outward or by buyers inland. The average clause is always there in such policies, which are called *Floating policies.* A marine clause is also generally attached to these policies by which the company gets exemption in the language of the policy "from liability for any loss or damage to pro-

perty which at the time of happening such loss or damage, is insured by, or would but for the existence of this policy be insured by any marine policy or policies, except in respect of any amount (not exceeding the sum hereby assured) which may be in excess of the amount which would have been payable under the marine policy or policies had this policy not been affected."

Valued Policy.

It is sometimes found to be difficult for the insured to prove the extent of the loss or damage. In the case of firms or companies it is comparatively easy for the existence of account, stock and other relevant books (if not destroyed with the insured properties). But in the case of household effects, difficulties are experienced in this respect for obvious reasons. In such cases sometimes a qualified valuer prepares an inventory of the properties which is admitted by the company and this is kept in a safe place. If there is any total loss of or damage to the properties to the extent of making them unserviceable, the company pays the total admitted value irrespective of the then market value of the properties. These policies are called *Valued policies.*

There is one thing to be noted in connection with these policies. The essence of Fire Insurance is indemnity against loss, but when payments are made of the total admitted amount which is necessarily higher than their value at the time of loss for depreciation in the majority of cases, the legality of the transaction becomes questionable. Long continued practice has, however, obscured this legal aspect of the question, and this system of insurance is frequently followed.

All-in Policy.

Some Fire Offices issue policies to householders giving protection not only against the risk of fire but combining with it the risk against burglary, theft, damage from tempest, third party claim, etc., that is, all the usual risk

to which a householder is ordinarily liable. These policies are termed *All-in policies.* This is a very convenient form of policy that can be introduced in India at present with more or less success.

Special Policies.

Besides the above some special forms of policies are issued. Some non-tariff offices and Lloyd's issue a policy called *Excess policy* covering the stock in hand which is liable to vary in quantity from time to time. The insurance in the policies need not cover the maximum amount of stock that may be at risk at any time, the risk on the normal amount being covered by an ordinary Fire Policy for a specific sum and cover being taken on the excess amount from time to time; for example, if the normal value of the stock be Rs. 10,000/- and if it is likely to go up to Rs. 15,000/- from time to time, an ordinary policy is taken for Rs. 10,000/- and an *Excess policy* is effected for Rs. 5,000/-, fluctuations in this excess amount within Rs. 5,000/-, being declared generally every month and the average amount at risk determined and the amount of premium regulated from this declaration.

The holder of the 'Excess" policy may, however, be penalised by the operation of the ordinary average policy condition of contribution to only a rateable proportion of the loss. Hence another form of policy called *Declaration policy* has been devised by which the insured by a periodical declaration may effect a policy covering the maximum amount of risk at any time, the premium to be paid being determined by such declaration. There is necessarily no average clause in it.

Another form of cover in fire insurance is the *Spinkler Leakage policy,* by which the risk of loss to the buildings and/or their contents, by accidental leakage of water from an installation of sprinklers which automatically operate when there is a fire, is covered. In case of damage by such automatic working of the sprinklers the ordinary fire policy covers the risk. So these policies provide only against the

damage by the *accidental* leakage from the installation of the sprinklers not covered by the ordinary fire policy.

Term of Fire Policy.

Unlike the Life Assurance policies, the term of Fire policies is generally one year, at the end of which it is terminable by either party. Premiums as in Life Assurance are payable in advance and fifteen day's grace is allowed for their payment, for which time the policy remains in full force and the claim is admitted in case of fire within this time; but the premium must be paid in cash within the days of grace in such cases, as a right to a set-off against the claim is not recognised by Fire Offices, unlike Life Offices. Policies may be taken for a period of less than one year in which case they are not renewable. No days of grace is allowed in such policies which are known as *Short term policies.* There may be policies for more than a year, sometimes for seven years, which are called *Long term policies.* The whole premiums are payable in advance in such cases but a discount at a graduated rate is allowed on such advance payment. Fifteen days' grace is allowed for renewal of these policies.

Properties not Covered.

Fire policies do not cover loss or damage to all sorts of properties. Unless expressly provided in them, they do not cover the risk of properties held in trust or on commission. If provision is made for covering such risk, the amount of the claim on such properties is paid to their actual owners. Unless expressly mentioned, a fire policy does not cover the risk on jewels, clocks, watches, trinkets, medals, curiosities, manuscripts, government stamps, prints, paintings, drawings, sculptures, musical, mathematical or philosophical instruments, patterns, models or moulds, china glass or looking glass except in the case of ordinary household furniture policies, where they are generally covered. Deeds, Bonds, Bills of Exchange, Promissory Notes, Money, Securities, Account Books and Gun Powder are never

covered by a fire policy. The company also shakes off its liability to indemnify losses or damages caused to property through its own spontaneous fermentation or heating or by or through earthquake, subterranean fire, or by or through invasion, foreign enemies, riot, civil commotion, or military or usurped powers or by explosion, except loss or damage by explosion of gas in the premises referred to in the policy not forming part of any gas works.

More than one Fire.

When there is more than one fire in respect of the same insured property, the company is not bound to pay in all more than the amount of the policy, unless after the loss or damage by the first fire, it is reinstated to the full amount by payment of fresh premium; otherwise in the case of a second or subsequent fire only the balance of the amount of the policy, if any, is paid. For example, if the total amount of the policy is Rs. 5,000/- and if Rs. 2,000/- has been paid for damage by the first fire, then in the case of the total loss in the second fire, if any, in the same policy year, the company will not pay more than Rs. 3,000/- irrespective of the amount of the loss.

More than One Policy.

It may be the case that more than one policy may be in existence for the same risk. In Life Assurance the amounts covered by all the policies are payable by the company or companies, but in Fire Insurance, a clause in the policy is always inserted exempting the company from the liability of payment of more than its rateable proportion of the loss or damage to the property insured against fire, in such cases, whether the insurance was effected by the insured or any other person. If one of such policies contains an Average clause, then all the subsisting policies will be subject to average as previously explained.

How Claim is Made and Settled.

When any claim arises in Fire Insurance on the occurrence of a fire, the fact must be communicated to the

company immediately and a full statement of the loss or damage with particulars of the properties lost or damaged and their market value supported by such documents as are available must be forwarded to it within fifteen days. If the company so requires, an affidavit in support of the statement should also be sent.

On receipt of the intimation of fire the company has the power to have the loss or damage inspected by its authorised agent who has the right of entry into the buildings in which the fire has occurred. There is a class of experts, called *Assessors*, who are generally employed to adjust the claims in Fire Insurance. The company has also powers under the policy to reinstate the property lost or damaged instead of paying in cash. Elaborate precaution is taken by the company to prevent fraud for the common interest of the policy-holders, as instances are not rare in Fire Insurance, when even respectable persons have been found to have deliberately set fire to insured property, to extricate themselves from financial embarrassment, at the expense of the Insurance company, sometimes involving the properties of their neighbours. Scarcely a man is found to make his own life to benefit others in a Life Assurance, but setting fire to insured property by the owner or his agent in Fire Insurance is so common that claims in this respect are very carefully scrutinised before payment and sometimes regular investigations called *Fire Inquests* are made. The nature of the business itself calls for vigorous enquiry, and the vigilance of the fire offices in this respect is justified.

Even when fraud is not alleged by the company, difficulties sometimes arise in connection with the settlement of claims on account of disagreement between the contracting parties. In order to get over such difficulties, fire policies always contain an arbitration clause by which provision is made for submission of these differences to two persons, one selected by the company and the other by the insured; provision is also made for the selection of an *umpire* by these arbitrators if there be any difference of opinion between them—the decision of such umpire being final and binding

INSURANCE COMPANY LIMITED.

THE CONDITIONS UPON WHICH THIS POLICY IS GRANTED

MISDESCRIPTION.

1.—If there be any material misdescription of the property hereby insured or of any building or place in which such property is contained, any mis-representation as to any fact material to be known for estimating the risk, or any omission to state such fact, the Company shall not be liable upon this Policy so far as it relates to property affected by any such mis-description, mis-representation or omission.

RECEIPTS.

2.—No payment in respect of any premium shall be deemed to be payment to the Company unless a printed form of receipt for the same signed by an Official or duly appointed Agent of the Company shall have been given to the Insured.

INSURANCE WITH OTHER COMPANIES.

3. The Insured shall give notice to the Company of any Insurance or Insurances already effected, or which may subsequently be effected, covering any of the property hereby insured, and unless such notice be given and the particulars of such Insurance or Insurances be stated in or endorsed on this Policy by or on behalf of the Company before the occurrence of any loss or damage, the Insured shall not be entitled to any benefit under this policy.

FALLEN BUILDINGS.

4.—If the whole or any part of any Building hereby insured or containing property hereby insured or the whole or any part of any Building of which it is part shall fall or become displaced, all Insurance by this Policy on it or its contents shall cease unless the Insured shall prove that the fall or displacement was caused by fire.

RISK NOT COVERED.

5.—The Insurance does not cover.

(*a*) Loss by theft during or after the occurrence of a fire.

(*b*) Loss or damage to property occasioned by its own fermentation or natural heating (except as may be provided in accordance with Condition 7*f*), or by its undergoing any heating or drying process,

(*c*) Loss or damage occasioned by or through or in consequence of (1.) The burning of property by order of any public authority. (2) Subterranean Fire.

RISK NOT COVERED EXCEPT UNDER CERTAIN CONDITIONS.

6.—The Insurance does not cover loss or damage directly or indirectly proximately or remotely occasioned or contributed to by or in connection with or in consequence of

(*a*) Typhoon, hurricane, volcanic eruption, earthquake or other convulsion of nature or incendiarism directly or indirectly connected therewith.

(*b*) Invasion, the act of foreign enemy, hostilities or warlike operations (whether before or after declaration of war), riot, civil commotion, rebellion, the exercise of military or usurped power, confiscation, nationalisation or destruction of any property or area under material control of any state or body or any of the events or causes which determined the proclamation or maintenance of martial law or state of seige, or incendiarism directly or indirectly connected therewith, in the event of the Insured making any claim for loss or damage under this Policy, he shall, if so required by the Company, produce proof to the satisfaction of the Company that the loss or damage arose independently of and was not in any way directly or indirectly proximately or remotely occasioned or contributed to by or in connection with or in consequence of any of the said occurrences or incendiarism directly or indirectly connected therewith.

RISKS NOT COVERED UNLESS EXPRESSLY INCLUDED.

7.—Unless otherwise expressly stated in the policy the Insurance does not cover.

(*a*) Goods held in trust or on commission.

(*b*) Bullion or unset precious stones.

(*c*) Any curiosity or work of art for an amount exceeding £20.

(*d*) Manuscripts, plans, drawings, or designs, patterns, models or moulds.

(*e*) Securities, obligations, or documents of any kind, stamps, coined or paper money cheques, books of account or other business books.

(*f*) Coal, against loss or damage occasioned by its own spontaneous combustion.

(*g*) Explosives.

(*h*) Loss or damage occasioned by explosion, but loss or damage by explosion of gas used for illuminating or domestic purposes in a Building in which gas is not generated and which does not form part of any gas works, will be deemed to be loss by fire within the meaning of this Policy.

(*i*) Loss or damage occasioned by or through or in consequence of the burning, whether accidental or otherwise, or forests, bush, prairie, pampas or jungle, and the clearing of lands by fire.

ALTERATIONS OR REMOVALS.

8.—Under any of the following circumstances the Insurance ceases to attach as regards the property affected unless the Insured, before the occurrence of any loss or damage, obtains the sanction of the Company signified by endorsement upon the Policy, by or on behalf of the Company.

(*a*) If the trade or manufacture carried on be altered, or if the nature of the occupation of or other circumstances affecting the Building insured or containing the insured property be changed in such a way as to increase the risks of loss or damage by fire.

(*b*) If the Building insured or containing the insured property become unoccupied and so remain for a period of more than thirty days.

(*c*) If property insured be removed to any Building or place other than that in which it is herein stated to be insured.

(*d*) If the interest in the property insured pass from the Insured otherwise than by Will or operation of law.

MARINE CLAUSE.

9.—The Insurance does not cover any loss or damage to property which at the time of the happening of such loss or damage, is insured by or would, but for the existence of this Policy, be insured by any Marine Policy or Policies except in respect of any excess beyond the amount which would have been payable under the Marine Policy or Policies had this Insurance not been effected.

CANCELMENT OF THE INSURANCE.

10. The Insurance may be terminated at any time at the request of the Insured, in which case the Company will retain the customary short period rate for the time the Policy has been in force. The Insurance may also at any time be terminated to the option of the Company, on notice to that effect being given to the Insured, in which case the Company shall be liable to repay on demand a rateable proportion of the premium for the unexpired term from the date of the cancelment.

OCCURRENCE OF A FIRE.

11.—On the happening of any loss or damage the Insured shall forthwith give notice thereof to the Company, and shall within 15 days after the loss or damage, or such further time as the Company may in writing allow in that behalf, deliver to the Company.

(*a*) A claim in writing for the loss and damage containing as particular an account as may be reasonably practicable of all the several articles or items property damaged or destroyed, and of the amount of the loss or damage thereto respectively, having regard to their value at the time of the loss or damage not including profit of any kind.

(*b*) Particulars of all other Insurance, if any.

The Insured shall also at all times at his own expense produce, procure and give to the Company all such further particulars, plans, specifications, books, vouchers, invoices, duplicates or copies thereof, documents, proofs and information with respect to the claim and the origin and cause of the fire and the circumstances under which the loss or damage occurred, and any matter touching the liability or the amount of the liability of the Company as may be reasonably required by or on behalf of the Company together with a declaration on oath or in other legal form of the truth of the claim and of any matters connected therewith.

No claim under this Policy shall be payable unless the terms of this condition have been complied with.

RIGHTS OF COMPANY re. SALVAGE.

12.—On the happening of any loss or damage the Company may, so long as the claim is not adjusted, and without incurring any liability,

(*a*) Enter and take and keep possession of the building or premises where the loss or damage has happened.

(*b*) Take possession of or require to be delivered to it any property of the Insured in the building or on the premises at the time of the loss or damage.

(*c*) Examine, sort, arrange or remove all or any of such property.

(*d*) Sell or dispose of, for account of whom it may concern, any salvage or other property taken possession of or removed.

ABANDONMENT OF PROPERTY TO THE COMPANY.

In no case shall the Company be obliged to undertake the sale or disposal of damaged goods, nor shall the Insured under any circumstances have the right to abandon to the Company any property, damaged or undamaged, whether taken possession of by the Company or not. Entry upon, or taking possession of premises by the Company shall not be taken as recognition of abandonment by the Insured.

FORFEITURE.

13.—If the claim be in any respect fraudulent, or if any false declaration be made or used in support thereof, or if any fraudulent means or devices are used by the Insured or anyone acting on his behalf to obtain any benefit under this Policy; or if the loss or damage be occasioned by the wilful act, or with the connivance of the Insured; or, if the Insured or anyone acting on his behalf shall hinder or obstruct the Company in doing any of the acts referred to in Condition 12; or, if the claim be made and rejected and an action or suit be not commenced within three months after such rejection, or (in case of an Arbitration taking place in pursuance of the 18th Condition of this Policy), within three months after the Arbitrators or Umpire shall have made their award, all benefit under the Policy shall be forfeited.

REINSTATEMENT.

14.—The Company may at its option reinstate or replace the property damaged or destroyed, or any part thereof, instead of paying the amount of the loss or damage, or may join with any other Company or Insurers in so doing, but the Company shall not be bound to reinstate exactly or completely, but only as circumstances permit and in reasonably sufficient manner, and in no case shall the Company be bound to expend more in reinstatement than it would have cost to reinstate such property as it was at the time of the occurrence of such loss or damage, nor more than the sum insured by the Company thereon.

If the Company so elect to reinstate or replace any property the insured shall, at his own expense, furnish the Company with such plans specifications, measurements, quantities, and such other particulars as the Company may require, and no acts done or caused to be done, by the Company with a view to reinstatement or replacement shall be deemed an election by the Company to reinstate or replace.

If in any case the Company shall be unable to reinstate or repair the property hereby insured because of any Municipal or other regulations in force affecting the alignment of streets, or the construction of buildings, or otherwise, the Company shall, in every such case, only be liable to pay such sum as would be requisite to reinstate or repair such property if the same could lawfully be reinstated to its former condition.

SUBROGATION OF RIGHTS.

15.—The Insured shall, at the expense of the Company, do, and concur in doing, and permit to be done, all such acts and things as may be necessary or reasonably required by the Company for the purpose of enforcing any rights and remedies, or of obtaining relief or indemnity from other parties to which the Company shall be or would become entitled or subrogated, upon its paying for or making good any loss or damage under this Policy, whether such acts and things shall be or become necessary or required before or after his indemnification by the Company.

CONTRIBUTION CLAUSE.

16.—If at the time of any loss or damage happening to any property hereby insured, there be any other subsisting Insurance or Insurances, whether effected by the Insured or by any other person or persons, covering the same property, this Company shall not be liable to pay or contribute more than its rateable proportion of such loss or damage.

CONDITION OF AVERAGE.

17. —If the property hereby shall, at the breaking out of any fire, be collectively, of greater value than the sum insured thereon, then the insured shall be considered as being his own Insurer for the difference and shall be at a rateable proportion of the loss accordingly. Every Item, if more than one, of the Policy shall be separately subject to this Condition.

18.—If any difference arises as to the amount of any loss or damage such difference shall independently of all other questions be referred to the decision of an Arbitrator, to be appointed in writing by the parties in difference, or, if they cannot agree upon a single Arbitrator, to the decision of two disinterested persons as Arbitrators, of whom one shall be appointed in writing by each of the parties within two calendar months after having been required so to do in writing by the other party. In case either party shall refuse or fail to appoint an Arbitrator within two calendar months after receipt of notice in writing requiring an appointment, the other party shall be at liberty to appoint a sole Arbitrator, and in case of disagreement between the Arbitrators, the difference shall be referred to the decision of an Umpire who shall have been appointed by them in writing before entering on the reference, and who shall sit with the Arbitrators and preside at their meetings. The death of any party shall not revoke or affect the authority or powers of the Arbitrator, Arbitrators or Umpire respectively; and in the event of the death of an Arbitrator or Umpire, another shall in each case be appointed in his stead by the party or Arbitrators (as the case may be) by whom the Arbitrator or Umpire so dying was appointed. The costs of the reference and of the award shall be in the discretion of the Arbitrator, Arbitrators or Umpire making the award. And it is hereby expressly stipulated and declared that it shall be a condition precedent to any right of action or suit upon this Policy that the award by such Arbitrator, Arbitrators or Umpire of the amount of the loss or damage if disputed shall be first obtained.

TIME LIMIT FOR COMPANY'S LIABILITY.

19.—In no case whatever shall the Company be liable for any loss or damage after the expiration of twelve months, from the happening of the loss or damage unless the claim is the subject of pending action or arbitration.

20.—Every notice and other communication to the Company required by these conditions must be written or printed.

----------INSURANCE COMPANY LIMITED.

ESTABLISHED 1821.

NO. 5738860

L/C No. 10536

From 6th December 19

SUM INSURED Rs. 25,000/- PREMIUM Rs. 62-8-0

To 6th December 19

THIS POLICY OF INSURANCE WITNESSETH THAT MESSRS. THE INDIAN ENGINEERING & MOTOR COMPANY LIMITED

(Hereinafter called the insured) having paid to the..... INSURANCE COMPANY LIMITED, of.....(hereinafter called the Company), the Premium stated above for insuring against Loss or Damage by FIRE (as hereinafter mentioned), the property hereinafter described in the Sum or Sums following, namely.—

RUPEES TWENTY-FIVE THOUSAND ONLY, on Motor Car accessories, tools and utensils, the property of the Insured or held by them in trust or on commisssion or on joint account with others or for which they are responsible in case of loss or damage by fire stored in the floor of the pucca built Building at No. 62 Bowbazar Street, Calcutta.

It is hereby declared and agreed that 60 gallons of petrol are stored in the pucca built Godown to the South of the premises hereby insured and that this Godown has no communication with the premises insured hereby.

Smoking and cooking are strictly prohibited in or about the said premises except in places specially set apart for such purposes only.

Insurance in other offices allowed; the amounts to be declared in the event of loss.

Subject to the condition of average printed on the PAGE / BACK *hereof*

THE COMPANY hereby agrees with the Insured (but subject to any Conditions hereinbefore contained, and to the Conditions endorsed, all which are to be taken as part of this Policy) that if the Property above described, or any part thereof, shall be destroyed or damaged by fire, at any time between and including the Sixth DAY OF December 19 , and Four o'Clock in the Afternoon of the Sixth day of December 19, or at any time afterwards, so long as the Insured or his Representatives in Interest (provided that the Interest in this Policy be assigned by and with the consent of the Company or its authorized Agent but not otherwise) shall pay to the Company or its authorized Agent, and they shall accept the sum required for the renewal of this Policy, on or before the said last-mentioned date, and on or before the expiration of any subsequent period for which this Policy shall be stated in the Renewal Receipt to be renewed, the Company shall pay or make good all such loss or damage to an amount not exceeding in respect of the several matters above specified the sum set opposite thereto respectively, and not exceeding in the whole the sum abovementioned as the sum Insured.

IN WITNESS WHEREOF, we being duly authorized hereunto for and on behalf of the.....Insurance Company Limited, have hereunto subscribed our Name , this Twenty-second day of December One Thousand Nine Hundred and , but hereby fully declaring ourselves in no way responsible in person or estate under this Insurance, or for any Act done in sequence thereof.

K L Ramboli

Witness

For the.....INSURANCE COMPANY LIMITED.

per Power of Attorney.

☞ The Insured should for his own protection examine the Policy in order to verify the correctness of the description of the Property Insured.

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on the parties. The conditions of the policy are obligatory and when the insured fails to observe them the policy becomes void and all moneys paid are forfeited to the company.

Assignment of Fire Policy.

A fire policy, unlike a life policy, is not assignable at the will of the assured as it is a personal contract between him and the company. An assignment is possible only with the consent of the company by an indorsement on the policy by it. But when the insured property changes hand by Will or through the operation of law, the policy on it while remaining in force, automatically passes to the legal owner of same. The matter stands on a different footing in the case of assignment, as legally the insured person must have an insurable interest in the property not only at the time of insurance but also at the time when the fire occurs. The assignee cannot acquire this insurable interest unless there is a novation of contract between him and the company by the latter's acceptance of the former contract, without which both the assignor and the assignee will have no claim on the company in case of fire, the former having transferred his interest by assignment and the latter not acquiring it for want of a novation of the contract. This peculiar legal position should always be remembered at the time of any assignment of a fire policy.

A specimen Fire Policy is given here.

ACCIDENT INSURANCE.

Its Variety.

Besides the three main popular forms of Insurance, namely, Life, Marine and Fire, various other kinds of Insurance have become popular in Europe and America. Some at least of these classes of Insurance may find a good reception in India under her present condition and there is no reason why enterprising pioneers in this line, amongst Indians, should not appear in the field to capture the

imagination of the people of this country in this respect to the national as well as to their own advantage.

Important amongst miscellaneous Insurance collectively known as Accident Insurance effected by the people of the West, are now the Employer's Liability Insurance, Casualty Insurance, Boiler Insurance, Fidelity Guarantee Insurance, Burglary Insurance, Plate Glass Insurance, Crop Insurance, Carriage and Vehicle Insurance, Motor Car and Motor Cycle Insurance, Loss of Profits Insurance, Accident Insurance, Live Stock Insurance, Aviation Insurance, Hail Storm Insurance and Bad Debt Insurance. Insurance policies are not infrequently taken against loss of keys, season tickets, licences, bonds, valuable documents and also against possible depreciation in value of mortgages and debentures as well as against diseases. In fact all the complex conditions of modern life are met by an application of the principle of Insurance to them, and any body can now protect himself from any possible untoward event by taking an insurance policy against such a contingency. Some States have introduced National Health Insurance and Unemployment Insurance for the benefit of the public.

The premium rates for all these insurances are based on actual experience only. Much of the result of Indian experience is not of course available now, but English experience in this respect with modifications may serve as the guide for those who intend to launch any project in the direction.

Some of the lines that may be profitably taken up by Indian Insurance companies which are already in existence, for working in one or more of these particular forms of Insurance are only given a treatment in their brief outlines in this book.

The Employer's Liability Insurance.

By it the employers may take advantage of the protection of insurance against their liability to their employees on account of the existence of certain laws like the Workmen's Compensation Act. Under this Act (Act No. VIII of

1923) in India, the employer is liable to compensate the employee or his representative in case he is injured, causing disablement or death under certain circumstances. The common law also fastens responsibility on the employer in case of injury to the employee, caused by the employer's personal negligence or by the personal negligence of some person for whose act or default he is responsible. In such a case an action for damage lies and the employer can protect himself by taking out a policy covering any such risk of damage that may be awarded by a Court.

The compensation payable to an adult is different from that payable to a minor. It also depends on the monthly wages of the workman. By the last amendment of the Act the compensation payable has been increased and some other advantages have been given to the workmen.

When Employer is Liable.

There are various conditions under which the employer is liable under the Workmen's Compensation Act. Sec. 20 of the Act provides for the appointment of a Commissioner to adjudicate claims under this Act. When a personal injury is caused to a workman by accident arising out of and in the course of his employment, his employer is liable to pay compensation in accordance with the provisions made in Chapter II of this Act, as assessed by the said Commissioner or by any Court in the alternative. It therefore becomes necessary for employers to cover this risk by insurance against such claims as they may be called on to pay. Certain foreign companies are now transacting this class of business and the Indian companies with a few exceptions are practically out of the field in this line.

Loss of Earning Capacity and Premium.

As already explained the premiums to be paid in this class of insurance are different in different circumstances and are based on actual experience of casualties. In exchange for this premium the insurance company under-

imagination of the people of this country in this respect to the national as well as to their own advantage.

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takes to compensate the employer against any claim which he might become liable to pay.

Apart from fixing compensations for total disablement and death, the Law lays down a standard of percentage of loss of earning capacity in permanent partial disablement according to the nature of the injury, and on this the compensation for such casualties is based. The following table will show the estimation of the loss as laid down by the Act in different circumstances:—

LIST OF INJURIES DEEMED TO RESULT IN PERMANENT PARTIAL DISABLEMENT.

Injury.	Percentage of loss of earning capacity.
Loss of right arm above or at the elbow ..	.. 70
Loss of left arm above or at the elbow ..	.. 60
Loss of right arm below the elbow ..	.. 60
Loss of left arm below the elbow	.. 50
Loss of leg at or above the knee	.. 60
Loss of leg below the knee	.. 50
Permanent total loss of hearing	.. 50
Loss of one eye	.. 30
Loss of thumb	.. 25
Loss of all toes of one foot	.. 20
Loss of one phalanx of thumb	.. 10
Loss of index finger	.. 10
Loss of great toe	.. 10
Loss of any finger other than index finger ..	.. 5

The table shows the niceties of the provisions to be observed in awarding compensation and the Insurance companies may take it for granted that no arbitrary procedure is followed in the assessment of compensation which they are called upon to pay to the employers when these casualities are insured.

Compensation for Disease.

Compensation is also payable for occupational diseases from which the employee may suffer on account of his employment involving the use of materials causing the disease. Lead poisoning and phosphorus poisoning with some other

similar ailments are the occupational diseases recognised by Law in this respect. An Employers' Liability Insurance policy covers this risk also.

Claims for Compensation.

The provisions of the Workmen's Compensation Act are very far-reaching and the liability of the employer under them is great. Every prudent employer therefore keeps himself protected by a policy under which, in exchange of a yearly premium, all his liabilities under this Act are shifted on to the Insurance Company.

When the employer wants to take advantage of the protection offered by the Insurance company, in this respect, he is required to keep a wage book which is to be open to the inspection of the company at any time. An abstract of this is to be submitted to the company every year during which the insurance is in force and any difference of premium on account of the change of earnings by the employees should either be paid or received back, as warranted by such change, except in cases where the total wages paid during the year do not exceed a certain small amount. Notice must be given to the company at once when there is any accident or disease covered by the policy and any written notice received in this respect should immediately be handed over to the company. All information about any claim made or legal proceedings taken by any employee in this respect should also be forthwith supplied to the company. The costs and expenses of defending claims are of course borne by the company and the insured should not incur them or enter into litigation or effect any settlement or acknowledge any liability in this respect without the consent of the company, but must allow the company to use his name and must assist the company in settling or resisting any claim made in this connection by giving necessary information and help.

The company does not take any risk before the actual receipt of the premium; and the risk terminates with the period covered by such premium unless a renewal premium

is paid in time, with the payment of which the risk is again covered. Usually a clause is found in the policy by which the company is absolved from all liability in respect of employees working under sub-contractors of the insured, as their employee, but this risk may also be covered by payment of an extra premium and an indorsement to that effect on the policy by the company. There is always an arbitration clause in the policy and any difference that may arise between the insurer and the insured is generally settled by arbitration.

English Rates of Premium.

In England the following rates of premium are ordinarily charged. The Indian rates will approximate these rates with necessary modifications.

Shop assistants	from	4 per cent.
Warehouse hands	from	5 per cent. and up-wards.
Factory hands	from	4 per cent. and upwards.
Builders' hands	from	20 per cent. and upwards.
Commercial travellers		13s. 6d. per cent.
Clerks		3s. per cent.
Farm hands	from	10s. and up-wards.
Drivers	from	15s. and upwards.
Indoor domestic servants		2s. 6d. per capita.
Gardeners		5s. per capita.
Coachmen		7s. per capita.
Chauffeurs		20s. per capita.

Fidelity Guarantee Insurance.

Next in importance in India comes the Fidelity Guarantee. This form of Insurance is becoming popular in India on account of the changed economic and social condition of the country, but very few Indian companies are doing this business and hence any employee requiring a Fidelity Guarantee policy often runs to foreign companies a few of which are operating in this country.

Risk Covered.

By Fidelity Guarantee policies financial loss to the employer on account of fraud on the part of the employee is

covered. In exchange of a yearly premium an employer may insure his whole staff or an individual employee against his loss, if any, for criminal misappropriation or breach of trust, etc. by them. On a proposal being made with necessary details, the company makes very searching enquiries into the position, antecedents and previous and present employment of the employee concerned, and if the result of the enquiry be not unsatisfactory, issues a policy on receipt of the premium which may be paid either by the employer or the employee according to the arrangement previously made. The rate of premium is based on actual experience and is generally one to the three per cent. of the amount of the risk intended to be covered.

Accident Insurance.

This class of Insurance is rapidly coming into popularity. Besides various accidents in different forms, advantage is taken of this form of Insurance to cover risk for personal accidents to which man is liable. Personal Accident Insurance was the earliest form of this class of insurance, but it has now branched off to many directions. Motor insurance, Liability to third party Insurance, Sickness Disability Insurance, etc., may be said to form parts of Accident Insurance.

Motor Insurance.

A policy may be taken for—(a) private vehicles, (b) commercial vehicles, (c) motor traders' vehicles and (d) motor cycles. The policy covers the risk of not only loss or damage to the vehicle or the cycle but also of third party liability. Mechanical break down and ordinary wear and tear are not covered by the policy. In England under the Road Traffic Act of 1930 owners of motor vehicles, with the exception of corporations, etc., are bound to insure their liability to third parties, or produce a substantial security against such liability. India is going to have a similar law in the near future. There is a risk of third party liability in almost all forms of accidents, for the insured, for failure

to exercise reasonable care, may at any time cause damage or loss to a third party.

General Third Party Risk Insurance.

Besides the motor owners who require cover against third party risk as explained above, Property owners, Shopkeepers, Theatre proprietors, Dentists, Doctors, Chemists, Accountants and other professional men, etc., may require cover against risk of liability for injuries to persons, as a result of defects in their properties or premises, negligence of their employees, lack of professional skill, etc. This they can secure by taking out a General policy against third party liability.

Burglary Insurance.

These policies introduced in 1889 in England for the first time, are issued to cover risk of loss for burglary and theft in private dwelling houses and only for burglary in business premises. The policy does not cover risk for theft in business premises on account of probability of theft being committed by customers and employees. The burglary department of an insurance company also issues "all risks" policies covering jewellery, etc.

Sickness and Disability Insurance.

By a policy of this description provision is made for payment in case of certain specific diseases with or without personal accident, or in case of illness with or without personal accident for a specific term of years. The last form is called Permanent Disability Insurance and is generally made operative up to the attainment of age 65 by the assured. Under this system, if the party becomes totally or partially disabled for any physical causes he becomes entitled to receive a benefit which begins from the first day of incapacity. Sometimes the insurer pays some thing to the insured in spite of his not fulfilling all the policy conditions for Various reasons. Such a payment is known as *Ex Gratia* payment, that is, a payment as an act of grace.

Boiler Insurance.

As boilers are liable to explode, cover is taken against this risk by a policy of this description. Policies against break-down of steam, gas or oil engines and electric machinery may also be taken with or without the third party liability. Company's engineers periodically inspect these engines and machinery.

Bad Debt Insurance.

The Accident department of Insurance companies grants policies covering risk of bad debts. In this class of insurance the entire risk is not undertaken by the company and the insured is required to bear a certain portion of the loss which is not less than 25 per cent. Policies under this head are taken frequently to cover loss on purchase of bills of exchange, on open account transactions, on credits granted to customers, on invoice value of goods and on resale of goods sold but taken back. They are now coming into general use.

Many other types of insurance business is transacted by the Accident department of the Insurance companies. They are too numerous to be mentioned and their importance does not warrant any detailed treatment, though the volume of business in some of them is not negligible.

National Health Insurance.

In Great Britain provision has been made by Law for compulsory insurance against sickness of practically the whole working population of the country between the ages of 16 and 70 having an income of less than £250/- a year. Men having a higher income but working with their hands have also been made bound to insure. The cost is contributed by the State, the work people and the employers in a certain proportion.

The scale of contribution to the State which makes the payments to the workers, is as follows:—

	Employers' contribution.	*Workers' contribution.*
Women	7d. per week	9d. per week.
Men	9d. per week	6d. per week.

Against this contribution the State makes a payment of 15s. per week to men and 12s. per week to women during sickness. Certain medical and other benefits are also obtained by them.

Unemployment Insurance.

With certain exceptions, as in the case of men employed in agricultural industry and domestic service, all men and women who come within the operation of the Health Insurance Acts, are bound to insure against unemployment under statutory obligation. Here also the cost is shared by the State, the employer and the worker. The scale of contribution is as follows:—

	Employers' share.	*Workers' share.*
Men	8 d. per week	7 d. per week
Women	7 d. per week	6 d. per week
Youths under 18	4 d. per week	3½ d. per week
Girls under 18	3½ d. per week	3 d. per week

The State pays unemployment benefit at the following rate:—

Men	18 s. per week.
Women	15 s. per week.
Youths under 18	7½ s. per week.
Girls under 18	6 s. per week.

In the first benefit year no worker is entitled to receive this benefit payment for more than 20 weeks in the aggregate. A married man receives 5s. extra per week and a man who has got children to support receives an extra of 1s. per week for each such child.

It is to be specially noted here that in both these classes of Insurance the contributions by the insured and his employer are not sufficient to meet the claims, as they are

in the case of other forms of Insurance, and the State has to bear the burden of a heavy outlay for the purpose.*

* In preparing the chapters on Marine, Fire and Accident Insurance, the author has freely drawn on his own book—*Guide to Marine, Fire & Accident Insurance*—and has received much help from Grebby & Scrivener's book,—*Modern Business Training*—for which he acknowledges his special indebtedness to them. For a detailed study of these forms of Insurance the reader is referred to the above book by the present author.

QUESTIONS BEARING ON GHAPTER XXVIII.

1. What are the points of difference between Fire Insurance, Marine Insurance and Life Assurance? Explain how a Fire policy is a contract of indemnity.

2. How are the rates of premium in Fire Insurance fixed?

3. Explain Tariff and Non-Tariff Fire offices.

4. How are the claims payable in Fire Insurance ascertained?

5. Explain Specific Policy, Average Policy, Valued Policy and Floating Policy in Fire Insurance.

6. When are Excess Policies issued and why? Explain its difference with a Declaration Policy.

7. What do you understand by Sprinkler Leakage Policy?

8. What are the properties which cannot be covered by a Fire policy?

9. What are the provisions about payment by the underwriters when there are more than one fire in respect of the same insured property during the insurance period and when there are more than one policy in existence for the same risk?

10. How is a claim to be made and how is it settled in Fire Insurance?

11. What are the rules observed to prevent fraud in Fire policies? Is it freely assignable?

12. What are the other principal forms of insurace than Marine, Fire and Life Assurance?

13. Explain what is Employer's Liability Insurance.

14. When is the employer liable to compensate the employee?

15. How is the premium fixed in Employer's Liability Insurance?

16. How is the claim for compensation settled in this form of insurance.

17. What is a Fidelity Guarantee Insurance and what is the risk covered by it?

18. Explain Accident Insurance, Motor Insurance Third Party Liability Insurance, Burglary Insurance, Sickness Insurance and Bad Debt Insurance.

19. What are the risks generally covered by a Motor Insurance Policy.

20. Explain Permanent Disability Insurance and state the conditions under which it is generally granted.

21. What is National Health Insurance? How is it arranged in the United Kingdom?

22. Explain Unemployment Insurance and state its provisions as made in Britain.

23. In an Accident Insurance Policy, what is meant by the following terms? (i) Complete Disablement; (ii) Partial Disablement; (iii) **Ex Gratia** payment.

CHAPTER XXIX.

COMMERCE AND INDUSTRY IN THEIR RELATION TO THE STATE.

THE old conception of the functions of the State in relation to business of its subjects was that there should be as little interference in this matter by the State as is possible consistently with the up-keep of law and order. This conception has now undergone a great change and the old theory that the purpose for the establishment of the State is nothing but " defence against external enemies and maintenance of peaceable and orderly relations within the community itself," is to be revised in the light of the changed condition of the modern society. The functions of the civilized governments are now increasingly varied and far more diversified, not only in their economic activities but they are so in good many social spheres which have a direct or indirect bearing on such *economic* activities. So the activities of the modern State are either *economic* or social both inter-related with each other.

INTERFERENCE OF THE STATE IN BUSINESS.

Essential and Optional Activities of Government.

John Stuart Mill puts these activities in two broad divisions—*essential* and *optional.* The first in his opinion consists of all necessary services " which are either inseparable from the idea of a government or are exercised habitually and without objections by all governments," such as provision for defence of the country, enactment of necessary legal measures, establishment of judiciary and police, etc., and the second comprises of those activities which " do not amount to necessity and are subjects on which diversity of opinion does or may exist," such as framing of tariff regulations, enacting of factory legislation,

making provision for education, etc. This division of the functions of the government in its necesary and optional services can not however be regarded as scientifically accurate as they are mutually liable to pass into each other according to the opinion of different persons. So it is not quite possible to precisely differentiate between these two classes of State activities.

All these activities require expenditure which may be productive or unproductive. It is not quite possible to draw a line of demarcation between these two classes of expenditure, but the State must incur both according to the exigencies of the situation.

Commercial Activity of the State.

The activities of a modern State are now aimed at various directions covering wide spheres which may be classified under four heads—(a) administrative, (b) productive, (c) commercial and (d) social. We are here mainly concerned with the commercial sphere of the State.

The commercial sphere may include in it the maintenance of post and telegraphs, railways, etc., construction of roads, bridges, canals, etc., provision of currency, weights, measures, etc., research in agriculture, industrial chemistry, etc., and institution of consular and diplomatic services for facilities of foreign trade. All civilized governments are engaged in these activities. A direct intereference by the State with commercial matters, however, was considered to be undesirable on the ground of its taking away the individual freedom of contract and thus becoming subversive to private enterprises; but this view-point which was considered to be sound by many governments up to the outbreak of the last European War, is now considered to be obsolete, and almost all the advanced governments have now revised their policy in this respect and have taken up the cause of commerce and industry always interfering with them for their development in the country. The Government of India was also compelled to change its policy in this matter in the light of its experience during the War and the

inauguration of the new policy was publicly announced by His Excellency Lord Chelmsford, the then Viceroy, when opening the Madras Industrial Exhibition in the following words:—

"Your Presidency made some years back a real attempt to bring into being and to foster industries, but this laudable policy was checked. We have, however many of us during these last three terrible years, revised our opinion on most subjects, and on this matter of industrial enterprise. I doubt if there are any now who do not say that it is the bounden duty of the State to foster industrial enterprise to the utmost of its ability. Personally I put the matter of the industrial development in the forefront of my policy."

This interference is generally in favour of regulations for controlling business from the points of view of different interests concerned which are frequently antagonistic to each other. The interests are those of the capitalist, the worker, the customer and the community, and the State by proper regulations attempts to reconcile these different interests. The regulations, however, are intended for the ultimate national welfare, and the interference, in the nature of protection, bounties, subsidies, preference, retaliation and reciprocity, has generally the same end in view. These have been explained in the chapter on Organization of Commerce.

How the State Helps Business.

The direct way in which the State helps business is by compiling statistics of trade and industry carried on in the country and abroad, and by publishing reports on commercial conditions for the benefit of the persons concerned. Research institutes are established by almost all civilized governments with the object of promoting national industries, and financial help is given for the development of certain industries like fisheries, agriculture, etc., by many States. Experimental farms are also established to show to the people the improved methods in agriculture, cattle breeding, artificial manuring, etc. The potentialities of other industries, old and new, are also demonstrated and explained with a view to assist enterprises by the people.

In India there are the State Aid to Industries Acts to help financially struggling small concerns started by persons and companies with limited resources for furtherance of the cause of industrial progress of the country. Co-operation amongst farmers and agriculturists for various purposes of development is also encouraged by the Government by legislative and other measures.

The State helps the business in an indirect way by framing laws and regulations for its smooth transaction. Progress in busines would have been very difficult without the statutory provision about contracts defining the rights and liabilities of parties to them and laws of partnership, companies, insurance, trusts, societies, etc., governing the procedure to be followed in their management, for the benefit of the parties concerned. Arbitration laws and laws laying down provisions about trade marks, copy right, etc., conducive to the welfare of the business community and indirectly of the country, are also passed.

State Regulation of Business.

While giving facilities to the economic activities of the country the State frequently controls such activities for the protection of the interests of certain classes of the community by regulating the operations of industries and commerce. An important example of such State control is the Factory Legislation of all civilized governments to safeguard the workers against accidents, employment under insanitary condition, too long hours of work, etc., Railway Acts, Tramway Acts, etc., are also legislations of the same class for safety of the passengers.

In various cases interests of consumers are also protected by regulations controlling the policy of private concerns of public utility, the prices of the services of which are frequently fixed by governments within reasonable limits. Railway fares, tramway fares, rates for units of electric energies, telephone charges and charges for other mononpoly services generally are thus regulated by the government authorities. Postal and telegraphic services of the govern-

ment which are economic activities of the State are also conducted on the same principle, due regard being had to the interest of the users of these services. For the protection of the public, activities of lawyers, medical practitioners and followers of some other professions are controlled and regulated in the same way by laying down standards of qualification for them. Municipal activities in water supply, regulations and the charges for them are within reasonable limits.

Nationalisation of Commercial Machine.

There are certain essential economic activities which it is not generally possible for private enterprises to undertake on account of their unremunerative nature. They are necessarily taken up by the State. The examples of such activities are road making, bridge building, reclamation of land, production of war materials, utility services which are mostly under the municipal management. Tramways, water supply, electricity undertakings, gas concerns, etc., are now municipal affairs in many towns though it is claimed that these service will be cheaper and more efficient if entrusted to private enterprise. If this claim is bound to be based on facts after experiment, then there is no reason why the State should retain their monopoly which can be justified only in cases where private enterprises will not be forthcoming to undertake an essential service for the people under proper control of the government.

LEGISLATION FOR WELFARE OF INDUSTRY.

Trade Boards and "Sweating" in Industries.

Besides the Factory Acts some other legislations are considered to be necessary by the State to protect the workers in the Industries to which the Factory Acts do not apply, by removing the evils of the "Sweating" system, that is, working the men engaged in certain industries for an inordinate length of time on inadequate wages under

insanitary and unfavourable conditions. An Anti-Sweating League was formed in England in the last quarter of the nineteenth century and the first Trade-Board Act was passed in England in 1909 as an outcome of the agitation set on foot by this League. The Act was applied to some trades considered to be in need of help, such as Tailoring, Box making, etc., and minimum wages were laid down for the workers in those industries. The Ministry of the Board of Trade was empowered to extend the application of the Act, to other trades also " if it is satisfied that the rate of wages prevailing in any branch of the trade is exceptionally low, as compared with that in other employments, and that the other circumstances of the trade are such as to render the application of this Act to the trade expedient."

This Act was amended in 1918 by which the administration of the Act was transferred to the Ministry of Labour which was authorised to extend the Act to any trade in which the Ministry could show that " adequate machinery for the effective regulation of wages " does not exist. The Trade Board by this Act were empowered to fix minimum overtime rates and minimum time rates in piece-work.

Their Constitution and Functions.

A Trade Board for each industry is set up under the Act, consisting of representatives of the employers and the employed in equal numbers and members appointed by the Ministry of Labour including at least one woman employee, if there is any in the trade. The functions of these Boards are mainly conciliation, arbitration and bargaining, with the power of fixing minimum piece-rates, if desired. The Boards provide a common platform for the meeting of the employer and the employed, where many points in disputes are amicably settled and useful decisions taken resulting in the avoidance of unpleasant complications detrimental to the interests of both the parties. In India there is no such legislation, the time for which is not considered to be ripe in this country. Various forms of social insurance are also

introduced by the State which have been treated in the chapter on Insurance.

Arbitration.

Arbitration is another method provided by the State legislation for settling industrial disputes. It is " a reference to the decision of one or more persons either with or without an umpire, of a particular matter in dispute between two parties." The decision arrived at by the arbitrator or arbitrators is binding on the parties like the judgment of a Court. *Submission* to arbitration is made by an agreement between the parties to submit the differences between them to arbitrator or arbitrators who may be named or not in the agreement. The decision given by the arbitrators is the *award*. When the arbitrators fail to agree amongst themselves, on the point in dispute, the matter, according to the provision of the agreement, is placed before a third person, called an *umpire*, whose decision takes the place of the award.

There is the Indian Arbitration Act under which the parties may proceed in the matter of arbitration where their dispute is not already before a Court. Arbitration in matters before the Court is conducted according to the provision in the Civil Procedure Code. Arbitration makes for simplicity and economy and thus helps the parties to have their disputes settled without costly Court proceedings necessitating the help of expensive lawyers. Conciliation Boards are also set up by the State, for settling industrial disputes between the employer and the employed. In India The Trade Disputes Act was passed in 1929. This has been dealt with in the Chapter on Organization of Manufacturing Concerns.

In England an Industrial Courts Act was passed in 1919 extending the scope of Conciliation Act of 1896 as the result of the recommendation of the Whitley Committee of 1919 empowering the Minister of Labour to set up an Industrial Court to deal with industrial disputes in a more effective way.

INCOME OF THE STATE FROM BUSINESS AND SERVICES RENDERED TO IT.

Sources Of Revenue.

To administer the laws and regulations relating to Commerce and Industry the government requires money and necessarily it levies taxes to derive an income, as otherwise it is not possible for it to carry on its activities in this respect. Some business undertakings are directly under the management or ownership of the government and an income is derived from them. This direct income is obtained from ownership of securities and other properties, housing schemes, state-owned railways, docks and canals, postal, telegraph and telephone services and other monopoly services and fees for other direct services rendered, such as, fees for issue of passports, etc., etc. An income is also derived from fines, forfeitures and other penalties imposed for breach of laws and regulations for guidance of business men.

The main source of revenue to a State is of course the tax imposed by it, a substantial portion of which is borne by the business of the country. The system of taxation is necessarily different in different countries; but mainly some common sources are tapped in almost all the advanced countries of the world. The impact and incidence of some heads of the taxes are primarily on business and a substantial share of others is also borne by it.

It will appear from the above that a portion of the profits of commerce and industry is thus appropriated by the State, for they contribute materially to the fund that comes to its coffer from various heads of taxation.

Besides the taxes, there are local bodies in almost all countries with statutory powers to impose taxes for local purposes, called *rates*. These are levied on business of different classes and various other items of professions and properties.

So the business contributes an important share of the income of the local bodies in the shape of rates collected by

them, as is evident from the nature of the sources from which it is derived. These local bodies are set up by the State.

Services Rendered by the Government to Commerce and Industry.

'All civilized governments maintain various departments to help and guide the commerce and industry of the country, specially those departments which are directly concerned with the furtherance of the national trade. It is now recognized by all countries that one of the important duties of the government, is to look to their commercial interest and they now take very active steps to foster it in every possible way.

There is the department of Commerce and Industry attached to all advanced governments now-a-days and different sections in them have been opened in it to look to the details of national trade and industry. In England the Board of Trade controls all activities of the Government in these directions. They are—

(a) The Department of Commercial Relations and Treaties—dealing with all questions of commercial and shipping interests.
(b) The Department of Overseas Trade—dealing with development of trade.
(c) The Department of Mines—dealing with development of mineral resources.
(d) The Department of Industries and Manufactures —dealing with development of home manufactures.
(e) The Department of Standards—controlling administration of *Weights and Measures Acts.*
(f) The Department of Power, Transport and Economy—Considering all questions of policy relating to transport and industrial power.
(g) The Department of Industrial Property—administering the Acts relating to patents, trade marks, etc.

(h) The Department of Intelligence and Parliamentary Branch—acting as a medium to ascertain the economic effect of the latest scientific discoveries.

(i) The Department of Statistics—collecting and consolidating the various statistical returns relating to commerce, industry, transport, etc., and publishing statistical abstracts.

(j) The Department of Mercantile Marine—concerning itself with matters relating to mercantile marine, light houses, salvage, etc.

(k) The Department of Companies—administering the legislation relating to Joint Stock Companies.

(l) The Department of Bankruptcy—administering the law relating to Bankruptcy.

(m) The Department of Overseas trade—dealing with commercial intelligence—home and foreign—with commercial, Diplomatic and Consular Services.

There is an overseas Trade Department Council attached to it to study the problem of export trade and foreign markets.

Besides supervising and controlling all the departments, the Board of Trade publishes the " Board of Trade Journal " which gives all information—statistical and otherwise—relating to trade and commerce. Articles statistically dealing with these subjects are also published in the Journal.

There are also various Government organization in order to help national commerce and industry in England working under or in co-operation with the above departments. There are the Overseas Trade Development Council, the Scientific and Industrial Research Department, the Industrial Fatigue Research Board, the National Institute of Industrial Psychology, the Economic Advisory Council, the Imperial Shipping Committee, the Imperial Economic Committee and the Empire Marketing Board, carrying on work connected with or appertaining to their respective spheres. These are under the ultimate management and control of different Ministries, such as Ministry of

Labour, Ministry of Health, Ministry of Transport and Ministry of Home Affairs.

In India there are some Government Organizations for the purpose of helping trade and industry and there are memberships in charge of Communications, Commerce and Labour, Education, Health, and Lands, Home Affairs, etc., in the Government of India and Ministries in charge of various departments concerned with trade and industries of the country in the Provincial Governments. There are different government organizations for promotion of trade and industry in the country under them, but in elaboration, variety and efficiency they do not approach those of England in any way.

QUESTIONS BEARING ON CHAPTER XXIX.

1. What was the old concept of the relation of the State with business? Describe the changes in this respect under the modern condition of the world.

2. What are, accordng to Mill, the essential and optional activities of Government?

3. Distinguish between productive and unproductive expenditure of the State.

4. Enumerate some of the commercial activities of Governments and describe the latest policy of various Governments in this respect.

5. What in your opinion should be the test to be applied to policy in respect of interference or non-interference by the Governments in the regulations to control business?

6. In what way does the State help Commerce and Industry?

7. Discuss the advantages and disadvantages of State interference in business.

8. Consider and criticise the result of State ownership of the commercial machine and support your opinion by arguments.

9. What do you know of the Boards of Trade of England? What are their functions and powers?

10. What do you understand by "Sweating" in Industries? In what industries its prevention is considered necessary?

11. Show the importance of arbitration in business transactions and point out its advantages over legal action.

12. Distinguish between arbitration and conciliation. Describe the machinery used for settlement of dispute in both.

13. What do you understand by (a) A submission, (b) A reference, (c) An Umpire and (d) An Award?

14. What are the sources of income to State? Explain direct income of the State.

15. Explain how Commerce and Industry of a country bear a substantial portion of the tax levied by its Government.

16. How do the Governments generally carry out their manifold activities in relation to Commerce and Industry. Name some of the departments through which they act.

17. What are the ways in which technical matters of industry are conducted and fostered by the Governments of different countries? Give some account of what has been done in this direction.

18. Mention very briefly the functions and objects of (a) the Industrial Fatigue Research Board, (b) The Economic Advisory Council, (c) The Department of Industries and Manufacturers and (d) the Ministry of Transport, in England. What are their counterparts, if any, in this country?

CHAPTER XXX.

ORGANIZATION OF CHIEF TRADES AND INDUSTRIES OF INDIA.

A business man having any commercial interest in India should have some knowledge of her commercial commodities and the industries and trades carried on in them. The organization of the trades and industries in the innumerable variety of her raw materials and the large number of her industrial products, is an important matter to claim the attention of the commercial student, but it is next to impossible to give a proper treatment to a subject so vast in a treatise like the present, and we have very briefly dealt with only the organization of trades and industries in a few important commodities only.

INDIA'S IMPORT TRADE.

Before the opening of the sea routes to Europe and some countries of Asia, India's import trade was confined to valuable articles of small bulk, such as precious stones, spices, silk, etc., but with the establishment of communication by sea, specially after the opening of the Suez canal, the character of her imports changed and she began to import bulky goods. The first half of the nineteenth century witnessed a thorough change in this direction and from that time she began to import commodities like cotton manufactures and sugar which bulked so largely in her export trade before.

In the period following the first world war the Indian cotton industry and sugar industry grew apace. Protection was given to the former in certain lines of goods while to the latter full protection was accorded. To iron and steel industry also in certain lines protection was given. Some other minor infant industries were also given protec-

tion. Beside this, a system of imperial preference was worked out, by which the Empire countries were to charge preferential duties for the products of one another as against non-empire imports. This was to confine import and export trade largely within the empire. So far India was concerned, her trade was given a direction towards the United Kingdom.

The result of all this was that in the thirties of this century, the composition of the import trade changed. Cloth and sugar were main consumption goods imported. Their importance fell considerably by 1938. Instead capital goods and semi-manufactured goods, and essential raw materials were increasingly imported. A part of the vacuum created was also filled up by luxury goods, in spite of heavy duties on these. The years 1929-1939 were bad on the whole for expots of India, though they were relatively fair for imports. Some remarked that this was due to the new exchange rate at 1 sh. 6 d. per rupee. But the main reason was the Depression all over the world and the reduced demand of raw materials that fell heavily in prices. The adverse balances of trade were made up by exports of gold. In the war years of 1940-45 exports were heavy, for the United Kingdom bought heavily raw materials, and jute manufactures, while imports in most instances faded out more or less completely. But the trade of India is now at the cross roads. The whole trade has been controlled by the government who issues permits or licenses, and rations out dollars or sterling, according to a system of priorities. This has considerably handicapped trade; taken with the programme for industrialising the country this fact has already covered some changes in the composition, namely (1) capital goods imported preponderate (2) food is now largely an item of import; and (3) consumer goods imports shall fall. The exports would also change necessarily, and exports of manufactured goods will be preponderating. Cloth is already an item of export encouraged by the government. Other raw materials would be required increasingly when new industires are set up.

Another change of no less consequence has been made by the political division of India. The best qualities of cotton and jute produced now belong to the Pakistan, whether these would be sold to India or abroad would depend on the relative prices offered. In the same manner, imports will now be divided between India and Pakistan. But as India will be able to offer very much reduced quantities of raw materials now, imports would have to be financed otherwise than by exports for some time. That is why the issue of sterling balances is so important for India.

The principal import trade in India is now carried on in the following commodities:—

Cotton Manufactures.

Cotton piecegoods, specially unbleached *Dhutis* and *Saries*, were the staple goods generally imported from Manchester and Japan. These goods found entry principally into the ports of Calcutta and Bombay from where they were distributed throughout the whole country.

"Protected yarn goods" of Indian mills, however, kept out these goods from the United Kingdom and Japan. On non-grey goods also there were differentiation or discrimination made as between those from Japan and those from the United Kingdom. Heavier duties on Japan goods were fixed. But even then the imports from the U. K. fell. In 1937-38 a renewal of Indo-British Agreement over tariffs could not be made, as the Government of India would not grant the required concessions. Thus the Indian mills got a chance to produce and sell finer qualities of non-grey or coloured goods. None the less the imports continued as all the output from the Indian mills was insufficient for the aggregate demands. The import trade is almost monopolised by some European and *Marwari* firms in Calcutta, and some big Indian and European firms in Bombay. During the war period naturally no imports could be made. But in 1946-47 some imports were again made of ready made suits and very high quality goods from the U. K. and quality pro-

ducts from the U.S.A. But the inflow was relatively very small, while prices were very high.

Sugar.

Sugar probably ranked second as a commodity for import trade in India. Though India was and probably still is the greatest sugar producing country of the world, she received huge imports of this commodity from other countries, specially from Java. The bounty-fed beet sugar practically killed the sugar industry of India, but with the destruction of the beet sugar industry of Europe by the Great War, a recovery in India was expected. This expectation was not fulfilled on account of the preponderance of imports from Mauritius and Java. The import trade in sugar has been greatly retarded by the fiscal protection given to sugar industry of India. This protection gave a great impetus to the manufacture of sugar in the country and the import came down to 36 lakhs of rupees in 1940-41 and 12 lakhs of rupees in 1942-43. The sugar imports have disappeared completely. But some processed and synthetic sugar now were imported during the year 1946-47 If the distribution and supply of sugar remain unsatisfactory, these imports may rise.

Iron and Steel.

Iron and steel form the next considerable item in the import trade of India. Huge imports of these were received in this country from the Continent. Protection was therefore considered necessary for the local industry, which was liberally given not only by a high tariff, but by a bounty in addition, to some manufacturers of steel and its products. The imports of foreign products, specially galvanised sheets, are still considerable. Machinery and mill-work against which there is some abatement of the protective duty, are commodities which form the subject for a brisk import trade.

The imports of steel and steel manufactures were heavy in the post-war period. These have fallen during the war to following figures:—

1942-43	1943-44	1944-45	1945-46
	(in 1000 tons)		
49	47	87	184

The import of capital goods increasing in 1946-47, the iron and steel imports have also risen. These imports are likely to increase considerably, if available.

Silk.

Another item of some importance for import trade of India is silk. The trade is specially active in Burma. The import is generally from Europe, China and Japan. The import of raw silk seems to be on the rise with the increase of its demand in the country and a heavy protective tariff is now in force to save the home products which are now threatened with extinction. Raw and manufactured silk worth 96 lakhs of rupees was imported into India in 1940-41. Due to restrictions of imports in the war period, the imports met a severe drop and amounted to Rs. 1 lakh in 1942-43.

The figures for recent imports are:—

	1942-43	1943-44	1944-45	1945-46
Piecegoods (1000 lbs.)	1	1	x	23
Yarns (1000 lbs.)	22	x	x	1

But instead of silk, rayon fabrics were imported considerably in 1946-47.

Other Goods.

Foreign coal, specially that from South Africa, is imported into India in small quantities. Oils, metals, motor cars, chemicals, tobacco, spices, etc., are other items of import trade in India. Wheat in large quantities is also imported from the United States and Australia, when there is a shortage of this commodity and consequent higher price in the country.

INDIA'S EXPORT TRADE.

With the progress of industrialism in the West which required raw material in huge quantities to feed its

machinery, India came to be looked upon as a producer of primary goods. She exported her raw materials by exchanging them with the manufactures of the industrially advanced countries, except in the case of jute manufactures and partially tanned hides which were in preponderance in comparison with raw jute and hides as items of her export trade. Other finished and semi-finished goods were also exported in huge quantities during and after the last War when there was a boom. There has since been a decline in this export trade of India, though her exports are always larger than her imports. The following are the principal commodities of export trade of India:—

Raw Cotton.

The most important money crop in India is perhaps the raw cotton. It is mainly a Central India crop, though the Punjab has a share in it, and its export trade is mainly confined to the towns south of the *Vindhyachal.* Roughly, India exports half of her cotton crop, the other half being consumed in the country. Raw and waste cotton to the value of 24,46 lakhs of rupees were exported from India in 1940-41. In 1942-43 the exports were valued at Rs. 9,01 lakhs. Exports of cotton from Indian Union would be more affected for some time. The best quality cottons were produced in the Punjab and Sind. Broach cotton was taken by Japan—against a contract to sell goods (non-grey) to India up to a certain value or quantity. For some time Japan and China, principal markets for Indian short staple cotton, would not in a position to purchase. Afterwards they may be turned into markets for the U.S. cotton. On the other hand, an increased number of textile mills in India would require raw cotton. Taking all these, the exports of cotton, being nil during the war years, will not figure much in future exports of India.

Raw Jute.

The most important single article of export from India is Jute. Its cultivation is confined mainly to Bengal. It is exported as raw material and manufactures. The export

trade in this commodity, on which India enjoys a virtual monopoly, was lately very prosperous but it has received a set-back on account of the present world trade restrictions. As in the case of cotton, nearly half of the jute production of India is exported, the other half being consumed in the country, principally by the jute mills around Calcutta numbering about 100. The export trade in jute is virtually in the hands of some merchants in Calcutta who export it in bales of 400 lbs. each mainly to the United Kingdom and U.S.A. The prosperity of this trade depends on the world condition of trade, as demands for gunnies and gunny bags necessary for transport of commodities depend on it. The total export of raw jute from India in 1940-41 was worth 7,85 lakhs of rupees and that in 1942-43 was worth Rs. 9,01 lakhs.

Raw Wool.

A certain quantity of wool exported from India is not her own production and is received from abroad, chiefly from Afghanisthan. Wool is mainly produced in Kashmir, the Punjab and N.-W. F. Province. The major portion of the export trade of India in wool is therefore confined to Karachi, the nearest port to these places. The methods of production and marketing of this commodity are still primitive and there is much room for improvement in them, which may profitably be undertaken by the organizers of export trade in this inconsiderable product of India. Indian wool is coarse and its quality requires improvement. The main customer of Indian wool is the United Kingdom which uses it generally for carpets, rugs, and other coarse goods. Raw and manufactured wool valued at 164 lakhs of rupees, was exported from India in 1940-41. The exports during 1942-43 were valued at Rs. 120 lakhs.

Raw Silk.

The export trade of India in silk was at one time very prosperous, but its decline has been rapid, Chinese and Japanese silk having driven it from the foreign markets.

The United Kingdom and France were its principal customers. Bengal was an important centre for production of silk but the industry is in decay. It requires the help of the trained organizer to arrest this decay and to resuscitate the industry. The condition for improvement in this trade, with the Government support at the back, is not unfavourable at present and the industry can still be placed on a sound footing. Opening of some foreign markets is not impossible if enterprising exporters earnestly try for it. Waste silk is exported from India. The United Kingdom, France and Italy were the chief customers of Indian silk in pre-war days. The exports of raw silk and manufactures in 1942-43 were valued at Rs. 23 lakhs.

Oil Seeds.

Of oil seeds in the export trade of India, linseed occupies the first place. Rapeseed, sesamum, cotton seed, copra, castor seed and groundnuts are also exported. In production of linseed India competes with Argentine, Canada, Russia and the United States. The demand of the product in the world is great, as linseed oil is the most important drying oil and is necessary for making oil paints, varnishes printer's ink, etc. India obtains a fair remunerative price for it and the area under its cultivation may conveniently be increased and the export trade in it profitably extended. Though India exports linseed, she imports linseed oil, as good refined oil cannot be produced in the country. So there is a good field here to develop oil pressing industry in linseed. France, Belgium, Germany, Italy and the United Kingdom were the principal customers of linseed. These countries with Austria-Hungary and the United States were also our customers for other oil seeds which some provinces of India produce in abundance.

Recent figures of exports are: 508,000 tons in 1942-43, 323,000 tons in 1943-44, 341,000 tons in 1944-45 and 414,000 tons in 1945-46. The problem of exports of oilseeds is also difficult. At present a control is exercised over the imports and consumption of essential oils. If the future

Indian industries want these oils in increasing quantities, the exports would be considerably reduced. The scope for increased output is limited by the need of growing more food.

Raw Hides and Skins.

A very important export trade is carried on in this country in hides and skins. Cow-hides and buffalo-hides are the principal items of this trade. They are generally collected by the caste *Chamars* from dead animals, but a substantial portion is supplied by the slaughter houses also. The chief draw-back of this trade is the small size and short weight of the Indian hides and neglect of proper curing of them before export. The organizers of this trade may profitably direct their attention to these defects. The principal customer of raw hides of India is the United States, and Great Britain also purchases this commodity from India.

Raw skins exported are generally of sheep, goat, and calf. They are regarded here only as a by-product collected from animals slaughtered for food. Our chief customers of goat-skins and ship-skins are the United States where they are chrome-tanned into glace kid. India may now carry on a lucrative industry by tanning these skins and the organizers of this trade have a good field in this line. Our export of raw hides and skins was worth 314 lakhs of rupees in 1940-41 and 3,32 lakhs in 1942-43.

Rice.

Rice in India forms one of the most important items of her export trade, she being the largest exporter of this commodity, having accounted for nearly three-fourths of the total export in the world. Lower Burma is the principal rice exporting tract. Bengal comes next followed by Madras. About half the export of Indian rice normally goes to Europe mainly for distillation into spirit or for making starch. The other half goes to Ceylon, Java, the Straits, the Philippines, Japan, China, East Africa, Mauritius, the Cape and Natal. Ceylon is the largest purchaser of Indian rice followed by Germany. There is considerable room for enterprisers to improve this trade with other countries also,

by increasing the output of this product by an improvement of not only the system of its cultivation, but by introducing better seed. As increased foreign demand in this product is always possible, an increasing lucrative and export trade in it can be carried on with the increase in its quantity. These exports have ceased.

Wheat.

Wheat grows chiefly in the Punjab, the United Provinces and N.-W. F. Province. It is the major crop in the Punjab where its cultivation is carried on through the help of artificial irrigation and hence it is comparatively free from vagaries of the monsoon. Its export depends on the quantity of production which varies from year to year; in some years the production falls to such a low level that large quantities of wheat are imported. The main export of wheat is from Karachi, but Calcutta and Bombay have some share in it.

Indian wheat has a bad reputation of containing a certain small percentage of dirt and seeds and hence its price in the world's market is lower than that of the products of the other countries. These facts are to be taken into account in organizing the market of this important product of India in its export trade. The chief customer of Indian wheat is the United Kingdom where it is to compete with the products of Canada, the United States, Australia and Russia. Some other European countries also receive a certain portion of our exports. The future prosperity of the export trade in this product, as in many others, will depend on the improvement of its quality and quantity. The exports, have however ceased since 1929.

Tea.

The export trade of India in tea is comparatively of recent growth. Until 1833, the East India Company enjoyed a monopoly in it, after which the Government encouraged private enterprise in tea production. The history of this industry and the export of its products have since been one of uninterrupted progress except a spell in the sixties. Tea

is generally produced in Assam, but some parts of Bengal with a few tracts in other parts of India make not an inconsiderable contribution to its total output. The Indian black tea in the foreign markets competes with an inferior quality of the same article exported from Java and Ceylon and therefore, though it commands a much better price, the export trade in it is affected to some extent. Other causes for the present low condition of the trade, amongst which over-production and diminution of the purchasing power of the consuming countries should be mentioned, are also at work resulting in a great set-back to this important industry and export trade of India. To combat over-production and huge export, a restriction scheme has now been introduced regulating area under cultivation and fixing quotas of export.

Calcutta is the principal port from where the export trade in tea is caried on. The trade is principally in European hands. With the lifting of the present slump in tea a growing export trade in this product is possible not only with Britain but also with Canada, Australia, the United States, Russia and some other countries. 27,73 lakhs of rupees worth of tea was exported from this country in 1940-41. The exports amounted to 325.8 millions lbs. in 1942-43, 413.1 million lbs. in 1943-44, 415.5 million lbs. in 1944-45 and 362.8 million lbs. in 1945-46. Tea exports are likely to increase, if production can be increased. Some time ago there was a proposal of converting Calcutta into the tea market for the world. The proposal has not been pressed, however.

Jute Products.

Dundee showed the way of manufacture of jute products under factory system. India followed suit, and factory system having practically replaced the hand weaving system, the export of jute products became very important in her export trade. The manufacture of gunny bag and gunny cloth is practically confined to Calcutta around which the manufacture is carried on and from the port of which the

manufactured goods are shipped. The industry and the export trade in its products are largely in the hands of the Europeans, but the Indians have now established a few mills and are taking an increasingly important part in the export trade of the jute products.

Gunny bags are required for the export of raw materials and hence millions of them are exported as containers of commodities. So there is an internal market for gunny bags in India. She competes in the export trade in jute products with those countries which have set up their own mills, though they must obtain their raw material from this country. The trade became very brisk during the last Great European War due to a heavy demand, and huge quantities were exported at a very profitable price. That abnormal condition is now gone and with the slump in world's trade, the industry and the export trade in its products have also received a great set-back. Australia, Britain, Chile, the United States and some countries of South America have been the principal customers of gunny bags exported from this country.

Gunny cloth produced by Indian mills is generally exported, the chief customer being the United States which discriminates in tariffs in favour of import of gunny cloth against that of gunny bags. Canada and Australia are also important customers of gunny cloth of India. The Indian jute manufacturing industry has some special facilities, the raw material being available on the spot, and it has worsted Dundee which has taken to manufacture of superior goods like carpets, in which India may successfully compete by a little specialisation.

The recent figures are:—

	1942-43	1943-44	1944-45	1945-46
Bags (in million) --	406	367	387	334
Cloth (in million Yds.) -	908	1287	1304	1456

The demands for jute products are considerably higher now than they were in the past. But the industry, located mainly in around Calcutta, but dependent on jute grown

in what is now Pakistan, can not meet the demand, while the future is very much problematic.

Cotton Products.

Next to the production of food, spinning and weaving have been the most important occupation of the people of India. Hand labour in the production of cotton goods has now practically been superseded by machinery under factory system, and though the Swadeshi movement has given an impetus to hand spinning and hand weaving, the products from them are not likely to come up to a quantity sufficient for an export trade in them. Our export trade in cotton products therefore must confine itself to the articles produced by the mills of which a good many have been established principally in Bombay, Ahmedabad and Nagpur. There is a substantial protective duty on foreign cotton goods, and there is no excise duty on the products of our own at present. With the raw material on the spot there is no reason why the organizers of industries should not take advantage of this opportunity and increase mill production by adding to the present number of the cotton mills and with it should not increase our export trade in cotton products. There is room for hundreds of cotton mills in the country which can be worked at a profit provided they are started and managed in a business-like way which is wanting in the inception and management of many of such mills in this country resulting in their failure.

India's export market for cotton goods before the present War was limited to only a few countries of Asia and Africa. The Straits Settlements used to take more of yarns and twists than fully manufactured goods, and East Africa, Aden, Persian Gulf, Egypt, Persia and Siam imported grey piece-goods but not to a considerable extent. Formerly China was the principal purchaser of Indian twist and yarns but lately her off-takes had declined considerably. The productions of Indian cotton mills have therefore to depend principally on the home market for their consumption. With outbreak of War and increased efficiency in

production an extension of her export trade in cotton goods to the Allied Countries and non-belligerent nations has been possible, as Japan, the formidable competitor of India in this line of goods, is out of the market. In 1940-41 India exported cotton manufactures worth only Rs. 16,49 lakhs; in 1942-43 this rose to Rs. 46,10 lakhs.

	1942-43	1943-44	1944-45	1945-46
Twist & Yarn (in 1000 lbs.)	34,240	19,078	16,917	14,497
Piecegoods (in 1000 yds.)	819,174	462,344	423,019	440,510

The exports are not desirable, however, against Protected Home markets. This is economically bad. But the Government has been encouraging it, and the mill-owners would seize the opportunity of making higher profits abroad. The home market is already badly starved.

Leather.

Tanning of hides and skins has been one of the most important industries of India from very early times. The primitive method of tanning, however, can no longer hold its own against the modern process, far more efficient than the old method. This seems to be the cause of the stagnant condition of our export trade in tanned hides. This trade is almost confined to Madras with Bombay as the second. Export of this commodity from other provinces is insignificant. This is due to the fact that raw hides are brought to Madras for tanning, from a good many important centres of other provinces including Bengal, Bihar, Orissa and the United Provinces, though Bombay and Cawnpur have got large scale leather works. Calcutta and some other places have also now established some tanneries where modern processes are followed. The export of Indian tanned hides mainly goes to the United Kingdom. The other countries receiving export of Indian raw hides generally keep out the finished articles by prohibitive tariffs.

The tanning industry in India received a great stimulus due to the unprecedented demand of its products during the last War and much improvement followed. Tanned hides and finished leather goods were exported on a big scale and an all round improvement was visible, specially for the initiative taken by the Government. With the improvement of the quality of the goods by adoption of the modern tanning methods, the industry and the export trade in its products are capable of much expansion, as the raw material can be found in abundance in this country.

In exporting tanned skin also, Madras heads the list followed by Bombay. The condition of the export trade in this commodity is the same as that in tanned hides, United Kingdom being the principal buyer. There is much room for the business organizer to increase its export by adopting more efficient process of tanning and replacing export of raw hides by that of finished goods. The total export of leather from this country was worth 481 lakhs of rupees in 1942-43.

Lac.

This product is found in the jungles of India and is collected and made into dye and resin. The former has practically ceased to be an article for export on account of the discovery of aniline dyes, but the latter forms an important item of our export trade. The industry is practically confined to Calcutta, Jhalda (near Ranchi) and Mirzapur, where it is carried on under the factory system. The commodity is exported in the form, generally, of shellac. It shows much fluctuation in quantity from year to year, rendering the business to be a very speculative one. As shellac is required in preparation of varnishes and manufacture of gramophone records, lithographic ink, electrical goods, etc., there is a brisk demand for it, provided the cost for the commodity be not prohibitive. India virtually enjoys a monopoly in shellac; as in jute, and hence the industry and an export trade in its products are capable of vast expansion. The supply of the product

being uncertain, the export trade in it can not grow. The organizers of industries have a good field for their activities in this direction, as the vast forests in India can conveniently and profitably be utilized for the purpose of lac production at a comparatively low cost. Britain is the chief customer of our shellac but the United States, Germany (market closed since war) and some other countries also receive our export. More customers can be secured if attempts are made for the purpose. India exported 321,000 cwt of lac in 1942-43, 236,000 cwt in 1943-44, 438,000 cwt in 1944-45 and 435,000 cwt in 1945-46.

Indigo.

At one time indigo was an important commodity of the export trade of India. Before the discovery of aniline dye by Germany its export from India was considerable, but now it has declined to such an extent that the very existence of this industry in India is threatened with extinction. Some indigo factories in Bihar and Western India are still carrying on, but their days seem to be numbered. It is only by specialising in the manufacture of high class indigo dye that the industry and necessarily the inconsiderable export trade in it can be saved, as there is a demand for only such superior goods abroad as do not compete with synthetic articles which are of an inferior quality. The organizers of this industry may still keep up an export trade in India by turning their attention to this direction, encouraging plantation of better class of this vegetable and introducing more up-to-date method of manufacture of the finished product. The United Kingdom, Egypt, Asiatic Turkey and Japan (market now closed due to War) with some other countries are the chief customers of vegetable indigo from India.

Mica.

India enjoys an export trade in mica to the extent of more than half of the world's requirements. It is mined

principally in the provinces of Bihar and Madras, but Mysore and Rajputana supply a small quantity. India competes with the United States, Canada and East Africa in the export trade of this product. Before marketing, the raw product from the mines requires some preparation in which a regular industry has grown up in the mica centres. Calcutta is the principal port of its exportation, but Madras and Bombay also have a share in it. There was a great demand for a better quality of mica during the last War of 1914—19 for munition purposes and the mica mining industry received a stimulus for it at that time. With the slump in the world trade the industry got a set-back, but again showed signs of revival during the Great war II. The United Kingdom was formerly the principal customer of the product but the position is now being altered and the United States is at present the chief recipient of this commodity. The total export of mica from this country amounted to 191,000 cwt. in 1942-43, 150,000 cwt. in 1943-44, 77,000 cwt. in 1944-45 and 125,000 cwt. in 1945-46. The future of the exports is problematic. Mica may be increasingly used in India if electric goods industries are set up.

Tobacco.

Tobacco is cultivated in Bengal and Madras and a bulk of it is consumed in the country. But the export trade in it is not inconsiderable. It is exported both in cured and manufactured condition though the imports of the latter variety are more than its exports. Factories are now being started in the country in increasing numbers for manufacturing tobacco into cigarettes, cigars and beedies, and there is a good opening for enterprising businessmen in this industry, for a general desire on the part of the people to use tobacco of Indian manufacture is visible everywhere. Cigars formerly manufactured in Burma (market now closed) had good markets in the Straits Settlements and elsewhere where they were exported in pretty large quantities. Indian cigarettes which now find their market principally in the Persian Gulf can also be exported to Ceylon and Africa with

profit. The export trade in tobacco is distributed amongst the ports of Calcutta and Madras. This trade totalled Rs. 149 lakhs in 1942-43. The largest purchaser is the United Kingdom where Indian leaf is used principally for mixing with other leaf in the preparation of pipe tobacco.

Opium.

This drug is generally produecd in the U. P. and in some Indian States—called Bengal opium and Malwa opium respectively. The export which is regulated by the Government takes place generally from Calcutta and Bombay. China was the principal customer of our opium, but by an agreement with the Chinese Government our export trade with that country has practically been stopped. The price of the commodity being monopolistic and the export duty on it being high, the export trade in the commodity could not be very brisk, though about 30 years ago the export amounted to more than six million sterling pounds a year.

As China was the customer of more than three-fourths of our opium production, our export trade in it declined to a considerable extent after it had ceased with that country. Cochin, China, Siam, Java and Sumatra were then our principal customers. The export of Malwa opium has now practically ceased and in recent years there has been no export of opium.

Other Articles of Export.

India carries on an export trade in various other commodities with more or less success, amongst which may be mentioned Grains, Coffee, Timbers, Spices, Drugs, Precious Stones, etc., available in different parts of the country.

The balance of trade in merchandise was in the years preceding 1930-1938 in favour of India. The balance of payments was also in a small manner active. But in 1930-38 the balance of trade in merchandise was against India, and the adverse balance of trade as well as of payments had to be satisfied by exports of gold. The recent position is shown in the following :—

	1943-44	1944-45	1945-46
	(in crores of rupees).		
Balance of merchandise	+ 93.17	+ 24.17	+ 43.37
Balance of visible trade (including exports and imports of treasure)	+ 96.93	+ 28.72	+ 29.71
Balance of payment (including Govt. of India's movements of capital assets and purchase of sterling)	—140.54	—122.50	— 76.15

INDUSTRIES.

In connection with the description of export and import trade of India, the condition of the industries in such products as she imports or exports has very briefly been narrated. Some of the products of our industries, however, do not enter in our import and export trade to a mentionable extent but at the same time these industries occupy an important place in the country in her economic organization. The following industries may be mentioned as coming under this class :—

Coal.

One of the most important materials in all large scale industries requiring steam power, is coal. Coal mining in India, like the jute industry, is practically a localised industry, about three-fourths of the total produce being supplied by the coal mines of Raneegunge and Jharia fields, the Mohpani and Warara fields opened at later dates supplying only a small quantity.

There is not much of export trade in this commodity, and our trade chiefly depends on home consumption including that of bunker coal by sea-going ships coaling in India at the ports. South African coal is a formidable rival of Indian coal in India, for the mills in Western India find the former cheaper than the latter on account of the high railway freight from the coal fields to that distant part of

the country, which enjoys facilities for cheaper transport by sea from South Africa. The East Indian Railway and the Bengal Nagpur Railway have now granted a rebate in freight, but still the difficulties are not completely removed, though the position has much improved. The consumption of foreign coal in India does not now exceed approximately 5 % of the total consumption. The Railways are the biggest consumers of coal, but engineering works, mills and other works also consume a considerable quantity.

Though the total consumption of coal has increased within the last 20 or 25 years, the industry is still in a depressed state, on account of difficulties of railway transport at present. The position of the industry, however, in the Indian markets is almost assured (except in those of Bombay and Sind which only can profitably import it from outside) inspite of the coal-fields being at a great distance from many industrial centres, for the industries in those places requiring steam power must originate it with Indian coal, which cannot but be cheaper than foreign products in those places. The output was 29.4 million tons, 25.5 million tons., 26.1 million tons.

The average pre-war output was about 18 million tons. Increased output is called for at present, and it is pretake that the coal mines will be nationalised. Extraction with the aid of electric machinery is in contemplation.

Iron and Steel.

This industry in India was carried on in a primitive way until recently. The modern methods worth the name were first applied to this industry by the late Mr. J. N. Tata, though the first enterprise in this line was the one started at Barakar in 1875 which was taken over by the Bengal Iron Company in 1889. The Tata Iron and Steel Co. was started in 1907 with its works at Jamshedpur and it made huge profits during the boom period of the last War, after which came the slump in its business. As the huge capital of the Company was exclusively Indian, the Government had

to come to its rescue by protective tariffs and bounty which though modified are still in existence.

The Bengal Iron Company referred to above also made good progress during that boom period and did a good export business in ferro-manganese, but the subsequent depression caught it and the result was that the Company had to close down a part of its works at Kulti. It was subsequently amalgamated with another similar concern—The Indian Iron and Steel Company—which started operations in 1923 with its works at Hirapur near Asansole. This is also a successful concern so far as the manufacture of pig iron is concerned.

Iron and steel industry is now established in India on a sound footing. In some places in Bihar and Orissa, there are considerable deposits of iron ores and the industry can be developed to such an extent that India may occupy the position of a great exporter of the products of this industry in the long run.

The recent figures are:

	1942-43	1943-44	1944-45	1945-46
		(in 1000 tons.)		
Pig iron --	1804	1687	1303	1489
Steel Ingots --	1299	1366	1266	1313
Finished steel --	907	978	923	949

The distribution of iron and steel is under control by the Government of India and so also is production of goods out of the iron and steel output. Exports also are under control.

Petroleum.

Petroleum production of the world is increasing by leaps and bounds, and India is having her share in this increase. Now expansion, however, has become possible in Assam and Attock fields, in the first of which extensive developments have lately taken place. The market of these products is secured in this country, for India imports them in large quantities from abroad. The demand for kerosene and

petrol is steadily on the rise in the country and an expansion of the industry on sound lines will be to the benefit of India. As the home market is almost assured, business organizers may try their luck in the development of this profitable industry of the country. The recent figures are 97.7 million gallons in 1942, 95.7 million gallons in 1943, and 97.4 million gallons in 1944.

The output is not much relative to imports. None-theless the production has increased under the stress of war time requirements.

Other Industries.

Amongst numerous other industries of the country, Saltpetre, Manganese, Gold and Lead industries may be mentioned as occupying places of some importance. They are carried on more or less successfully in the country. Saltpetre industry got a set-back due to competition with Chile Nitrate industry and is in a declining state after the boom period of the last War. Manganese industry had also its boom and its products were exported in an appreciable quantity. The industry here is a stable one. Russia and Brazil were the two competitors of India in this industry. The former is now out of the running and the latter is experiencing a transport difficulty.

Gold still holds a place of some importance in the mining industries of India, though its production is only about 3 p.c. of the total production of the world and the only mines producing it are the mines at Kolar where the produce is on the decline. The Lead industry is a new mineral industry in India which seems to be progressing fairly year after year.

Conclusion.

The exports and imports of India would be considerably affected by the new conditions of control that are being exercised. The trade may pass out of the hands of the old traders, and into the hands of the government and the big industrialists. The fall in the import of consumer goods would change the whole process of distribution as

well. Trade negotiations and agreements would be made mostly by the Government. In such events, the composition and direction of trade may change. But at present (in 1947-48) the main currents of imports are still from the United Kingdom, and the value of these averages between £6 to & 7 million a month. Exports flow also towards the U.K., but in much smaller values.

QUESTIONS BEARING ON CHAPTER XXX.

1. What was the condition of India's Import trade before the opening of sea routes to Europe ?

2. What are the principal articles of import trade of this country Describe the position of each of them in this respect.

3. Give a short description of India's export trade at present.

Name the principal commodities in which export trade is carried on by India, with their comparative importance.

5. What are the principal industries in India ? Name them in order of importance.

6. Give a short history of Iron and Steel industry of this country.

7. Mention the general effect of protection given to Iron and Steel industry of India. Do you support this protection ? Give your arguments for and against it.

8. Give a short description of the Petroleum Industry of India with its prospect.

9. Describe the position of Coal industry of India and sketch out a plan by which it can be improved.

10. What in your opinion is the reason for which successful competition by foreign coal with Indian coal in some parts of this country has become possible? How can this competition be overcome?

11. What is the reason of the present slump in coal industry in India? Give your idea as to how this slump can be removed.

12. What is the position of the industry in gold in this country?

13. Make a general review of the import and export trade of India in reference to various countries basing it on the table given above.

APPENDIX A.

GLOSSARY OF COMMERCIAL AND ECONOMIC TERMS.

(Only such terms find place in this glossary as had no occasion to occur in the text. The explanations of all other commercial terms will be found by a reference to the text with the help of the index).

Abrasion.—Loss in the weight of a coin through wear and tear.

Ad Referendum.—A contract is an "ad referendum" one when, though it is complete, some details are still to be settled.

Agio.—Difference between the real and nominal value of money. When paper money is depreciated, the premium at which gold stands to such paper money is the agio.

Amoritisation.—Writing down of stock either by setting aside profits or by building up a sinking fund.

Anthracite.—The very best type of coal used for steam fuel.

"and Reduced."—These words are to be used for sometime after the name of a company which has reduced its share capital.

Appraiser.—A person having a licence to value goods, estates, etc.

Back Freight.—A part repayment of freight claimed from a ship-owner for non-delivery of goods in whole or in part.

Bailment.—The delivery of chattels on condition that they are to be returned or dealt with according to instructions, in certain circumstances.

Bed or Break.—A subdivision of a parcel of tea of one mark or quality..

Bill of Sale.—an instrument assigning personal property to the creditor as security for loan authorising him to seize and dispose of it in case of default in payment of such loan.

Bimetallism.—Free and unlimited coinage of both gold and silver as the monetary system of the country, both currency circulating side by side.

Bourse.—A Continental stock exchange or money market.

Brick Tea.—Tea compressed into blocks or slabs.

Bristles.—The stiff hair of various wild animals.

Bulking.—Emptying the parcel of tea, etc., thoroughly mixing it by means of a wooden spade and returning the mixture to the cases.

Cambist.—A foreign exchange broker.

Caoutchouc.—Another name of Rubber.

Central Reserve System.—A system under which the Cash Reserves of the various banks are kept as deposits with the Central Bank of the country.

Cesser Clause.—A clause in a charter-party providing that the charterer's liability for freight shall cease when the cargo is aboard.

Charges Forward.—The buyer to pay carrying charge on delivery of the goods.

Chose in Action.—What may be recovered by a legal action.

Collectivism.—A Socialism in which all means of production and distribution are advocated to be taken up by the State for operation by general will for common good of the people.

Constructive Delivery.—Act which shows a present intention to deliver.

Contraband.—Goods the import or export of which is forbidden, or allowed only on payment of a duty.

Cooperage.—A dock charge for opening, closing or mending barrels, etc.

Copra.—The dried kernel of the coconut.

Countervailing Duty.—A duty levied on import or production of the country itself to place one on the same position with the other.

Cross Rate of Exchange.—Exchange made in a country between two other countries without the intervention of the first country.

Day to Day Money.—Money lent by the banks, to bill brokers and others against security, to be repaid, and if necessary to be again borrowed, each day.

De Facto.—As a matter of fact.

De Jure.—As a matter of Law.

Dead Freight.—The freight to be made good by the charterer on account of the loss suffered by the ship owner for failure of the former to provide a full cargo.

Dead Loans.—Unpaid or overdue loans without definite arrangements for repayment.

Dead Security.—Security which cannot be realised without heavy loss.

Dead Weight.—Heavy goods used as bottom cargo to ensure stability of the ship on which freight is paid by weight.

Deed of Inspectorship.—A deed by which an insolvent assigns his business to his creditors empowering them to appoint a committee to manage the business.

Deferred Bond.—A bond bearing interest which increases up to a fixed limit.

Deficiency Bill.—Bills created when the fund of the British Government with the Bank of England is insufficient to pay the quarterly dividends.

Derelict.—A ship abandoned at sea without an attempt for salvage.

Dies Non.—A non-business day.

Domicile.—The permanent address.

Domiciled Bill.—A bill made payable elsewhere than at the domicile of the acceptor.

Dunnage.—Material used for packing round cargo to protect it and the ship from injury.

Effects.—The money, goods and other movable possessions of an individual.

Embargo.—An order forbidding goods or ships to enter or leave a port.

Enfaced Paper.—Government of India promissory notes known as the "Rupee Paper" bearing a notification to the effect that the interest on them may be collected by presenting them at the Bank of England.

Entrepot.—A port of transhipment, or a warehouse where goods are deposited pending resumption of their journey.

Escrow.—A deed delivered by the maker subject to fulfilment of a condition.

Esparto.—A species of grass used for baskets, ropes, papers, etc.

Ex Coupon.—The sale of security without the right of the forthcoming payment of dividend or interest.

Expansive Theory.—The theory that the Bank of England should expand its issue of bank notes in times of crisis.

Federal Reserve System.—The system of banks in the United States under the Federal Reserve Act of 1913 by which 12 Federal Reserve Banks, under the control of a Federal Reserve Board, were established.

Fiduciary Loan.—A loan without any security, relying on the integrity of the borrower.

First Class Paper.—Treasury Bills and bills bearing the names of banks or financial houses of repute. They are also called "fine bank bills," "fine bills" and "fine papers."

Floating Debt.—Money borrowed by business for temporary purpose repayable in a short time.

Floating Money.—Money available to be lent out in the money market.

Flotsam.—Floating wreckage.

For Money.—Stock exchange transactions to be settled immediately, as against 'for the Account' in which they are to be paid for at the next settlement.

Freight Release.—Indorsement on the bill of lading by a ship's officer indicating that the freight has been paid and the goods may be delivered.

Garble.—Refuge and dust from tobacco, spices, etc.

Garbling.—The process of separation of the damaged portions of goods from sound portions.

Garnishee Order.—An order by a court of law to a person holding funds or goods of a judgment debtor, to retain them for the benefit of the judgment creditor.

Gilt-Edged Security.—Absolutely safe and sound securities like the government stocks.

Give on.—To pay contango.

Glut.—Over-stocking of the market with goods and thereby preventing their sale at a reasonable price.

Gold Premium.—The amount by which the value of gold exceeds the gold value of paper currency, when the latter is depreciated.

Guinea-Pig Director.—A practically useless director appointed because of his name only.

Hall-Mark.—A mark officially impressed on plates, jewellery, etc., at the Goldsmiths Hall or the Assay Office of London as an indication of their purity.

Holding out.—Representing by a person that he is a partner of a particular firm and thereby making him liable to the parties who act on the strength of such representation.

House Bills or House papers.—Bills drawn by one office of a firm on another office.

Ingot.—Bar of a precious metal.

Inter-Bourse Security.—Security the issue of which was made in more than one country.

Interest Policy.—A form of marine policy setting out the insurable interest.

Jerquer.—A custom official entrusted with the duty of examining cargoes of incoming vessels to see if goods are smuggled in without payment of duty.

Jetsam.—Goods thrown overboard at the time of peril and then washed ashore.

Kaolin.—China clay.

Kite-Flying.—Dealing in "Kites," that is, fictitious or accommodation bills to save one's credit.

Lagan.—Jettisoned goods which have sunk but are marked with a buoy to help in their recovery.

Letter of Licence.—A document signed by the creditors of an insolvent allowing him to carry on his business for an agreed time without making any payment to them.

Letter of Marque.—A licence granted by the Government to the merchants empowering them to attack the enemy at the time of war.

Letter of Renunciation.—Letter written in a prescribed form by a person having right to shares of a new issue of a company transferring such right to another.

Letters Patent.—Documents issued by the Government under the authority of the Crown granting a patent or conferring a privilege.

Lighterage.—Act of removing goods to a lighter or the cost for such removal.

Liquidated Damage.—Amount settled in the contract as being payable in case of a breach of it

London Acceptance Credit.—Letter of credit issued by a London bank or financial house authorising the drawing of bills on such bank or financial house.

Long.—An American term for "Bull."

Long Room.—The room in the custom house where public business is transacted.

Made Bill.—Bill with a third party's name as indorser.

Mandamus.—A writ issued by the King's Bench or the High Courts in India.

Marginal Letter.—A form of letter of credit with a blank bill form in the margin to be used under the authority of the beneficiary.

Maritime Lien.—Right to enforce application of property for satisfaction of debts arising out of a maritime adventure, the lien not depending on possession of the goods.

Metalling Clause.—Clause in a marine policy absolving the underwriters from any particular average loss due to wear and tear below the water line, other than that caused by fire or contact with something other than water.

Mixed Policy.—A marine policy covering risk both for a period of time and a specific voyage.

Moratorium.—Government action depriving all creditors of the right of realising their dues from the debtors for the time being, in case of an emergency.

Named Policy.—A marine policy in which the name of the vessel is inserted.

One-Man Company.—A joint stock company controlled by one man holding practically all the shares, other shareholders being taken in only to make up the number required by law.

Open Account.—An account in an unsettled condition regarding its balance.

Open Credit.—Credit allowed by a bank to its customer without any guarantee or security.

Open Policy.—A marine policy without the value of goods fixed, but to be declared subsequently.

Original Bills.—Bills without indorsement, that is, on the first negotiation.

Overtakers.—Extra packages created when bulked goods cannot be returned entirely into their original packages.

Pari Passu.—In equal proportions.

Parquet.—Official brokers of the Paris Exchange or the enclosed space for their meeting.

Per Contra.—As on the other side.

Petite Bourse.—The market held on the Paris Exchange in the evening.

Pigs on Pork.—Bills drawn by different offices of a firm on each other.

Post Obit Bond.—A document executed by one person binding himself to repay a loan of another person with interest on the death of the latter.

Poste Restante.—The system of making arrangement with a post office by a person for retaining letters addressed to him until he calls for them.

Prime Entry.—Provisional entry made for customs purposes before landing of the goods.

Privity of Contract.—Relationship created between the parties entering into a contract.

Pro Rata.—In proportion.

Pyx.—A box in which the samples of coins made in the mint are preserved.

Quantum Meruit.—"As much as he deserves."

Quid Pro Quo.—Something in return.

Racking.—Drawing off, transferring or combining of wines or spirits from casks when in bond.

Rack Rent.—The highest rent that the property can bear.

Receiving Note.—A document sent by the shipper to the chief officer to receive on board certain specified goods.

Re-Exchange.—The loss resulting from dishonour of a bill in a country other than the one in which the holder resides.

Remedy Allowance.—The margin allowed by law in the weight and fineness of coins.

Rentes.—A Continental term for securities for the National Debts.

Reversion.—Right to a future benefit depending on the happening of some contingency in future.

Rig.—To force up the price of security by spreading false rumours or by conducting a buying campaign.

Right of Angary.—Government's right to seize private means of transports in time of war.

Rummaging.—Searching of incoming vessels by the customs authorities, to ensure that no dutiable or prohibited goods are concealed in them.

Running days.—Days allowed to the charterer for loading cargoes.

Running Policy.—An open marine policy covering risk up to a certain date.

Sag.—The time when prices of securities become very low on account of dullness of the market.

Scalper.—A person receiving inside information of the stock market and acting on such information before it becomes known to other speculators.

Sequestration.—A Scotch word for bankruptcy.

Ship's Protect.—A document sworn in by the Captain of a vessel about the circumstances under which the ship or the cargo sustained damage.

Shipping Advice.—Advice sent by a Railway Company to the dock intimating that certain goods have been forwarded for shipment.

Shipping Bill.—A document required to be submitted to the customs by a person claiming a drawback.

Shipping Note.—A memorandum addressed to the dock requesting to receive and ship goods specified.

Ship's Specification.—Form supplied all goods exported.

Short.—An American term for "Bear."

Short Interest.—The amount by which goods have been over-insured for which a part of the premium is returnable.

Short Shipment.—Goods consigned but left behind.

Shut Out.—Refers to goods which a vessel could not take on board.

Sine Die.—"Without a day," that is, indefinitely.

Skipping.—Transference of the contents of a package from one container to another.

Slinging.—Charge made for putting chains round packages for the purpose of hoisting them into the hold of a vessel.

Sola Bill.—A bill of exchange drawn in one part only as distinct from a bill in set.

Standard Gold.—Gold of the fineness of the standard coin.

Stevedore.—One helping in loading and unloading of a vessel.

Stiffening Order.—A permit to load heavy goods for steadying a ship, before compliance of the usual formalities.

Stop Loss Order.—Order by a customer to his broker to sell the security when its price falls below a certain limit in order to prevent the risk of any further loss.

Stock Receipt.—Receipt granted to the holder of inscribed stock.

Stop Notice.—A notice given to a banker requesting him to stop payment of certain bill, pro-note or cheque.

Store Floor.—A room in a warehouse where goods are deposited under Crown locks for the purpose of being drawn in small quantity for ship's stores.

Storage.—The packing of cargo on board the ship.

Stowage.—Packing of the cargo on board the ship.

Sue and Labour Clause.—The clause in a marine policy under which the underwriters undertake to indemnify the insured or his agents for expenses incurred by them in defending and/or recovering the insured property.

Suez Canal Clause.—The clause in a marine policy providing that grounding in the Suez canal shall not constitute stranding.

Take Up.—To meet a bill at the due date.

Terminable Annuity.—The annuity payable for a fixed period only.

Time Bargain.—A speculation in stock spread over a period longer than the usual fortnightly ssttlement in the London Exchange.

Towage.—The fee charged by a towing steamer for hauling a vessel.

Truck.—Payment of wages in goods or services.

Trust Receipt.—A document admitting the sole right of the bank on properties and providing for immediate payment to it of the entire proceeds of sale of such prpoperties.

Ullage.—The lacking quantity of liquid necessary to make a cask or bottle full.

Ultra Vires.—Beyond the powers of.

Unified Stock.—The stock created by amalgamation of several old issues bearing interest at different rates, into one common stock bearing a fixed rate of interest.

Unvalued Policy.—A policy in which the value of the insured property is to be assessed after the occurrence of the loss.

Up-set Price.—The price below which a commodity will not be offered for sale.

Vatting.—Putting together liquors in a vat to obtain uniformity of quality.

Victualling Bill.—A list of dutiable stores on board a ship for the use of the crew and passengers during a voyage.

Wash Sale.—False sale for the purpose of creating an artificial market price for a commodity to unload it on the market at an advantage.

Window-Dressing.—A term used to indicate that the banks are calling in loans to make their cash balances appear large in their periodical balance sheets.

Without Prejudice.—A term used by a party to a dispute when making an offer by which he remains bound only in the case of a settlement on the terms offered.

Writing Off or Down.—The process of reducing the value of an increase in its real value, by an operation in accounting.

Zollverein.—The union of the German States abolishing the customs duties between them and enabling them to act as one in their commercial transactions.

APPENDIX B.

ABBREVIATIONS OF COMMERCIAL TERMS.

A

@	At
A/A	Articles of Association
A. a. r.	Against all risks
A/c., acct.	Account
A/C	Account Current
Acc.	Acceptance
A/d	After date
A/D	Acknowledgement due
Ads., advt.	Advertisement
Ad val.	Ad valorem (according to value)
A/v	Ad valorem (according to value)
agt.	Against
Agt.	Agent, Agreement
a. m.	Ante meridiem (before noon)
Amt.	Amount
A/o	Account of
A/or	And /or
A. P.	A protester (-bills)
App.	Appendix
Approx.	Approximate
A/R	All risks
Arr.	Arrival
Art.	Article
A/s	After Sight
A/S	Account Sales
As. or a,	Annas, anna
Assigt.	Assignment
Assn.	Association
Asst.	Assistant
Av.	Average
Avoir.	Avoirdupois

B

B.	Bale
Back	Backwardation (Stock Exchange)
Bal.	Balance
Bar.	Barrel
B.B.	Bill Book, Branch Bill
B/C	Bill for Collection
B.C.R.	Bill Collection Rate
B/D	Bank draft, Bills discounted
b/d	Brought down
Bdle.	Bundle
B/E	Bill of Exchange
B. of E.	Bank of England
B.L.	Bill lodged
B/L	Bill of lading
Bls.	Bales
B.N.	Bank Note
B.O.	Branch Office Buyer's option
B/O	Brought over
B/P	Bill Payable
B.P.B.	Bank Post Bill
B.P.O.	British Postal Order
B/R	Bill Receivable
Bro.	Brother
B.S.	Balance Sheet
B/S	Bill of Sale
Bt., bt.	bought
B.T.U.	Board of Trade Unit
Bx.	Box

C

C.	Cent
C.A.	Chartered Accountant
C/A	Credit Account
C/a.	Current Account
C/a.	Capital Account
Cat.	Catalogue
C.B.	Cash Book
c.c.	Cubic Centimetre
C/C	Cash Credit
C.C.	Carrying Capacity of Wagons
C.D.	Cum (with) Dividend
c/d.	Carried down
C & D.	Collected and Delivered

C & F. – Cost and Freight
C.f. – Cash and Freight
C/f. – Carried forward
c.f. – Cubic feet
Cf. – Conferatur (compare)
C.H. – Clearing House, Custom House
C.i.f. – Cost, insurance & freight
C.f.i. – Cost, freight & insurance
Cg. – Centigramme
Chq. – Cheque
C.i.f.&c. – Cost, Insurance, freight and commission
C.i.f. & i. – Cost, insurance, freight and interest
C.i.f.c. & i. – Cost, Insurance, freight, commission and interest
cm. – Centimetre
C.N. – Credit Note
C/o. – Care of
Co. – Company
C.O. – Cash Order
C.O.D. – Cash on Delivery
Com. – Commission
Cr. – Credit, Creditor
Ctge. – Cartage
Cub. – Cubic
Cum D. – With Dividend
Curt. – Current
C.w.O. – Cash with Order
Cwt. – Hundredweight

D

d. – Denarii (pence)
D.A. – Deposit Account
D/a – days after acceptance
D/A. – Documents against Acceptance
D/B. – Day Book, Deposit pass Book
D/D – Demand Draft
D.A.D. – Days after Date
Deb. – Debenture
Def. – Deferred
Deg. – Degree
Deld. – Delivered
Del Cred. – Del Credere
Dept. – Department
D/F. – Dead freight
Diff. – Difference
Dft. – Draft
Dir. – Director
Dis. or Disct., Discount
Div. – Dividend, division
D.L.O. – Dead Letter Office
D/N. – Debt Note
D/O. – Delivery Order
Do. – Ditto (the same)
Dols. – Dollars
Doz. – Dozen
D/P. – Documents against Payment
Dr. – Debtor, drawer Doctor, drachm
D/R. – Deposit Receipt
D/S. – Days after Sight
D/D. – Dock Warrant
d.w. – Dead weight
Dy. – Delivery

E

E. – East
E.E. – Errors excepted
e.g. – for example
E/I. – Endorsement irregular
E. & O. E. – Errors and Omissions excepted
Encl. – Enclosure
Entd. – Entered
etc. – Et cetera (and other things)
Ex. – Exchange, examined, executed, out of
Ex. D. – Ex. Dividend
Ex. cp. – Ex. Coupon
Ex. div. – Exclusive of dividend
Ex. Int. – Ex. Interest

F

F. – Feet, folio, franc
F.A.A. – free of all average
Fac. – Facsimile
F.a.q. – Fair average quality

F.A.S. - Free alongside ship
Fcap - Foolscap
F.c.c. or f.c. & s. - Free of capture or seizure
F.D. - Free docks, free despatch
F.G. - Fully good
F.G.A. - Foreign general average
Fo., Fol. - Folio
F.O.B. - Free on board
f.o.c. - Free of charge
F.O.R. - Free on rail
F.O.S. - Free on steamer
f.o.t. - Free on truck
F.P. - Free policy, fully paid
F.P.A. - Free of particular average
Frt. - freight
Frt. ppd. - freight prepaid
ft. - Foot or feet
F.T. - full term
Fur. - Furlong
Fwd. - Forward

G

G. - Gauge, gramme, gold, guarantee
G.A. - General Average
Gall. - Gallon
Gaz. - Gazette
G.b.o. - Goods in bad order
Gent. - Gentlemen
G. gr. - Great gross (144 doz.)
G.m.b. - Good mercantile brand
G.m.q. - Good mercantile quality
G.M.T. - Greenwich mean time
G.o.b. - Good ordinary brand
Goods - Goods train
Govt. - Government
G.P.O. - General Post Office
Gr. - Grain, gross
Gr. wt. - Gross weight
Gs. - Guineas

H

hf. - Half
Hhd. - Hogshead
H.M.C. - His majesty's customs
H.M.S. - His majesty's service or ship
H.O. - Head office
H.P. - Horse power
Hr. - Hour

I

I.B. - Invoice book
Ib., Ibid - Ibidem (in the same place)
I.B.I. - Invoice book inwards
I.B.O. - Invoice book outwards
Id. - idem (the same)
i.e. - Id est (that is)
I/I. - Indorsement irregular
in. - Inch or inches
Inc. - Incorporated
Ince. or Insce. - Insurance
Inst. - Instant—of the present month, Institute
Int. - Interest
Inv. - Invoice
I.O.U. - I owe you
Irr. - Irredeemable
I.T. - Income Tax

J

J. - Justice, judge
J/A. - Joint account
JJ. - Justices
Jun., Junr., Jr. - Junior
Junc. - Junction

K

Kg., Kilo., Kilog. - Kilogramme
Kr. - Kreuzer (coin)

L

£ - Pound (sterling)
L - 50
L/A. - Letter of Authority
Lat. - Latitude
lb. - Libra (Pound weight)
L.B. - Letter book
£E. - Egyptian pound
£T. - Turkish pound

L.O. – London office
Long. – Longitude
L/P. – Life Policy
£P. – Palestine pound Letter of Credit
L.S. – Locus sigilli (place of seal)
£. s. d. – Pounds, shillings, pence
L.I.P. – Life Insurance policy
Led. – Ledger
Ltd., Ld. – Limited

M

M. – Thousand, Monsieur, Sir
-/M. – Thousand (as 20/m).
m. – metre, mile, minute
M/a. – My account
M/A. – Memorandum of Association
Mag. – Magazine
Max. – Maximum
M.D. – Memorandum of Deposit
M/d. – Months after date
Mdme. – Madame
Mdse. – Merchandise
Memo. – Memorandum
Messrs. – Gentlemen, Sirs
Mfg. – Manufacturing
M.I. – Marginal interest
Min. – Minimum, minute
Mkt. – Market
m/m. – Milimetres
M.O. – Money order
Mo. – Month
M/R. – Mate's receipt
Mr. – Mister, Sir
Mrs. – Mistress, Madam
M/S. – Months after Sight
MSS. – Manuscripts
Mt. – Mortgage

N

N. – North
N.A. – New Account
N/A. – No advice, no account.
N/a. – Non-acceptance
N.B. – Nota bene (Take Note)
N/E. – No effects
Nem. Con. – without opposition
Nem. dis. – no one dissenting
Net – Netto (lowest)
N/F. – No funds
N. O. – No order
No. – Number
Nom. – Nominal
Nom. Cap. – Nominal capital
N/N. – Not to be noted
N.P. – Notary Public
n/p. – Net proceeds
N.P.F. – Not provided for
N.R. – No Risk (insurance)
N.S. – New style
N/S. – Not sufficient
N.S.F. – Not sufficient funds
Nt.wt. – Net weight
N.W. – North-West
N.Y. – New York
N.Z. – New Zealand

O

° – Degree
O.A. – Old Account
O/a – On account of
O.C. – All correct
o/c. – Overcharge
Oc. B/L. – Ocean Bill of Lading
O/D – Overdraft
O/d – On demand
O.H.M.S. – On His Majesty's Service
% – per cent. order of
°/oo – per thousand
O.N. – Own Notes
O.P. – Own policy
O.R. – Owner's risk, Official Receiver
Ord. – Ordinary
O.R.D. – Owner's risk of damage
O.R.F. – Owner's risk of fire
O.R.L. – Owner's risk of leakage
O/S – On sale
O/sg. – Outstanding
oz. – Ounce

P

p.	- Per, page
P/A	- Power of Attorney
P.A., p.a.	- per annum (yearly)
Par.	- Paragraph
Pat.	- Patent
Payt.	- Payment
P. B.	- Pass Book
P/C.	- Price current
p.c.	- per cent.
pcs.	- pieces, prices
Pcl.	- Parcel
P.C.B.	- Petty Cash Book
Pd.	- Paid
P.D.	- Port Dues
Per ann.	- Per annum (Yearly).
Per pro.	- On behalf of
Pk.	- Pack
Pkg.	- Package
P. & L.	- Profit and Loss
p/m	- Per mensem
p.m.	- Premium
P.M.	- Post Master
P.M.	- Post meridiem (afternoon)
P.M.G.	- Postmaster General
P/N	- Promissory Note
P. O.	- Post Office, Postal Order
P. & O.	- Peninsular and Oriental Steam Navigation Co.
P.O.B.	- Post Office Box
P.O.D.	- Pay on delivery
P.O.O.	- Post Office Order
P.P.	- Parcel post
Pp.	- pages
Ppd.	- Prepaid
Pref.	- Preferred, preference
Pro.	- For
Prima facie	- At first sight
Pro tem	- For the time being
Pro and con	- For and against
Prox	- Proximo (of the next month)
P.S.	- Postscript
Pt.	- Pint
P.T.O.	- Please Turn Over
P.X.	- Please exchange

Q

qlty.	- quality
Qr.	- quarter, quire
qrs.	- quarters
qt.	- quart
qto.	- quarto (4 to)
q. v.	- quod vide (which see)
qy.	- query

R

R.	- Rupee
R/A	- Refer to acceptor
R.A.P. or R. a. p.	- Rupees, annas & pies
R/D	- Refer to Drawer
Re. or re.	- with reference to
Recd.	- Received
Recpt.	- Receipt
Ref.	- Reference
Reg., Regd.	- Registered
Repd.	- Replied
Retd.	- Returned
Rev. A/c.	- Revenue Account
Rm.	- Ream
R.M.S.	- Royal Mail Steamer
R.M.S.	- Railway Mail Service
R.P.	- Reply paid
R.R.	- Railway Receipt Railway's risk
Rs.	- Rupees
R.S.V.P.	- Reply if you please
Ry., Rly.	- Railway

S

S.	- Silver, south
$	- Dollars
s.	- Shilling
S.A.	- Subject to approval
S.B.	- Short Bill, Sales Book
S/C	- Sharp Cash
S.C.	- Safe custody
Sched.	- Schedule
S/D	- Sea Damaged
Sd.	- Signed
Sec.	- Section
Secy.	- Secretary
Sgd.	- Signed
s. g.	- Specific gravity
Shipmt.	- Shipment
Shr.	- Share
Sig.	- Signature
Sine die	- Indefinitely
S.L.	- Small lot
S/N	- Shipping Note

S/O - Sub Office
S.O. - Seller's option
Sov. - Sovereign
S.P. - Supra Protest
Sq. - Square
SS., ss. - Steamship
Stet. - Let it stand
Str. - Steamer
Ster., Stg. - Sterling
S.V. - Surrender value

T

T. - Tons
T.B. - Trial Balance
T/C - Till countermanded
T.E. - Trade expenses
Tel. Add. - Telegraphic address
Tele. - Telephone
Tfr. - Transfer
T.M.O. - Telegraphic money order
T.O. - Telegraph office, Turn over
T.T. - Telegraphic transfer
tr. - Tare
Trsr. - Treasurer

U

U/a - Underwriting account
U.K. - United Kingdom
Ult. - Ultimo (of last month)
U.S.A. - United States of America
U. V. - Uncollected vouchers
U/w. - Underwriter

V

V - 5
v. - Versus—against
Via. - By the way of
Viz. - Namely
Vol. - Volume
V.P.P. - Value Payable Post
Vs. - Versus

W

W. - West
W.B. - Way bill, Warehouse Book
W.b. - Water ballast (shipping)
W.f. - Wrong fount (of type)
Whf. - Wharf
Wk. (s) - Week (s)
W.P. - Without prejudice
Wt., Wgt. - Weight
W/W - Warehouse warrant

X

X - Ten
x.c. - Ex Coupon
x.d. - Ex dividend
x. in. - Ex interest
x.n. - Ex new

Y

yd. - yard
yr. - year
yrs. - yours
& - And
&c. - And so on, and the rest
‡‡ - Number, numbered
∴ - Therefore
∵ - Because
′ - Foot (measure)
″ - Inches (measure)
× - Multiply by
% - By the hundred
°/oo - By the thousand

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