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A BASIC COURSE IN COMMERCE

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By

JOHN GINARLIS B.Sc. (Econ.) Hons.

Fellow of the Corporation of Secretaries

Principal, College of Commerce, Moshi, Tanganyika

*Formerly Head of the Department of Commerce and Languages
at the Wimbledon Technical College*

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Preface

THIS book is designed to fit in with the newer conception of the subject of Commerce, and is intended for those working on the new syllabus of the Royal Society of Arts, and also for students taking Commerce as a subject for most examination bodies. It is hoped that it will also provide a useful introduction to Economics and to Economic History.

The questions at the end of each chapter have been framed to test the student's reading, and can be answered from the material contained within the respective chapters. Complete examination papers of various public examination bodies have been added at the end of the book. I wish to express my gratitude to the Royal Society of Arts, the London Chamber of Commerce, the Union of Educational Institutions, and the East Midland Educational Union for permission to reproduce these papers.

The book covers a great deal of ground, and it contains much material for thought and discussion. It does not in any way, however, preclude the teacher from integrating current commercial information. On the contrary, such information as can be obtained from market reports and the financial pages of many newspapers and periodicals can be used with good effect.

The style adopted is a departure from the usual form, and it is believed that it will be found both stimulating and interesting.

I should like to express my thanks to Mr H. Marklew for the care he has taken in going over the manuscript, to Mr J. Tivers, A.A.C.C.A., A.C.I.S., for his suggestions, and also to Mr F. Peart, B.Sc., M.P., for his most useful assistance in connexion with the chapter on the Nationalized Industries.

J.G.

Contents

<i>Chapter</i>	1. The Heart of Commerce—the Market	<i>page</i> 7
	2. How Work is done	19
	3. Production	33
	4. Functioning of a Business	46
	5. The Retail Trade	58
	6. Capital and Large-scale Organization (1)	71
	7. Capital and Large-scale Organization (2)	84
	8. The Nationalized Industries	90
	9. Business Accounts	102
	10. More about Banks	118
	11. Keeping Records	129
	12. A Specimen Transaction	142
	13. Incomes	156
	14. Profits and the Business	163
	15. Transport	179
	16. More about Markets	191
	17. Bills of Exchange	200
	18. Trade follows the Flag	211
	19. A Foreign Transaction	224
	20. Insurance	233
	21. Communications	240
	Examination Papers	248
	Index	253

CHAPTER ONE

The Heart of Commerce—the Market

As in the beginning, so to-day. If you want to buy something, then the market is the place to make your purchase. There you will find vendors willing to exchange whatever they have for whatever you have, provided, of course, they also want your article. This, in fact, was the way early markets carried on their business. It was a simple form of exchange, known as **barter**. The man who wanted a pair of boots and who had a sheep to exchange for these would go to the market and there find someone who had the boots and wanted the sheep. Naturally, it did not always turn out to be a simple exchange, because, although the sheep might have been a good one, fat and fleecy, right for the table or for breeding purposes, two things had to happen. In the first place, the owner of the sheep had to find someone who had boots to exchange, and, secondly, it had to be that this individual who had the boots also wanted the sheep. In other words, the **coincidence of wants** had to take place, and this was not always an easy matter. There might be many cobblers prepared to exchange boots of different sizes, shapes, and colours, but none who wanted to take a sheep in exchange.

In addition to this coincidence of wants, there also existed the difficulty of dividing up large units into smaller ones, so that nearer approximations of value could be obtained. For example, although we might reasonably have agreed that one sheep was equal in value to a good pair of hand-made boots, it was hardly reasonable to suppose that one sheep was worth only a pair of boot-laces. Smaller units of value were necessary, and it was not always easy in the days of barter to make these smaller

units fit. The farmer could, of course, divide up the animal as the butcher does to-day, but here another difficulty arose. If the farmer were not able to make an exchange he would return home with the meat, and meat does not keep. It cannot 'store' its value, and unless the cobbler wanted to use the meat fairly soon he would not be prepared to accept it in exchange for his laces. Hence barter has another disadvantage in that the value of the things that are offered for exchange does not always keep, and people who take things in exchange for future use do require this of the commodities they obtain.

How did people, then, live in those days when barter was the main medium of exchange? There is no doubt that in itself barter played a very important part in the history of commerce. We read, for instance, that the ancient Britons exchanged copper and tin, the value of which they did not really know, for fancy articles which the Greek and Roman traders brought with them from their Mediterranean homes. We know that in later years many Empire pioneers traded beads and coloured ornaments with the natives who lived in Africa and brought back costly diamonds and ivory. In the study of these transactions lies our answer. Barter is effective when the standard of exchange is low—that is to say, when neither party assesses infinite scales of value upon the commodities being exchanged at any particular time, and when each party wants what the other has. The ancient Britons were not concerned with the value to the traders of the copper and the tin, because they wanted the trinkets which were offered to them and because they had little or no use for the copper or the tin. The natives of Africa felt the same way about the unpolished diamonds or the ivory, of which there were plenty, and which they could get without much difficulty, but they wanted the trinkets which the Europeans brought. Here we have a true picture of the coincidence of wants, but in addition we also have a curious scale of values. The unpolished diamonds were of greater value to the Europeans than were the trinkets, but the trinkets were of greater value to the natives than the diamonds. Some historians assert

that the natives were robbed and cheated, but in reality this was not so, since on the scale of values both parties were satisfied, and from an economic point of view a fair exchange took place.

Having seen some of the difficulties which confronted the prospective purchaser under the barter system, let us now examine some of the conditions which enabled him to get what he wanted.

In the first place, if the farmer stayed at his farm and waited for a cobbler to pass by with a pair of boots for exchange, he probably had to wait a very long time—so long, in fact, that his need for obtaining boots might have passed altogether, since he might have learnt to do without them by wearing sandals or by deciding to make a pair for himself. It was necessary, then, for him to go where he was most likely to meet these cobblers, and what better place than a market, where traders of various articles had set up their booths displaying their goods and inviting offers for them? The first thing the farmer had to do in deciding to go to the market was to find out when and where such a market would be held. If he went on a Friday he might find no market, and if he went on a Monday he might find that the booths were being dismantled, the market having been held on the Saturday.

When and where were these markets held, then? They were usually held on holy or saints' days, and were situated just outside a town, convenient for the inhabitants of a number of neighbouring villages to visit, and where the protection of the local lord or baron could be had. The market was usually held all day, or might even last for a few days.

A visitor from a modern town would be surprised at some of the things displayed for exchange, and also at the manner in which offers were made. Sometimes a deal was completed by the seller and purchaser over a tankard of ale, and sometimes abuses were thrown at each other when no deal was made. In addition to the various booths displaying wares, there were also amusements, so that those who came to the market could pass

the day, especially those who came from some distance and did not wish to return home as soon as they had obtained whatever they wanted. Hence the reason why a market-day was also a fair-day, and the modern fair with its roundabouts and side-shows has much that is reminiscent of those days. The spirit of carefree jollity was there just the same, and mountebanks and jugglers, fortune-telling gipsies, honest dealers and rogues, would abound. In *The Vicar of Wakefield* Oliver Goldsmith tells us how honest Moses was robbed at the fair by exchanging the family's most treasured possession, an ill-favoured mare, for a large quantity of spectacles!

The farmer who went to market to exchange his sheep for a pair of boots would have to be careful that he was not cheated, and that the boots did not leak as soon as they got wet, or crack from the dryness of the weather, or did not wear well. They had to be good value for his sheep—boots of sturdy make suitable for the type of wear a farmer might give them. Again, they might not need to be so strong, but have to look well for wearing on a Sunday to church. In other words, the farmer would have to examine the boots and try to ascertain if they were what he wanted and would suit his purpose. He had to obey the law of *Caveat emptor*—that is to say, that every buyer should look after himself.

As a farmer, he would probably know all about sheep, cows, hens, corn, types of soil, and other things to do with his work. He might be a kind of prophet where the weather was concerned, and be able to name a crop merely by looking at a sample, but could he be expected to know whether a certain type of leather would wear well, could he be expected to know if boots made in a certain way would keep their shape? Surely this is asking too much, and he might just take a chance. But if he always 'just took a chance' when buying things he might find very soon that he was getting little satisfaction, since most of the things he was buying were of poor quality and material. Was there, then, any other way out? There was, and he might make use of it.

The Organized Market

The market we have described above was the **open market**—*i.e.*, anyone who wished could set up a stall or booth at a market and display his wares for exchange. No restrictions as to quality or price of goods were made, and no permission to trade at that place was necessary. Hence the market or fair was open to all and sundry, and the openings for rogues and tricksters were plenty. Many traders were honest merchants who had wares to exchange and who came year after year, doing good business and satisfying their customers, but many were shady people whose one object was to get rid of their wares as quickly as they could and then disappear. There was little redress for the poor dupe who had parted with whatever he brought to exchange. "A fool and his money are soon parted," so we are told, and many a sad story could be related of happenings at these markets.

The man who wanted to be more certain of what he was getting had better not come to the open market, but resort to the **closed market**. The closed market was an **organized market**, in that the traders had to be registered with a guild and had to sell their wares in a certain place within the town walls, and also at a certain price. Barter was not used very much in those closed markets, since trade was more highly organized and a more precise medium of measuring values was necessary. The money consisted of gold and silver coins. The merchants or traders could be relied upon, and so could the craftsmen, who were members of a guild, and over whom the guild had power. No craftsman making boots would dare to sell a faulty pair to a farmer. The craftsman would have to tell his prospective purchaser the exact condition of the boots. If they were of first-class quality, capable of withstanding the rigours of an open-air existence, he could extol their virtues, but if they were fit only for town wear, then he would have to tell the farmer so and let him decide. In other words, the farmer, far from taking a chance, was given a true picture of the whole transaction, and could decide himself what he would like to do.

If, then, these organized markets offered such advantageous terms, why should a farmer care to go to a market outside the town? Surely it would pay everyone to go to the organized market and purchase his goods, knowing exactly what he was getting? The reason why the farmer and many others did go to the outside market was that, although the organized market offered much which was to be desired, yet it was not adventurous enough to offer good things at low prices. Its prices were high, its protection so secure that its traders, merchants, and craftsmen had little time for new products and new goods. They studied the demands of their customers only so far as their guilds would allow them, and a craftsman who invented a new type of boot with easy lacing and new colouring might be prevented from making such a boot if the masters of the guild considered that it might upset the 'market' in boots. It might prove too competitive, and so put other cobblers out of business, and this was not the purpose of the organized or protected market.

Now, a sheltered market will not generally instil initiative, since, in the first place, many craftsmen are too lazy to change their ways, and, in the second place, they may not be allowed to do so. But the market outside the town, with its adventurers and unrestricted traders, could go ahead and introduce products which the internal organized market had never dreamt of. Particularly was this so in the cloth trade, where cloths from foreign countries were brought in—silks and damasks in attractive colours and designs. Free from restrictions as to prices and quality, these traders could sell their goods at competitive prices suitable to the pockets of many purchasers who were willing to take a chance, since the goods were so much cheaper.

So it was that these external free markets prospered, and in the end brought about the downfall of the internal safe market, with its guarantees as to quality and material and its unlimited number of restrictions. So severe were these restrictions that the traders and craftsmen were even obliged to live in certain

parts of the town, and thus we have the carpenters living in Carpenter Street and the Glovers in Glovers Lane, the Fishmongers in Fishmonger Lane, and so on. In the City of London you can still come across streets named after the crafts, streets in which at one time a lively business was carried on. The Great Fire of London began in Pudding Lane, the centre of the baking industry, and, sweeping through the City, destroyed many of these old buildings.

The guilds, of course, did not give up their organized monopoly without a struggle. They fought the external free markets as best they could, trying to prevent the traders from holding their markets, destroying the booths and condemning their owners as rogues and vagabonds; but their end was bound to come, for there was dissatisfaction within the guilds themselves. Many journeymen—that is, apprentices who had served their term and who now wanted to become master craftsmen—were prevented from setting up in business on their own, for the guilds allowed only a small number of master craftsmen. These journeymen felt that there was a greater demand for goods than the guilds were prepared to admit existed, and that if only they could get started customers would come to them. But the internal market offered no hope, so they went to the external free market, making things and selling them without restrictions and price-control.

In the end the great factor of competition was bound to win, for more and more people came to 'take a chance' at the outside market and to buy goods which were offered at a free, competitive price, even if *Caveat emptor* did prevail and sometimes they were cheated in the deal.

But the market itself never became entirely free, for competition necessitated a quality in the goods made and sold, and also that each trader should build up a name for himself. This establishing of a name is known as **goodwill**, and businesses to-day are built up on this factor. If people know that you can offer good quality and materials which are fair value they not only will come to you again, but will recommend you.

Location of the Market

The market of to-day differs in many ways from the market of the old days, when the farmer went along with his sheep to get his pair of boots or the housewife to get a few yards of material for a new gown. But essentially it is just the same in that its function has not changed. It is the most convenient method by which buyers may meet and effect an exchange which is mutually satisfactory. Now, this is a very important factor, since it explains why markets have sprung up in certain places. Location of market is effected when the buyers and sellers find it most convenient to meet in a certain place.

In the City of London, for example, there are certain areas in which you will find that traders or merchants in certain articles will generally have their offices and warehouses. For example, the carpet trade tends to concentrate itself along Cheapside and the area around and about St Paul's Churchyard. Here you will find warehouses in which the agent who is looking for carpets to buy can go and inspect designs and qualities. If he does not find what he wants in one warehouse it does not take him long to walk across the road to where another one is situated, and to go on with his inquiries. He knows that in this area he is most likely to find what he is looking for. On the other hand, an agent looking for clocks or watches will go to Clerkenwell, where he is again most likely to find what he wants. In a way this concentration is not new, since we saw above how in the old days of the guilds the organized markets tended to concentrate their activities in certain local areas, and how craftsmen and traders in certain goods had to live and work in areas chosen by the guilds. Structurally, then, in many ways the modern market is very similar, though, owing to more efficient means of communications, it is possible for greater mobility to be achieved. For instance, the telephone has made it possible for many inquiries to be instituted at a distance, but where a person actually wants to see an article he must go to where it is. Here, again, modern transport helps a great deal. Road travel has greatly accelerated the pace at which transactions can be

effected, and, instead of the customer's having to wait weeks, or perhaps months, for delivery, the goods can arrive in a few days or even hours. All these developments tend to make the market more mobile and less rigid, but still the old system of location has been found most effective. Manufacture of textiles, for example, is concentrated in the Northern towns, and travellers still go from London to places like Manchester and Bradford to contact manufacturers and see if they can find what their customers want down in the South.

Carrying of Stock

Perhaps the greatest development in the modern market is the carrying of stock. In the old days the individual merchant usually carried stock with him, but to-day, owing to the greater mobility of transport, carrying of large stocks is not so necessary. The average shopkeeper carries a variety rather than quantity of stock. We shall have more to say on this when we come to deal with the retail trade, but it is necessary to note this in passing while on the subject of markets, for it is a factor that is noticeable in the modern market—the variety rather than large quantity, though both may exist at the same time, as, indeed, is evident in some of the large stores, such as Woolworth's. Such a store, incidentally, is a good example of a market under one roof. In a store of this character we can buy a large variety of things, and as we pass from counter to counter we may change our decision to buy a piece of soap to that of buying a plant for our garden or some stationery to write that overdue letter.

Money buys Money

So far in our adventure into markets we have assumed that the buyers want to obtain something which the sellers have in the form of goods or commodities, and this is a true picture, since most of our needs are for goods, but there are people who do not buy goods, but actually buy money itself. The money is not usually in the form in which we know it—that is, treasury notes or pieces of silver—but is represented by stocks and shares.

These investments represent capital or money used in businesses, and a day in Throgmorton Street, which is the centre of the money market, or in the Stock Exchange itself will soon show how important this market is. Here you will see men rushing about making signs, shouting out in a jargon which few except those who know the inside story understand.

The fortunes of the money market are many and varied, but it is necessary for the undertaking of large ventures where capital is required, and offers an avenue where it can be sought and obtained. Men wish to build a large dam somewhere in the East which will bring relief to thousands of men, women, and children in the famine months and life-giving water to the parched fields. But for such a venture the little savings of a single man in the Post Office or a bank are not sufficient, though he can contribute if he buys shares in the venture, and there are many people to-day who are indeed shareholders in ventures the capital of which runs into millions of pounds. By going to the money market the promoters of the project for the dam can contact agents who will sell the shares for them, and so bring in the capital necessary for the construction of the dam. Capital is thus found and development proceeded with.

The Labour Market

In our survey of the various markets we have seen that goods can be bought and sold, and money too, and now we come to a strange kind of market, a market where men and women can be bought. To-day slavery is illegal: no man can go into a market and buy himself a suitable slave. The time existed, of course, when men, women, and children were bought and sold just like any other goods, and frequently conditions of slavery were bad and cruel. On the other hand, many slaves were treated well, and some were given their freedom after a number of years' service with their masters. Slaves were bought for a variety of reasons—strong, sturdy slaves for hard manual labour, gentler, more refined slaves for domestic and indoor duties. The greatest slave-trade was, of course, that known as the

'middle passage.' The slaves were captured in Africa and brought to America, where they were exchanged for cotton, and the cotton was brought to Lancashire for making into goods which often went back to America or were sold in England or on the Continent.

Many books have been written on the slave trade, so that there is no need for us to go into the conditions of this trade, but it is necessary for us to notice that a market did, in fact, exist. The method of sale was usually the auction, the slaves' best points being shown and a price asked for as a bid. But although slavery disappeared during the nineteenth century, people continued to sell their labour by presenting themselves at markets or fairs, and many farmers engaged their servants in this way.

To-day people do not sell themselves in this way, because the **labour market** is better organized. Agencies, which act as intermediaries between the buyers and sellers, effect the exchange, and it is always understood that the employers purchase, not the seller, but what he has to offer—*i.e.*, his skill or services. Many labour markets have so organized themselves that a buyer or employer can purchase this skill or service only at a certain price. This is generally done through **trade unions** in the case of many trades, and through professional organizations in the case of the professions, such as the law or medicine. Certain fees are stated, below which members of the profession are not allowed to offer their services. In a way this is going back to the organized internal market, but in some cases it is necessary to protect the community not only from a moral or economic standpoint, but from physical harm. It would be foolish, for instance, to let anyone unqualified practise as a doctor. Most of us are worried when we have to visit our dentist. Imagine how much more so if we could not rely upon his being skilled in his profession! To-day more than ever labour markets tend to be organized, with certain restrictions and regulations applying to them, before their participants can offer their services.

As we have mentioned, in some way this is necessary and good, but, again, such a market, if carried too far, can have many disadvantages. If every labour market were a **closed shop** it would make it difficult to inspire the enterprising man or woman to try to reach the top through his own endeavours. It might do the same as it did in the days of the guilds—make things so easy that enterprise and initiative were discouraged. The problem that faces an organized labour market is, How far can we go? To what extent must we put restrictions to safeguard the interests of our entrants and yet maintain a healthy state of competitive enterprise which will ensure us getting the best out of our workers and make way for new ideas and enterprise?

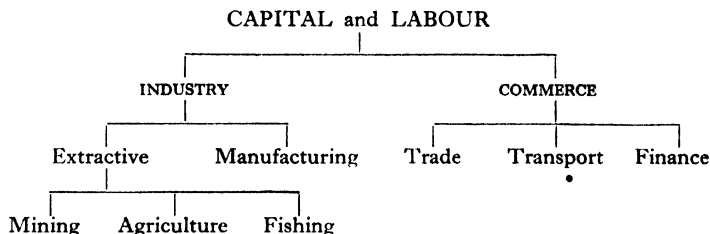
QUESTIONS

1. What do you understand by an 'organized market'? Give three examples of such a market.
2. Describe clearly why barter is not used to-day as a medium of exchange?
3. What is the 'money market'? Why do people make use of this?
4. Why are markets 'centralized'?
5. "You may sell your services, but not yourself." Discuss this statement.
6. "A market exists wherever there is a buyer and a seller." Explain this more fully.
7. The policy of *Caveat emptor* is good because it protects the buyer, but it is also bad because it restricts the seller. Do you agree with this? Discuss fully.
8. "In essence the modern market is no different from the old markets." Why is this true?
9. Give a description of any large market of which you know.
10. How does competition help in the development of a market?

CHAPTER TWO

How Work is done

CLASSIFICATION OF OCCUPATIONS



A FOREMAN is imagined by many people to be a well-preserved man of about forty years of age who has graduated to that class of person capable of walking about with his hands in his pockets watching other people work, but in no way embarrassed that he appears to be idle while others toil, and from time to time giving advice as to how a job should be done and criticizing those who are doing their best to do it. Such a picture is often represented by cartoonists and artists who wish to give an angle to life and its mysteries, and the art of doing nothing and getting others to work is a mystery which many of us never seem to master. But the picture is not a really true one, for though the foreman may appear to be doing nothing, he is probably doing a great deal of thinking. On him will rest the responsibility of seeing that the job is done properly, and if mistakes occur he will be blamed for bad supervision.

Such responsibility is not lightly carried, particularly where it involves great sums of money, or even loss of life, as when a building is being erected and certain parts might not be properly constructed. Furthermore, the art of getting people to do jobs

is by no means an easy one. There are some people, in fact, who can never acquire this ability, though they are excellent at doing a job themselves. They cannot organize others into doing jobs for them. Again, others organize so much that no one really works well for them. Their employees 'get their backs up,' to use a common phrase, and loss of efficiency is thus involved, with poor-quality work and slow results.

In office administration this art of getting others to do their job efficiently is just as important, and the office manager, whose responsibility it is to see that the office staff works efficiently and well, may or may not be an expert at many of the jobs which he expects his staff to carry out. He may at one time have been capable of high speeds in shorthand and typewriting, of keeping a complete set of account books, of using a calculating machine with great speed and accuracy, or of filing letters so that they could be found again at a moment's notice, a job at which many very highly intelligent and progressive men fail. Yet to-day he may have lost much of his shorthand speed. His typewriting may be of a low standard, and his book-keeping of such a quality as to raise grave doubts as to the authenticity of his results, while his filing might be an excellent example of confusion. Such a man may, however, still be potentially an expert in all these things, but because he has other things to think about and to do he has not time to do them himself, and so engages staff whom he expects to carry out the work efficiently and accurately. In other words, he divides his work up into groups, and we have here an excellent example of a **division of labour** or occupations.

The shorthand-typist is an expert, or should be an expert, at taking down from dictation correspondence or other material and of transcribing this accurately and clearly on the typewriter. The book-keeper should be able to keep the accounts of the firm, and know whether it is working at a profit or at a loss. The filing clerk should be able to file letters and documents so that they can be found with the minimum waste of time and bother.

If the office manager tried to do all these things himself he would find that he had no time for anything else, and would be unable to get through his day's work. Letters would be behind in attention; at no time would he be able to assess how the firm was progressing. Queries would arise to which reference to previous correspondence would be essential, and which, owing to his inefficient filing, he would be unable to find. As a result of such work the firm would get the name of being inefficient, and orders would probably fall off and losses occur. Quick answering of inquiries and attention to correspondence and to customers' accounts mean much to the good name of a firm. A customer who received from a firm demands for payment for goods which he never ordered would not be encouraged to open up good business relations. Wrong quotations in reply to inquiries or incorrect information supplied would soon show that the firm was not keen on getting a customer's business. Division of labour, then, within an office is essential for its smooth running and success. In the actual world of commerce, however, it goes farther than this.

We often hear people boast that they are independent. They want no one to do anything for them, and they will do nothing for anyone else. But in reality no one is independent. We are all dependent upon one another to some extent, and the more complicated and developed a community becomes, the greater is the interdependence. The housewife who lights her fire in the morning with coal is dependent upon the coal merchant who brings her the coal, who is again dependent upon the garages which service his lorry, upon the railways which bring the coal from the mines, upon the miner who delves into the bowels of the earth to extract the coal which is brought to the housewife to burn in her grate to give her and the household warmth. Many others come into the picture too—the heavers who carry the coal, the road-menders who keep the roads in repair so that the coal can be transported, the bankers who through the cheque system enable payments to be made in all these intermediary stages. Before the coal ever reaches the

housewife, then, many factors come into play. The housewife is not independent; she would probably be the last person to boast of this.

When you have your breakfast in the morning or your supper at night just stop to think for a moment of how many people you are dependent on for what you receive. The breakfast cereal on the table has probably come from across the ocean. The farmer who grew that corn may even speak a strange language; he may be a man of strange customs and different religious beliefs. Yet he does not begrudge your eating his cereal, because commerce knows no boundaries and works in the service of mankind. The railway which has transported the corn from the farmer's cornfield is probably different from the railway you are acquainted with; the payment for this transport which the farmer has made was probably in a different currency, working on a metric system, calculated in francs or dollars instead of pounds, shillings, and pence. On the ships which have brought the cereal many strange people will be working, speaking strange tongues and coming from different parts of the world, for the steamer might have been a 'tramp' steamer—that is, a steamer which plies from any port in which there is cargo to be transported—and crews on that type of vessel change frequently. Dockers will have loaded and unloaded the cereal; warehouse storemen will have stored it; clerks will have checked and rechecked quantities and qualities. Telegrams and cables will have been sent for its sale to different buyers. It might have figured on the corn exchange as a quantity of cereal received from another country. Insurance will have been effected on its passage—against fire, against deterioration, against loss by shipwreck and by theft, etc.

Then the producers of the breakfast cereal, who will have bought the raw material, so to speak, will turn it into the cereal which appears on the table. They will have a contract with makers of cardboard containers for its packing; printers will have printed pictures and the name of the firm. Agents acting as intermediaries for the producers will have played their part.

They will enable the local shopkeeper to stock the cereal, so that the housewife may go and purchase it. Finally, it will come to you as a finished product, and you will consume it, perhaps with milk, perhaps with sugar, which again means a whole stream of producers, each specializing in his occupation or work.

The above list of intermediaries is by no means exhaustive. Others who have not been mentioned come into the picture, but there are too many to mention all who contribute something towards a finished product. For that reason it is useful to give all these people one name, and we call them **the producers**. Each one who has contributed something to a finished product is a producer, no matter how small or ineffective his contribution appears to be. Nor is the man who actually works with his hands the only producer. The clerk who has checked the cereal and the storekeeper who has looked after it in the warehouse, these too are producers; so, indeed, is the shorthand-typist who has typed out correspondence dealing with the transaction a producer, for without her aid the whole transaction would have been more difficult to arrange. Efficient and clear correspondence contributes a great deal to efficient and quick return in the business world. Some people have labelled those who work in offices and who deal mainly with clerical work 'black-coated' workers, and they have been considered as non-productive, but this is entirely wrong, as we have seen. Production does not mean merely making something; it means getting the finished article to the person who wants it, who is known as **the consumer**. Every person concerned in the 'chain of production' is a producer, right up to the man who delivers the article at the door.

The commercial traveller is perhaps one of the greatest links in the chain of productivity, yet he is often overlooked as an intermediary, and his work is considered by many as unproductive. No greater error than this could be made, since in many cases he is the vital link between the actual manufacturer, the retailer, and the consumer. He brings to the notice of the public a certain product, and through his efforts the product

is put on the market. *Producers, then, are not only people who actually make things, but also those who are instrumental in getting them into the hands of the consumers.*

The Unproductive Workers

Are there, then, any workers who are unproductive, who do nothing, who neither toil nor spin? From the foregoing information it is not difficult to pick these out. If they do nothing to get a product into the hands of consumers they should be classified as unproductive. Under these conditions, then, those 'operators' who were so evident during the War and in the post-war years, and who were commonly known as 'drones, spivs, and black-marketeers,' should really be classed as productive workers, since they did, in effect, get products into the hands of consumers. Yet these people were condemned. Did not this conflict with economic laws and the flow of business? The reason why these people were heavily fined and looked upon with disfavour was that they were productive in a way not considered beneficial at the time. They put into the hands of consumers goods which these consumers ought not at the time to possess. The goods were in short supply, or wanted for other vital purposes, so that these people were producers who were not assisting the community, but impeding it.

It is true that the average business-man does not go into business for his health, or for the health of his fellow-men. He goes into business because he believes that a demand for his goods or services exists, and he is prepared to offer these goods or services for a return from his customers. But the goods or services should not be of such a nature as to harm the community. The sale of opium and other dangerous drugs is not allowed by law, and no one may open up a business for the sale of these commodities, for their consumption would in the end harm a large section of the community. This, again, is not purely on moral grounds. The harming of a community by the unlimited sale of opium would mean the necessity for opening further hospitals, asylums for the mentally deficient,

and centres for tuberculosis patients. All these people would be incapable of assisting in production, and so the labour market would suffer, our efficiency be impaired, our trade lose, and our standard of living fall.

State Control and Production

We see, then, again, how interdependent we are one on the other, and how if the community at large is harmed we should all suffer. For this reason the adulteration of food by drugs and harmful paints is not allowed. During the nineteenth century much food was adulterated. Meat was painted with red paints, many of which contained lead and other poisons. Milk was skimmed to the extent that little nourishment was left in it. Bread was bleached with poisonous chemicals to give it a white appearance, and many other foods were tampered with, all to the detriment of the nation's health. Disease increased, and tuberculosis became more and more prevalent. So Parliament passed a Bill making it illegal to adulterate food, and if you look on your jam-jar you will notice that it clearly says that the jam contains, or does not contain, a certain quantity of fruit preservative, but this preservative must be harmless, or else the manufacturers would be heavily fined.

To-day, then, more than ever we are prevented from producing what we want in the way we want. We have to comply with certain conditions and abide by certain restrictions. In some ways these are helpful to the community, but when taken too far they tend to prevent production entering fields in which the restrictions would be so heavy as to make it unprofitable.

Producers and Consumers

We now have two main categories—namely, the producers (those who enable consumers to obtain the article they desire) and the consumers (those who destroy the article). Now, at first it may shock us to realize that as consumers we are destroyers, and yet this is really what does happen. It is only because we tend to think of destruction as something ruthless

that we are shocked, but 'destruction' here is used in a much wider sense. It means the immediate or slow—and sometimes it is very slow—destroying of the article. When the housewife, for example, has spent a whole morning making cakes she may be slightly shocked to see how quickly these disappear at the tea-table: her beautiful work which a moment before adorned the table has now been destroyed, consumed by her family. In the same way, but by a much slower process, the man who buys a car will gradually wear it out. Even with the utmost care the engine will in time wear out, and the car will be fit only for the breaker's yard.

Now, this destruction of articles is purely a natural sequence of events. It is going on all around us every day. Cigarettes are made by the million in the factories. A consumer buys a packet of, say, twenty, and at the end of the day he has consumed them. You can think of many cases where the same thing happens every day. Yet these consumers—and, of course, we all are consumers in one way or another—must have certain articles, articles which are basic to their needs and without which they could not go on living.

Bread is an evident example. Though it is true that man does not live by bread alone, a large part of his life is dependent upon it. Water is another basic necessity. True, we do not consume water so much in its natural state, yet we consume a large quantity of it in some form or another. Now, these basic necessities are called **primary needs**, and without them life could not go on.

Another basic need, apart from food, is shelter. Exposed to the elements in some of the winter's bitterest nights, many of us would soon die, so we provide ourselves with houses, and, because our standard of living is higher than that of primitive peoples, we adorn our houses with ornaments and use the comforts of life.

The other primary need is clothing. Clothing to-day is not only used as a covering against the rigours of the cold winter months, but also as a form of adornment; yet its primary func-

tion remains, because in the winter we wear 'winter clothes,' and in the summer more suitable and lighter clothes.

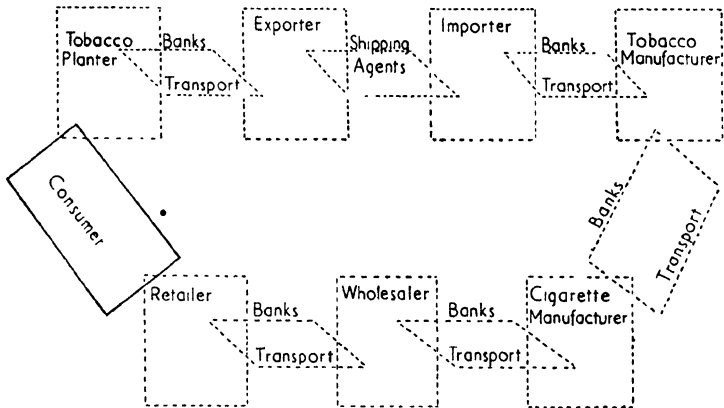
Here, then, we have the three primary needs of mankind—food, shelter, clothing—all three of which we must have if we are to live at all. Now, commerce is concerned with these needs from the first stage, when they are actually made, to the stage when we can consume them. The more easily the primary needs can be satisfied the simpler is the mechanism of commerce, and the more complicated the needs are the more complicated does the business machine become.

When man's need for food could be satisfied by simply going out and hunting a bear or a wild stag there was no need for complicated intermediaries. If he felt hungry he took his hunting weapon and went in search of food. When he wanted shelter he would look for a suitable cave to live in or build himself a hut. When he felt cold he would skin an animal of its fur and wrap this round him. Life in this way was simpler, needs could be easily satisfied, and no more was asked for. But gradually from his primitive animal stage man proceeded to more discriminating tastes. He prepared food by cooking it in different ways. He discovered the art of weaving and the making of cloth, the fashioning of pottery and the building of houses with stone or wood.

As time went on the community became more and more civilized, new wants and new needs sprang up, and more specialization to satisfy those needs was required. Men had to seek out new commodities. These men were the early commercial travellers. A more developed system of exchange had to be introduced; hence a money economy established itself, with all the complications of receipts, documents giving rights to this and that, and so on. The **distributors** arrived—the men acting as the great link between those who had the goods and those who wanted to consume them.

To-day the distributors play a great part in the whole pattern of the business world. Some have very specialized and complicated jobs to carry out; others have much simpler ones. All,

however, are essential in the scheme of things. Because the distributors play such an important part a division between these and those who operate in the first stage has been made. The makers of articles are said to be engaged in **industry**. Men engaged in such occupations as the building of houses, the mining of ores, the making of clothes, and so on, all these are said to be engaged in industry.



THE CHAIN OF PRODUCTION

An even further division is made. Those concerned in industries which *extract* ores from the earth are said to be engaged in the **extractive industries**, as also are those engaged in agriculture and fishing, while those who *make* things are said to be engaged in the **manufacturing industries**. Workers in the dressmaking industry, the electrical industry, the light-engineering industry, are said to be engaged in **manufacture**.

Again, many industries do not actually manufacture anything at all, in the sense of making individual things. The actual articles are manufactured elsewhere, and are 'assembled' at a particular establishment. In the radio industry, for example, many of the component parts are made in different

outside factories, and are forwarded to the **assembly shop**, where they are put together. Generally speaking, however, most assembly shops are part of the manufacturing concern or factory, so that they cannot really be classified as a distinct branch on their own. In the motor industry, for example, the assembly shop is the last unit in the chain of production for the particular car that is being manufactured. Certain castings, such as engine parts, etc., are made in the factory itself, but it is true that most of the electrical equipment is assembled, rather than made, in the factory. The workers in these branches become skilled at putting things together, and the work is divided and subdivided so that skill allied with quickness is obtained.

A special branch of production is centred round construction, as applied to the erection of buildings, the carrying out of schemes of architecture, railways, and tramways, the laying out of roads and new estates, and the erection of bridges.

Interdependence of the Branches

We have mentioned two main branches of a community's production system—those of industry and commerce. There is a third—**agriculture**—which, though considered as an extractive occupation, yet has certain features of its own. Its work is mainly dependent upon the forces of Nature—upon weather conditions and upon soil. A farmer can speculate only with uncertainty as to whether he can produce a certain quantity of corn. The manufacturer, however, can speculate with greater certainty as to how much cloth he can manufacture within a definite time, given a certain quantity of raw material. A bad harvest may ruin the crops of the farmer. Yet the manufacturer too has factors to consider. A strike in his factory or in the industry supplying him with raw materials may throw out his calculations. But he has not such indefinite factors to contend with as the farmer. Disease may overtake the farmer's cattle, and great losses may be sustained, though some provision can be made through insurance.

The extractive industries too have their uncertainties. Geologists can, of course, tell to a certain extent whether a mine is likely to give good yield or not. The picture of the oil prospector grovelling to find traces of oil-content is not so true to-day. Under modern conditions a whole contingent of geologists, other scientists, and other workers appears on the scene before deep drilling operations are put in progress.

Now, although we have divided our branches of production into three main groups—*i.e.*, industry, commerce, and agriculture—it is not to be assumed that these three branches are distinct from one another, and that none has anything to do with the others. Each is dependent upon the others in some way or another. The miner cannot do without food, the clerk without coal, the farmer without his tractor. The division is made purely for ease with which to study how a community organizes its production, how, in effect, it satisfies its needs.

In primitive communities these divisions are less obvious, because the needs are satisfied in a much simpler manner. In fact, in many commerce may not appear at all. Each individual may be self-sufficient. In feudal times self-sufficiency was the keynote of community life. The lord of the manor expected his manorial estate to give him everything, and trade was little known. Hence the intermediaries of the commercial world were not required. But life did not assume a very high standard, and the standard of living of the serfs was very low indeed. Satisfied they might have been, because they knew little else, but once they joined the Crusades and journeyed to the East their tastes and desires became more complicated, and they were less satisfied with the simple comforts of the home life of the feudal manor. They had seen rich silks and curiously woven carpets. They had eaten very tastefully spiced foods, and had gazed on gold- and silver-ware of wonderful design. Strange tales they brought home, and others, hearing of these remarkable lands, were filled with a restless urge to follow in their footsteps. And so the big migration began. Away from the safety of the lord's protection to the dangers and adventures

of the Holy Lands. Their womenfolk were delighted with the gifts they brought home, but became dissatisfied with simple home products. Wants, needs, became more complicated. The only way to get these things was to trade, and commerce began to fill in the gap between those who had the commodities and those who wanted them.

Direct and Indirect Services

It is necessary for us now to examine a little more closely the actual 'impact' of the people engaged in various occupations. We have seen that in any community there is a great interdependence between all workers or producers, that each is dependent to some extent on the other for his existence, yet at the same time, although each is a producer in his own field, and also in the sense that he contributes something to the finished article, the services of some are more directly complete to the consumer than others. For example, the miner who extracts coal probably never sees the actual consumer, and the docker who unloads tinned fruit never sees the housewife who buys this fruit. For this reason these people are sometimes classified as giving **indirect services**, since, although they do in effect contribute a share to the production scheme, they do not come in direct contact with the consumer.

Now, there are people in the scheme who do come into direct contact, and these people are said to render **direct services**. Examples of these are professional people, barristers and solicitors, who give their services direct to their clients. A person requiring legal advice goes to his solicitor, who advises him directly according to the matter in hand. The teacher also gives his services directly. His 'clients' are the students, who listen 'attentively' to whatever he is explaining. The teacher is paid for his service of explaining material to the students. In a sense, of course, the teacher is an important intermediary. Much of the work of commerce would be out of the question were it not for the knowledge which the teacher imparts to his students. He enables them to carry out much of their work,

for without the ability to write, read, or think, modern trade would come to a standstill. But his immediate impact is with the consumers; hence at this particular stage his services are direct.

Careful analysis must always be made when placing people into these occupations of direct and indirect services, and it must always be remembered that the classification is only an interpretation of their immediate impact with the consumers.

QUESTIONS

1. Distinguish carefully between producers and consumers.
2. Show the difference between industry and commerce.
3. In what way do the primary needs affect commerce.
4. Is it correct to speak of 'assembly workers'? Explain fully.
5. What is the 'chain of production'?
6. What do you understand by the term 'division of labour'? How does it help the community?
7. Why should not producers put on the market anything they wish, even if it is harmful to the community?
8. What are 'direct services'? Can you distinguish clearly between these and other kinds of services concerned in the production scheme?
9. Could a modern community do without trade?
10. What are the advantages and disadvantages of a self-sufficient community?
11. Name the three main branches of production, and explain something about each of them.
12. Why must production be organized?

CHAPTER THREE

Production

WE noted in the previous chapter that each individual who contributes to the needs of a consumer is, in effect, a producer, and that the term 'production' does not merely mean the making of an article. We noted, further, that each contributor acts as a link in the chain of production, and it is necessary for us now to delve a little deeper into the complexities of this chain. In the first place, we shall do well to think for a moment why it is necessary for so many individuals to contribute to the making of a single article. In the Middle Ages the carpenter made the table completely. To-day many individuals would be employed in the making of such a commodity. Those who make the legs of the table probably never touch the top, while those who 'join' the parts together most likely have nothing to do with the actual making of the various parts; they are, in effect, **assemblers**. We noted that in some industries these assemblers play a very important part, so much so that a classification of their own is necessary. In the electrical industries, as we saw, this is very prevalent. Now, this system of production is known as the **indirect**, or **roundabout**, method of production. It should be noted, furthermore, that the finished products of some manufacturers may be the raw material of others. Leather is the finished product of the tanner, but the raw material of the boot-manufacturer. Bricks are the final product of the brickfields, etc. It seems at first to be a longer method, but in the long run it is much quicker, and a larger quantity of articles can be produced by this method than by the direct one, whereby one person does the whole thing; but such a system requires greater resources in the form of **capital**.

The Meaning of Capital

Many people when talking of **capital** get very confused ideas. They think that it is something which a small group of people possess, and by means of which they are able to control others. This is a political, not an economic or commercial interpretation, and it does not help to explain the system of production with which we are concerned. Capital is in reality nothing more or less than saved-up wealth which is used in order that more wealth may be produced. No matter what political system a country works under, it will have to use capital, and the more capital it possesses the richer it will be and the higher the standard of living of its people. Now, the questions that we have to examine are, How is this capital saved up, and why is it that the roundabout, or capitalistic, system of production is more beneficial to the community?

Let us examine the first point to begin with. Every community has a certain quantity of resources at its disposal. We have seen that the three main branches of production are industry, commerce, and agriculture. We will take the last first, because it is the easiest medium with which to understand our problem. The farmer is the nearest individual to being self-sufficient that we know of, though, as we have seen, he too is, in a modern community, largely dependent upon others for a good standard of living. Still, he could, if absolutely necessary, exist for a much longer time on his own resources than the town-dweller working in a local factory or office, who would in the same circumstances find himself in far greater difficulties.

Now, the farmer, when he harvests his crop, may do one of two things: he may consume all the crop during the year, or he may decide to consume only a portion of it and save the rest. If he saves the rest he will, after the next year, have a surplus, and in this case he can again do either of two things. He can go on collecting a surplus and storing it, or he can reduce the amount of time he needs to give to growing his crops and devote himself to production in other directions. He may decide to build an extra portion on to his house, or to make some

more furniture, or anything else, in effect, that he thinks he would like to do to *raise his standard of living*. The point to realize is that he can do these other things only if he has a surplus of foodstuffs, so that he does not need to devote the *whole* of his time to providing food for himself. If he has no surplus from which to draw, then he must be continually working to provide himself with food, and therefore has no time for alternative production. Obviously, the less time he needs to devote to one thing the more time he can give to others, and so he can go on producing new things, and better ones, all the time making his life easier and better.

Capital and the Division of Labour

In actual practice the farmer does not need to devote himself to other pursuits, because he is able to exchange the *surplus* either for goods or services given by others more expert than himself. Thus, in the above instance, instead of trying to build an extra outhouse to his farm, he would probably employ a builder to do the work, and in exchange give him foodstuffs which he could draw from his surplus store, or, in other words, from his capital.

We have seen, however, that this direct form of exchange or barter has many drawbacks. In this case the builder might not want all this foodstuff in exchange for his services, and would prefer to receive part payment in food and part in some other commodity, such as clothing or furniture—not the furniture made by the farmer, but furniture made by an expert carpenter. The easiest way out of this difficulty would be, of course, for the farmer to give the builder some foodstuffs as payment and the rest in money, with which he could go and buy whatever he pleased. The point arises: how does the farmer get the money himself? The answer is straightforward: he has obviously exchanged part of the surplus with someone else for money. This money is obtained only through the surplus, and represents the farmer's capital. Hence there should be no confusion when talking of money and capital, since money is only

a more convenient way of making use of capital. The more crops the farmer can exchange for money the greater will his savings or capital appear to be, and with this he can do all kinds of things.

Wealth to produce Wealth

Now, we noted above that capital is saved-up wealth used to produce more wealth. How, then, does the building of an extra outhouse or the purchase of new furniture produce wealth? Simply because by having the power to purchase new furniture the farmer can save time and devote himself to production of more crops, and so increase his own capital. Furthermore, the new furniture in itself represents part of his capital, for it may give him greater comfort and so induce him to work harder more contentedly. If he has few of the comforts of life he will most likely become discontented and feel that there is not much point in just going on working day in and day out without some material reward for it all. During a war this working for little material reward does often happen, and communities have to be stimulated by propaganda of all kinds, and urged on to victory by promises of a better time when the war is won. But in times of peace material rewards play a very important part in the production of a country, and in the accumulation or saving of its capital.

The point that we must clearly understand is that money merely saved and never used for the production of further things is not really capital at all. The miser who hoards his wealth in his home, locked up or hidden up the chimney, is not contributing in any way to raising the standard of living of the country. It must not, however, be thought that all who save up their money to use as capital do so because they hope to raise the standard of living. They raise the standard of living without consciously desiring to do so, because wealth is bound to produce wealth if used in the proper way. It is only when squandered or destroyed that it will give no return, and this does happen even in highly civilized societies. In a war, for

example, bombs are produced costing hundreds and thousands of pounds, and then are dropped from the air, blasting buildings into pieces and destroying much that is valuable, and often irreplaceable. This is capital destruction, and gives no return. It is for this reason that wars are costly episodes in the life of man, and penalize him with all kinds of irksome things, such as less food, clothing, and shelter. Gradually the standard of living falls, and we find people becoming poorer and poorer, even though they may have to work harder and harder.

Machinery is Capital

We have seen that money represents wealth, and we must now see how it is that man has increased the rate at which he can accumulate this wealth. Let us go back to the farmer for a moment. We noticed that the farmer could either devote himself to other pursuits or get someone else to do things for him, provided he had a surplus already to live on or to exchange directly in the form of barter or indirectly through the medium of money. In other words, he could devote himself in this way only because he had time on his hands. It is said that "the Devil finds mischief for idle hands," and it is possible for the farmer to squander his capital in riotous living. Assuming, however, that he does not wish to do so, we come to the conclusion that the saving of time is a vital factor in the accumulation of capital. If, for example, he uses a tractor with which to plough up his land he will complete the work in far less time than by a team of horses. By saving this amount of time and doing the work so much more quickly the farmer can devote himself to other things—raising more crops in other fields, trying new ones, and so on.

Machinery, then, by saving time, enables more wealth to be saved, and so helps in the accumulation of capital. The nineteenth century was the great accumulator of capital, for it was during this time that machinery was first used on a large industrial scale. Men have always used some kind of machines. Archimedes used the screw to raise water, the ancient Egyptians

used some kind of machines to erect the Pyramids, the ancient Britons must have used some form of leverage in putting up the huge stones that make up Stonehenge; but these machines were used only in a restricted way, and in no manner really contributed to the production of goods, as did the machines of the nineteenth century.

In 1765 James Watt invented the steam-engine, which was to revolutionize the production of goods. It was a definite form of power, a power which man could control and use as he wished. At first these steam-engines were clumsy, expensive things, but by 1800 they began to take their place, and great improvements had been and were being made all the time. Steam-power was applied to other inventions, such as the spinning-machine, invented in 1770 by Hargreaves, and perfected by other pioneers of the cotton industry.

These machines meant that a great deal of time could now be saved. In the making of cloth this was particularly noticeable. Before the introduction of machinery cloth was made by hand, or partly by hand, through the operation of a loom. The craftsman worked at home and made the cloth as it was ordered. He worked when he liked and how he liked, and sometimes took his time over doing the work. His wife would spin the yarn, and together they would produce the cloth. This manner of working was known as the **domestic system**, because the work was done at home.

Many writers on this period have idealized the domestic system, showing it to be a period of happy bliss, when men and women worked together in their homes, with their children around them. But the picture was not always rosy. Hours were long, and conditions not always too good. Yet on the whole craftsmen were happy and contented and resented the introduction of machines, feeling that they would do away with the hand-looms and force the craftsmen out of their livelihood, as, indeed, they did do eventually. At first much hardship was suffered by these craftsmen, who hated going into a factory working at a machine which belched forth smoke and worked

at a fierce pace relentlessly, on and on, throughout the day and throughout a large part of the night, for then there was no restriction on the number of hours that men should work. None had existed before; why should it suddenly appear now? The craftsmen had worked long hours in their homes under the domestic system, spinning or weaving on the looms. What they did not realize at the time was that the machine, by working so much faster, would not require them to spend such long hours in production. Yet at this time the demand for goods was so great, and the number of machines insufficient to satisfy this demand, that production had to be increased to capacity. Although much misery was caused by thrusting small children into these factories (as well as the craftsmen and their wives), the accumulation of capital enabled England to build up vast resources which she could use in the development and furtherance of her Empire, and so establish for herself a strong position in the world of commerce.

Machinery and Labour

To-day machinery is used more than ever in production, because it saves time and makes the goods much more cheaply than they could be made by hand. But it also does something else. It releases labour. It frees people to do other jobs. If all the members of a community had to be employed on producing food the standard of our clothing and our housing would be very low. If, on the other hand, by introducing machinery we could halve the number required for production of food, then the other half could be devoted to producing clothing, and if these, again, could be halved the remainder could build houses for us.

This is what really happens in production: we divide and subdivide and go on dividing, until each is occupied in his own line of business, appearing to be a separate unit, yet part of the whole because by doing his own business he enables others to get on with their work, from which he will probably benefit. Hence the 'roundabout' system of production, which at first

appears to be wasteful, is in the long run far more efficient and effective than the old system of 'direct' production.

The craftsman sitting at his loom might argue that while engineers are building large mechanically operated looms he can be getting on with the making of cloth, but when the mechanical loom is completed and set up he will be left far behind, and the cloth will almost pour out while he is struggling with his little loom to get one yard completed. The carpenter or cabinet-maker making the table may argue that he can finish the table while others are making woodworking machinery for turning and polishing wood, planing and cutting, shaping and joining, but when this machinery has been completed and set up the carpenter will be left struggling with his single table while the factory will be assembling and turning out tables by the dozen more cheaply and easily.

Yet neither the mechanical loom nor the woodworking machinery could exist without capital, for the period during which the machines are made and set up is a long one, and during this time the engineers must live. Only through the use of capital can they be kept during this period, their wages paid, and the waiting made possible. The saved-up surplus enables the community to keep them while waiting for the production of the tables. In actual practice, it is not the community, but the individual, who keeps them—the capitalist, as he is called, because he has the means to pay his workers until the machines are completed and marketed. He takes risks and enters the field of production knowing full well that the rewards of success are satisfying, and might be great, but that at the same time the penalties for failure are equally great, and that he may lose all his saved-up capital in a single venture.

Forms of Capital

We have seen that with the farmer his crops are his main form of capital, but these crops cannot, and, indeed, must not, be kept indefinitely, or else they will deteriorate so much that they will be of no use to anyone. Hence he will keep these only so

long as is necessary, and will sell them as soon as market conditions are favourable. With some crops the sale must be very rapid indeed. For instance, certain kinds of soft fruit will perish quickly.

Now, because this capital is on the move, so to speak, it is sometimes known as **fluctuating capital**. This term is applied not only to capital which is on the move because it does not keep, but to any form of capital which is mobile to the *individual handling it*. For example, motor-cars are fluctuating capital to the motor-car dealer, and clothing mobile to the clothier or tailor, but once they have lost their mobility to the individual, and he decides to keep them, they become what is known as **fixed capital**. The motor-car, for instance, is, of course, mobile in itself, otherwise it would be of no use to the purchaser, but as a capital asset it is not mobile, because the purchaser will want to retain this, and not keep changing it from day to day.

Fixed machinery in a factory is perhaps the best example of fixed capital. The machinery is fixed in the factory, and is used for the production of whatever goods are to be made; at the same time, it is quite likely that this machinery is used for the production of further machinery, perhaps of a different nature. When this other machinery has been completed it will move on to a purchaser, and at this point is fluctuating, or mobile, capital, but eventually, when it arrives at the point when a purchaser wants to keep it, it will become immobile, or fixed, capital.

Capital depreciates

We noted above that the farmer has to get rid of some of his capital very quickly, because if he did not do this he would lose the whole of it. Strawberries do not keep long, and must be put on to the market quickly; on the other hand, corn will keep much longer. Yet it is not only food that deteriorates. Solid things like machines also deteriorate, some more quickly than others. Motor-cars deteriorate more quickly than sewing-machines, brick houses more slowly than wooden ones, and so

on. This deterioration is called **depreciation**, and all businesses must make allowances for this depreciation. The time in which these things deteriorate is called the **rate of depreciation**, and this will vary from one capital asset to another. With some machinery it is usually 10 per cent. per annum. Thus a machine costing, say, £1000 would depreciate at the rate of £100 a year, and at the end of ten years would be **written off** and either scrapped or replaced. If it was still good it would be 'revalued,' and another rate of depreciation fixed until that 'wrote off' the machine. Perhaps it might take another ten years, making in all twenty years, at the end of which time the process might be repeated or the machine replaced.

There are in museums machines which were made over a hundred years ago and which are still capable of working, but their efficiency can hardly be compared with a modern machine. During the month of November a stream of very ancient motor-cars may be seen to emerge at Westminster Bridge and to struggle valiantly towards Brighton. Some arrive there after much spluttering and exploding; others fall by the wayside. The machines can still 'get along,' but their upkeep and maintenance would make them too expensive for everyday use. So it is with manufacturing machinery. It has to be replaced from time to time, and all manufacturers allow for this on the lines mentioned above. This depreciation is, of course, a waste, and engineers are always trying to reduce the rate of depreciation.

The business-man who opens a shop knows that some of his fittings and fixtures will deteriorate, and thus he will make provision accordingly. He knows, too, that his stock will deteriorate if held too long, and he will accordingly stock his shop in such a way that he does not hold too large a quantity, but just enough to secure an even and efficient flow of business. 'Sales' are often attempts to 'unload' stock before it becomes entirely redundant and is left on the hands of the shopkeepers. Sometimes the things offered are just about to deteriorate, and the cheap price is an inducement to the purchasers to buy; at other

times the stocks are bought by customers who are not so particular.

Capital Turnover

A business-man will not invest his capital in a business that does not give him a good return. If, for example, a business-man can get more by investing his money in stocks and shares than by opening a shop he will certainly do so. He expects a good return, and will watch to see how his profits develop in relation to the amount of capital he has invested in a business. Sometimes this cannot be worked out in one year. A man, for instance, investing £5000 in a business and getting a return of £500 in the first year may feel cheated, since on this year he has still £4500 to make up, but in ten years' time he will have covered his **capital outlay** and will *still be receiving* £500 return, assuming that the business is prospering in the same way. Hence in the eleventh year he will have a return of £5500—*i.e.*, £500 profit plus £5000, his initial capital outlay—in the twelfth year £6000, and so on.

These figures will not be quite accurate, since one must allow for depreciation, but, setting this aside, he will be better off in ten years' time by investing his £5000 in this business than if he had 'consumed' £500 each year from the initial sum, since at the end of ten years he would have nothing left. This is the reason why people open up businesses and put into the business far more in the first few years than they ever get out of them, but are content to do so, since in the long run they will be better off than by consuming their capital each year. Some businesses, of course, give a much greater return in the first few years, and sometimes pay off all the initial investment. Much will depend upon the type of business and the efforts of the individual.

Generally speaking, businesses which give a quick return on capital investment do not give such large returns in the future. For instance, a Society photographer may have to wait a much longer time for a return on his capital investment than a

photographer who opens a shop and offers to photograph all and sundry at 5s. a time; but in the long run, assuming that the Society photographer gets known and is successful, he will make more money, because he will be able to charge much more for his services. On the other hand, he may never get known and lose all his capital outlay, whereas the cheaper shop will still go on 'making a living.' No definite ruling on this matter can be given, except that where the period of waiting for a return is longer a larger return is expected. Again, circumstances may affect returns on capital. A sweet-shop, for instance, may suddenly find itself making far more money because a new cinema has been opened next to it or a school has been put up near it.

Goodwill

Returns on capital, then, are difficult to assess, but where the returns are good a higher price will be asked when selling the business. This price is called the **goodwill**. It is asked because the investors know that in buying the concern as 'going' they will be guaranteed a return on their investment. We shall have more to say about goodwill when we come to deal with the retail trade in Chapter V.

Conclusion

Capital, then, may assume different forms. To one person it may be fluctuating, to another fixed. There remains but one other category to mention, and that is **liquid capital**. Money is usually termed liquid capital; so are stocks and shares capable of easy transfer. It simply means that it is capital which is easily passed from one person to another, and which has a variety of interpretations depending on the use to which we may wish to put it.

Though capital may pass by different names, it is, however, essentially the same, being saved-up wealth used for the production of further wealth.

QUESTIONS

1. Why is capital important in business?
2. Give three examples of capital.
3. "Capital is saved-up wealth." Discuss fully this statement.
4. How does capital assist in raising the standard of living of a community?
5. In what way does the division of labour help in the accumulation of capital?
6. Do you agree that "machinery represents capital"?
7. Write a short account of the following subject: "The Modern Age is the Machine Age."
8. Write an account of the 'domestic system.'
9. Is the present-day worker better off than the worker of the Middle Ages?
10. "Machinery has robbed the modern worker of much of his skill." Do you agree with this statement?
11. Show the part the 'capitalist' plays in the production of goods.
12. What do you understand by the statement "all capital deteriorates"? How is provision made for replacements?
13. What is 'capital turnover'? How does the rate of turnover affect investment?
14. Explain the term 'goodwill.'

CHAPTER FOUR

Functioning of a Business

IN the previous chapter we mentioned business-men opening up shops, putting in furniture and fittings, and buying stock, hoping to receive a good return on their capital. Before, however, going into details as to how such a business is actually set up and how it functions it is necessary for us to consider how the goods first get to the shop for sale to the public.

Let us take the example of an ordinary tobacconist's and sweet-shop. In this shop we can see rows of jars filled with all kinds of sweets and packets with various brands of cigarettes. We know that generally the shopkeeper these days does not make the sweets or the cigarettes. They come to him ready-made. This was not always the case. There are still some shops that make their own sweets; they specially advertise this fact and trade on it: "Home-made Sweets!" But many sweet-shop owners would not know how to begin to make sweets. This does not prevent their opening such shops and making a success of the venture. Their main function is not to make the goods they sell, but to put them in the hands of the consumers.

Here, then, is where we may conveniently begin with the makers of the goods—the **manufacturers**. Their job is to see that they make sweets which the public want, or which they think the public ought to want. Now, in this direction a large amount of thought and money is spent. Advertising campaigns are conducted, encouraging the public to eat these particular sweets. Posters and newspapers are used as a medium for bringing to the notice of the public the fact that the sweets are "good for you" or "will give you energy." These phrases are called slogans, and are compiled very carefully.

They are not written by the manufacturers, whose business, you will remember, is to make the sweets. **Advertising agencies** often undertake the work of publicizing a given commodity, provided, of course, the manufacturers are willing to pay for their services. These advertising agencies form a very strong link in the chain of production, and although it appears at first that much time and money must be wasted by such advertising, quite the contrary is really the case, since unless the public are told that a certain commodity exists they cannot hope to get to know about it. Few of us have time to go round the shops asking whether such and such an article exists. If we read about it in the newspapers, then we can go straight to the shop and ask for it. Some of the greatest advertisers are the cigarette manufacturers, who advertise their brands as possessing certain characteristics which differentiate them from other brands. Advertisers are not allowed to say offensive things about their competitors; otherwise they might become liable for heavy damages. They must advertise on the merits of their product, or on some attractive note which they are able to strike.

The advertising agencies will undertake all kinds of work to do with publicity. They will arrange for photographs to be included in an advertisement, for a rhyme or a piece of prose to be written, or for slogans to be invented. The 'advertising campaign,' as it is called, is a costly proposition, and only manufacturers who have capital to use in this direction indulge in it. Sometimes free samples are given to induce the public to try a product. Other manufacturers spend less on publicity in the form of advertising and more on the actual product, believing that nothing pays like recommendation. Generally speaking, however, advertising for large sales is necessary, and the thousands of pounds spent every year on this form of publicity must be evidence that "It pays to advertise."

Now, the manufacturer, we have seen, concentrates on making the product, and, having made it and arranged for publicity, he will proceed to place it on the market, and for this purpose he uses the services of the middleman, or **wholesaler**.

The Wholesaler

The wholesaler is not a manufacturer. In many cases he knows something about the actual manufacturing process, but he is more concerned with its selling value to the public through his retailers. Many clothes-washing substitutes, for instance, are invented and manufactured by men who are expert chemists. They know exactly which ingredients should be contained in a good substitute for soap, what effect this might or might not have upon clothes, and so on. The wholesaler probably knows very little about chemistry; neither is this necessary for his business. What he must do is, not to analyse the products he receives for sale, but to know which other soap-substitutes exist on the market, and how these are likely to compete with the new product this manufacturer wants him to handle. Is the price competitive? Will the product be received favourably or unfavourably? Has there been an advertising campaign? Are free samples to be given or not? All these are questions which he may well ask. He might, of course, take a packet home and ask his wife to try it out and see the result, but this is unlikely. It is more likely that he will investigate the sales possibilities from the above questions. On the other hand, if there has been an intensive sales campaign, it is possible that he may receive inquiries from the different retailers direct, asking him to supply them with quantities of this powder. Whichever way he works, it is his job to see that the retailer is supplied with sufficient quantities of the product to meet the needs of his customers.

Now, just as in the various trades and occupations there is specialization, so also in the wholesale trade is there a division of labour. Some wholesalers will handle only certain lines. Wholesalers, for example, dealing in tobacco and cigarettes will not generally also handle sweets, though some wholesalers do so. Again, wholesalers handling these products will not handle washing substitutes or grocery lines, though the retailers may handle all four. The village store, for example, will supply everything from boot polish to ice-cream, but no wholesaler will supply such a variety of lines. He specializes in certain

lines, though some wholesalers handle more than others. The wholesalers work in very close association with the manufacturers, and act as a link between these and the **retailers**. Thus they get to know the lines which the manufacturers can supply, the prices ruling at any time, and the quality of the products from a selling point of view.

Trade Discount

The wholesaler will not sell in small quantities. If you wanted a quarter of a pound of sweets it would be of no use going to a wholesaler for such a small quantity. He will sell only in bulk, in large jars containing several pounds of sweets or in dozen boxes of chocolates. It is the retailer's job, as we shall see, to sell in small quantities. Furthermore, when the wholesaler sells in bulk to the retailer he sells the goods, not at the price at which the public will buy, but at a **trade discount***—that is, at a price which will permit the retailer to make a profit. Now, many goods must be sold at an agreed price, and the retailer is expected to make only the profit allowed to him by the manufacturer through the wholesaler. The difference is usually $33\frac{1}{3}$ per cent., but varies considerably in different trades. If a retailer were to sell the product to the consumer at a higher price, thus trying to add to this trade discount, he might be refused further supplies. For this reason the retailer accepts the trade discount as the agreed profit, and the wholesaler must see that this 'difference' is allowed to him.

* Trade discount is also very useful in times when the prices of goods vary to a small extent from time to time. A catalogue is printed with illustrations of, say, furniture, and the retail prices inserted so that the catalogue can be shown to retail customers in cases where goods for which inquiry is made are not actually in stock at the retailer's premises, or where a greater variety of selection is required. When a slight alteration takes place in wholesale prices a printed slip is circulated to retailers stating that on and after a certain date the discount will be changed from, say, 33 per cent. to 30 per cent. This slip can be inserted in the catalogue or kept on a private file for reference. This method obviates the reprinting of the catalogue with all the revised prices, some of which may vary again in a comparatively short time.

The wholesaler, of course, is allowed a trade discount by the manufacturer, which represents his profit for acting as the middleman.

Many people object to the middleman's profit, saying that the product would be much cheaper if he were dispensed with and the manufacturer supplied the goods direct to the retailer, who could then sell them more cheaply. This, however, would necessitate the manufacturer's setting up a distributing department in his own warehouse, the overheads of which might be as high as, if not higher than, the services of the wholesaler, so that he would be obliged to cover himself by selling his product at a higher price to the retailer, who, again, would have to charge the public more for the product or accept a lower profit himself.

Dealer and Retailer

Where the retailer **deals** directly with the manufacturer he is usually known as a **dealer**. This direct supply is very apparent in such industries as the radio and motor-car trade. In addition to supplying the dealer with the product, the manufacturer expects him to **service** the article and to effect repairs from time to time. This servicing of the article arises from the fact that such commodities are of a mechanical nature, and more specialized knowledge and equipment is required than might be the case with an ordinary retailer who deals in other kinds of goods also. As an added form of publicity, dealers are also appointed as **agents** for a particular product, such as Murphy and Ekco dealers in the radio industry and Ford or Morris agents in the motor-car industry.

Manufacturers as Retailers

Another development in the distribution of the product has materialized where the manufacturers have established their own retail shops. In the case of chemical products there is, for example, Boots, the drug manufacturers, and in the boot

industry Barratt's, the shoe and boot manufacturers of Northampton.

DIRECT SUPPLY	INDIRECT SUPPLY
<i>From Manufacturer to Retailer</i>	<i>From Manufacturer to Retailer via Wholesaler</i>
Motor-cars Radio and television Typewriters and office machinery Boots and shoes	Men's, women's, and children's clothing Furs Grocery Tobacco Confectionery Toys

Auctions as a Form of Supply

There are also cases where the dealer does not obtain his stock direct from either the manufacturer or the wholesaler. There are certain commodities which are not sold in bulk and where the wholesaler as an intermediary would not be necessary in the chain of production. Such cases are particularly connected with **second-hand** goods, which form a very important market on their own. The dealer in second-hand motor-cars, for instance, does not, of course, receive the cars from the manufacturer, since the latter is concerned with new products only; neither will he receive them from a wholesaler. He will purchase his products from private individuals and from the motor-car **auctions** which are held all over the country. He naturally undertakes a certain amount of risk in buying a mechanical product in this way, although he is allowed to inspect, but not usually 'try,' the product before the day of auction. On the other hand, most dealers are experienced men who can often detect faults.

Another important line in which auctions supply a large quantity of the products is the second-hand furniture trade. Here, again, the prospective purchaser may 'view' the furniture

a day or so before the auction and decide whether he will 'bid' for certain 'lots' or not. The articles are sold in lots to facilitate selection and grouping. Some auctions are even more highly specialized than these cases, as in the instance of auctions held for the sale of rare pictures or valuable china.

Territories

A wholesaler usually operates in given **territories**—*e.g.*, the Home Counties or the Midlands—and supplies the retailers in that district. He contacts them by means of **travellers**, who call on the various retail shops and take their orders. The traveller, we must remember, is a very important link in the chain of production. Personality counts a great deal with a traveller, and a man who is cheerful and pleasant is more likely to get good orders from the retailer than one who is disgruntled and surly. Although some manufacturers give exclusive territories to various wholesalers for their products, others do not, and more than one wholesaler may supply the same product to a shop. Some shopkeepers will place orders with more than one wholesaler in order to instil competition between them, and so obtain speedier delivery of the goods; others prefer to deal with just one wholesaler. Travellers are always trying to increase their business, and will often persuade retailers to try new lines in order to get more orders.

A traveller takes down the orders in a '**Duplicate Order Book**'—that is, a book with carbon paper interleaved between two or three pages, according to the number of copies he wishes to make. If three copies are taken one is handed to the retailer for future reference, one is sent by the traveller to the office so that it can be dealt with, and the third is retained in the book for the traveller's reference. The reason that the copy is sent to the office at the warehouse is because the traveller may be going on to some other place during the week, and may not return to the office until the end of the week. By sending it through the post time is saved, and the order executed more rapidly.

People when thinking of the business world often overlook the work of these travellers, yet so vital is their work that they are often paid very high salaries, and receive commission on the orders they get. A traveller's job is by no means easy. Sometimes retailers object to his calling, particularly if he is trying to 'break new ground'—*i.e.*, get orders from shops which have already their own wholesalers. Many of them travel hundreds of miles during the week, according to the area which they are expected to cover. They, again, are an intermediary most necessary to the production of goods. They do not actually make anything, but without them many products now on sale would never have reached the shops.

Storing of Goods

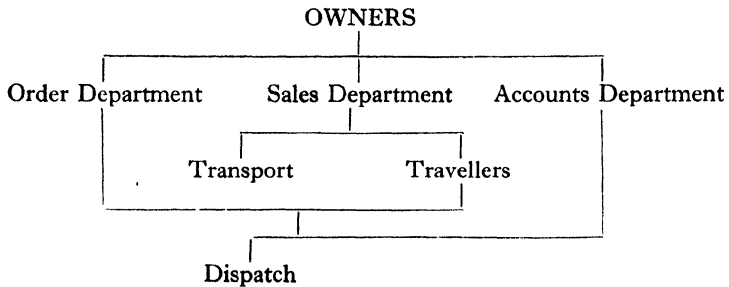
Most wholesalers have warehouses where they store large quantities of goods from which smaller quantities are sent to the retailers as orders come through, but, on the other hand, there are wholesalers who do not actually handle the goods themselves, but only the orders they receive. They have samples of the goods which they show to the retailers, and are in direct communication with the suppliers. These wholesalers are sometimes called **brokers**, and they usually deal with the import and export trade, but some also deal with the home trade.

Some goods have to have special conditions for storage. For instance, meat must be stored in **cold storage**. Furs also have to be kept in low-temperature storerooms. Protection against deterioration through weather conditions forms an important part of this storage, and these overheads have to be counted in the prices which will eventually affect the consumer or the retailer.

According to the size of the business, the organization of the warehouse will be complicated or not, but it is usual for at least three sections to be evident—namely, an **order department**, where the orders are received; a **sales department**, where they are executed; and an **accounts department**, for keeping records of the money which is coming in and going out of the

business. The size of the staffs employed will vary, and many divisions and subdivisions may be necessary, according to the size of the concern. The diagrams below and opposite show clearly how a small warehouse may operate on a simple basis, and how a large warehouse would require much greater organization.

ORGANIZATION OF A SMALL WAREHOUSE

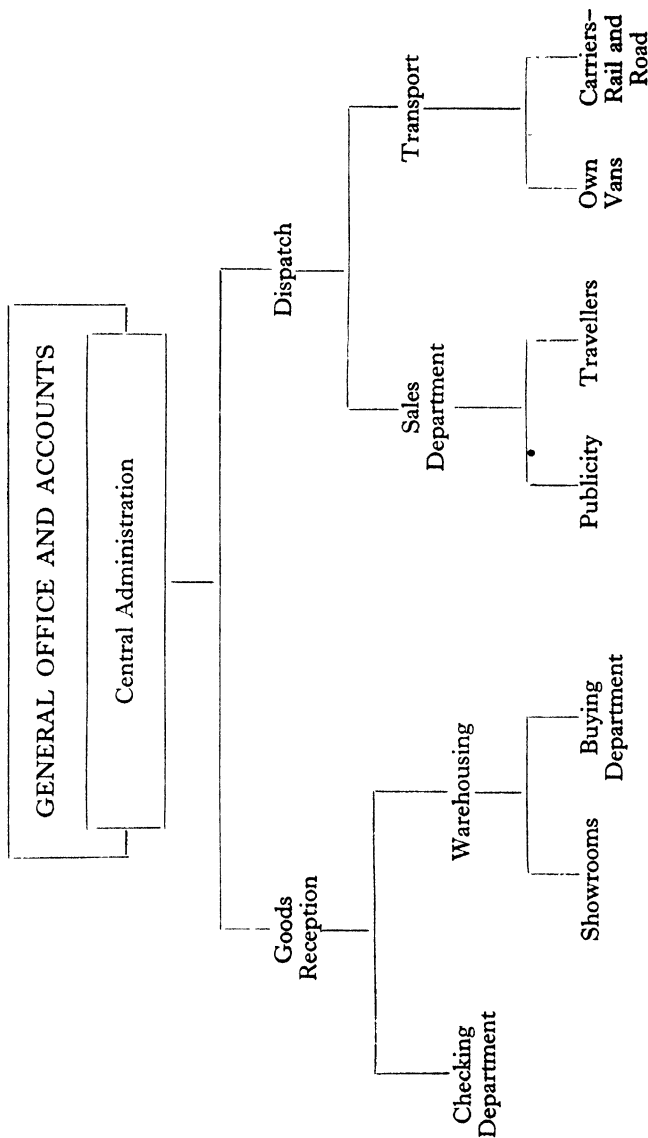


Return on Capital

As in the case of the retailer, so the wholesaler must decide what his return on capital should be. The wholesaler, however, will require greater capital than the retailer, though much can be obtained through the operation of the credit principle. His overheads are, of course, likely to be greater when large warehouses are necessary and rents high. Warehousing space in the City of London and in the central parts of many big cities such as Manchester, Birmingham, and Liverpool is costly, and the wholesaler must also take into consideration transport, which he must provide to the retailers.

A man with a small amount of capital will be running a heavy risk in starting up as a wholesaler, particularly if he has not many contacts and has to begin by trying to get orders. If he goes round to the retailers himself he may find that dispatch of goods is neglected and the retailers are dissatisfied with his services. He may have to wait a long time before retailers are

ORGANIZATION OF A LARGE WAREHOUSE



willing to place orders with him. Although he need not know the 'inside story' of his products, he must understand the prevailing market conditions. He must study various **trade journals** to keep up to date with the requirements of the public; he must seek out manufacturers to obtain **agencies** for handling their goods. All these things he must do, and more, in order to secure the confidence of his retailers and build up a good reputation. He must also extend credit to the retailers, which may tie up a considerable amount of his capital.

Retailers do sometimes recommend wholesalers to other retailers, but this is not the practice, since it is the object of the retailer, and quite rightly so, to obtain as much custom as he can, and he is hardly likely to recommend a wholesaler who can supply him with a good line of articles, when by doing so he would probably lose trade himself. The wholesalers, therefore, depend entirely upon their own efforts and those of their travellers. True, manufacturers do help them by publicity work and the merits of their products. Furthermore, once a wholesaler has obtained a foothold, he can rely on **repeat orders**. This is the type of order he seeks to obtain, for these orders will come in regularly, and are a reliable source of income.

QUESTIONS

1. Show the importance of 'publicity' in the selling of goods.
2. What part do advertising agencies play in 'production'?
3. Name three forms of advertising which a particular product could use? Explain their various advantages and disadvantages.
4. Write a short essay entitled "It Pays to Advertise."
5. Show the part 'psychology' plays in advertising.
6. "The wholesaler is a link in the chain of production." Explain the term 'chain of production,' and show how the wholesaler fits in.
7. "The wholesaler is not in competition with retailers, but with other wholesalers." Discuss this statement.
8. Should a wholesaler know everything about the products he sells?

9. What do you understand by the term 'competitive prices'?
10. Why are 'substitutes' a form of competition?
11. Name any three products you know, and give substitutes which have captured a large part of the market.
12. What specialization is there in the wholesale trade?
13. How does the wholesaler help the public?
14. Explain the term 'trade discount.'
15. How does 'trade discount' help to stabilize prices?
16. "The retailer's job is to sell in small quantities, the wholesaler's in large quantities." Discuss this statement.
17. Are there any products which are sold direct by the manufacturer without the intermediary of the wholesaler?
18. Write an essay with the title "In Defence of the Wholesaler," showing why such a middleman is necessary.
19. Write a letter to a local wholesaler explaining that you have just set up in business and asking for a traveller to be sent. Choose your own line of business.
20. What do you understand by the term 'wholesaler's territory'?
21. Why is a traveller's work important? Could retailers do without them?
22. Why do some retailers deal with more than one wholesaler?
23. What remuneration in addition to salary do travellers receive? Why is this system operated?
24. What is a 'Duplicate Order Book'? What are its uses?
25. "Some goods must have special conditions for storage." Discuss this statement in relation to the wholesale trade.
26. What three sections are in evidence in connexion with the internal organization of a wholesaler's business?
27. Give a diagram showing the organization of a fairly large warehouse.
28. Explain the term 'repeat orders.' Why do wholesalers try to get this kind of order?
29. Name three trade journals, and show how these help the wholesaler in his trade.

CHAPTER FIVE

The Retail Trade

WE noticed in the foregoing chapters that the distribution of goods to the consumer is by no means a simple matter, and that the more complex a community is the more complex this question of distribution becomes. In a simple community, where the consumer is close to the producer, distribution of goods is a very small problem. Very often the consumer knows the producer personally. He knows the kind of goods he makes and what he is likely to charge for making them. But in modern life this is rarely the case. Few people, for example, know personally the producer who makes the soap they use or the manufacturer who makes the cigarettes they smoke or the chocolate they eat. All these things are made by people who are complete strangers to the consumers. Their ways of life are not known, nor are their motives for making these products, beyond the fact that they require money for them as an exchange value.

This connexion between the producer and his product is often overlooked, yet it is a factor which is worthy of attention when considering the many channels through which distribution has to pass before finally affecting the consumer. In the Middle Ages, for example, the producer was probably an individual who was deeply interested in the product itself, and cases have been known where a producer has made an article for his customer so well and has become so attached to it that he has refused to part with it. Such a state of affairs could, however, hardly exist in a community where production and distribution had reached high levels of development. The consumer must be certain of getting the product, and no

personal element must be allowed to enter into the scheme of things. In other words, we must not allow sentiment to enter into business.

Some people criticize the business world for being too hard and for being devoid of this human attribute, yet if it were allowed to pervade business to any large extent it would in the end do more harm than good. If producers were allowed to refuse consumers products because they themselves had taken a sudden liking to the products we should not know where we were. There must, then, be certainty in the business world, certainty that a product once manufactured is put on the market and the consumers allowed to have it.

Certainty and the Retailer

Now, this certainty of delivery falls more onerously upon the retailer than upon any of the other members of the distribution cycle, because the retailer is in direct contact with the consumer, and unless he can satisfy the consumers with the products they require the reaction will gradually work backward until the manufacturer finds that it is too late for him to supply the goods asked for, since substitutes or alternatives have taken their place. The retailers, then, must see to it that the manufacturers are informed of likely demand, and that the manufacturers in their turn supply them with their requirements. This, of course, is done through the channels of the wholesalers, though, as we noted in the previous chapter, some manufacturers do supply direct.

The retailer may supply his customer in several ways, though the following are the main methods employed :

- (1) The retail shop.
- (2) The mail-order business.
- (3) House-to-house selling of goods.
- (4) Auctions.

The Retail Shop

Detailed description of this method is unnecessary, since we

all know what a shop is like both inside and outside, but there are certain features of this method which are worth noting. In the first place, the system of shop-retailing may be simple or complex. It may take the form of the following types of business:

- (1) The unit retailer.
- (2) The multiple shop.
- (3) The department store.

Fundamentally, all these three are the same. They serve the same purpose—namely, to supply the customers with the products they require. It is in their structure that they differ; not so much in their physical structure—that is, in the appearance of the shop or shops, though this may have a great deal to do with the matter—as in the way they are organized.

The Unit Retailer

The organization of the unit retailer is the simplest. It consists of a single shop administered by the owner or a capable manager. The owner has usually either opened the shop with his own capital or borrowed the money from the bank with some kind of security, or he may have bought the business as a 'going concern'—*i.e.*, it has been in existence before and has been made successful by some other enterprising person. If he decides to open the shop from 'scratch,' so to speak, he may be taking greater risks than if he buys the business as a going concern, though he does run risks in the latter case as well. In the case of an existing business he does not only pay for the value of the stock, fixtures, and fittings, etc., but also, as we have seen, for that intangible factor, the **goodwill**.

Goodwill

The goodwill of a business is nothing more or less than the total value of the customers who patronize the establishment. The actual number of customers is not sufficient on which to calculate the goodwill, since a large number of customers who spend only a little money in a shop may not be as profitable as

a small number who spend a great deal. In calculating the goodwill for selling purposes all kinds of methods are employed, some of which are quite ingenious and others really formidable-looking, but the result will be shown in the profits that the shop makes relative to all expenses. In other words, a shop with a good custom will show a good profit, and its selling price as a going concern will thus be high. At the same time, of course, this profit must be relative to the capital invested, or a wrong picture will be given. The profit may be large, but if the capital required to be invested is so large as not to warrant this return, then too much is being asked for the goodwill, for goodwill is capital, and therefore can be bought and sold in the market where businesses are offered. ✓

Furthermore, in calculating goodwill it is not sufficient to take the profits for any short period. An ice-cream business, for example, will show greater profits during the summer season than during the winter, while a business in ladies' fur coats will be just the reverse during the summer. People do not consume large quantities of ice-cream during the cold winter months. A certain proportion is definitely consumed all the year round in cinemas, dance-halls, restaurants, and so on, but the large demand occurs during the hot weather, particularly in the holiday resorts, where people feel more generous towards spending money on ice-cream. Sale of gardening materials is another seasonal trade. The greatest boom in the sale of seeds and materials for the garden is during the spring months, when people are digging and planting and generally renovating their gardens. True, keen gardeners will always be buying something throughout the year, but the bulk of the trade is done in the spring.

The practice, then, is to find out the profit not for any one short period, but for at least a year or for a number of years, usually the last five. This is then related to the capital invested, and so a goodwill figure is arrived at. The reason for taking the profit for a year or more is because sometimes the goodwill of a business may take a turn for the better during

recent times. The opening of a cinema, as we noted previously, may boost the trade of a sweet-shop, thus raising its goodwill. A fact that we must notice is that a business is always sold on its merits, and no excuses are taken for its showing a low profit and a high price being asked. Sellers do sometimes try to do this, explaining that the business has 'gone down' because they have suffered from ill-health, or because it has been neglected for some other reason. These people cannot expect to realize a high price for such a business, and the prospective purchaser will want to know more.

It is interesting to note that the goodwill of a business is often very difficult to value, and may vary in an unexpected manner. For instance, the goodwill of the business of a solicitor who has advised many families for years, and knows their history, is extremely valuable compared with that of a baker, so long as the business is in the same hands; but on a change of ownership a different situation arises. People no longer have the same confidence in a person succeeding to a family solicitor's business if he is a stranger, but in the case of a baker the change of ownership may be completely unknown to the customers, who may be buying the same kind of articles from the same shop assistants, and consequently the goodwill may not depreciate.

The loss in the case of professional businesses is frequently minimized by proprietors, as they get older, taking on young assistants or partners, who are introduced to clients for holiday periods or routine work.

Let us now assume that the owner of a business has decided to open a shop himself without buying the business as a going concern. He will look through the advertisements in a local newspaper to see if there is anything suitable to be let or to be sold, or he may decide to go to an estate agent, who may have several 'properties' to offer.

Leasehold or Freehold

The prospective retailer must be very careful to see that the property he takes over for his use is guaranteed to him over a

definite period of years, or indefinitely. In the case of a set number of years the property is said to be **leasehold**, and the number of years may be anything from seven to ninety-nine. If the property is rented or purchased under leasehold conditions the rent or purchase price will vary according to the length of the lease. A shop with a long lease will usually have a higher rent than one with a very short one. A business-man will think very carefully before renting a shop with a short lease, unless he is not interested in establishing a business for any length of time, but wants the shop only to sell certain articles for a short time. This does sometimes happen, and particularly at Christmas-time retailers will rent shops for a few weeks to use for the Christmas trade-boom, but such rentings are usually made additionally to an already established shop near by.

The **freehold** premises do not have these difficulties of 'time,' since the premises in which the shop is situated becomes the property of the purchaser. He can do what he likes with them as regards keeping or selling. Hence a business which is established and developed after a number of years will sell for a better price if the premises are freehold, because the prospective purchaser knows that he can keep this business for as long as he likes.

The leasehold business has no guarantee beyond the stated number of years for which the lease has been arranged, and at the end of the period the owner must leave the premises unless the lease can be renewed, which is often the case, but, in such circumstances, an increase in rent may also be asked, because the landlord knows that the premises have been given a certain goodwill in themselves, and a prospective buyer knows that the shop as premises has a name. It has proved itself to be a place where customers will come; they know of its existence. On the other hand, the longer premises have been built the greater the annual cost of maintenance and repairs.

Getting Stock

Having obtained his premises, the next thing the retailer must

do is to stock his business. He cannot, or should not, wait for the customers to order the goods first and then get them. He should have the goods ready at hand. If his customers have to wait until the goods are obtained by the retailer he will soon lose their custom. They will go elsewhere, where the goods can be obtained immediately. This fact of immediate delivery is a very important sales point. Once a person has made up his mind to have an article it is surprising how impatient he becomes, and how much he wants the article quickly. In some lines of goods immediate delivery is essential for any business to be done at all. Shops dealing in the food trade, for example, must have the articles ready to hand. A well-stocked shop, therefore, is most important for a successful business.

Wholesaler and Retailer

We have seen in the previous chapter that the wholesaler carries on this important work of supplying the retailer. As soon as a new shop has been opened the wholesaler should see that **contacts** are made. He may call on the shop himself or send one of his travellers. The traveller will have with him samples of the lines which the wholesaler deals in, also price-lists and quotations, all of which information will be most useful to the retailer. If the traveller makes a 'good contact' he will secure orders, and a firm and lasting business connexion may be the result. The wholesaler can be very useful to the retailer. He may advise him which lines to stock, which lines sell easily, which lines give the best profit. He may put him in touch with other wholesalers dealing in lines which his particular one does not touch, or may advise him that certain goods are supplied direct by the manufacturers and not handled through wholesalers. He may assist him with his window-display problems. Many manufacturers send display experts to 'dress' windows for retailers, putting, of course, special emphasis on their particular product, but nonetheless displaying other products as well.

It should be clearly understood that the wholesaler is not in

competition with the retailer, and the closest co-operation between the two may quite well develop, the retailer agreeing to 'push' certain lines supplied by the wholesaler, and the wholesaler agreeing to give efficient and immediate delivery with 'generous discounts.' As we have noted, the usual terms of discount are $33\frac{1}{3}$ per cent.

In many ways, then, the wholesaler is of great assistance to the retailer. This does not mean that opening a shop and stocking it with various goods is a simple matter for a successful business. There are a large number of things which the retailer must learn to do on his own. He must be alert as to his competitors. He must see that he offers as good service as they do, or even better. He must make his shop bright and cheerful. He must give 'tone' where this applies.

Certain shops are exclusive, and make a proportionate charge for this exclusiveness. They mark their goods with a high price to prevent the wrong kind of customers from coming there, and thus cater for a particular class of client only. In the clothing trade, for example, a customer must be made to 'feel at home' in the shop. A man wanting to buy an overall to do decorating at home, for example, would feel out of place if he went to an exclusive West End tailor to buy such an article. A lady wanting to buy an evening-dress would not go to a stall in the market which sold second-hand clothes of an inferior quality: she would visit the stores in the West End of London for this purpose, or good-class shops in her locality. Thus each retailer must 'level' his trade according to the type of customer he is going to attract. Businesses have often been ruined by wrong levelling. Tobacconists, for instance, which insist on stocking only high-class cigarettes and refuse to deal in popular brands are soon out of business. On the other hand, by correct 'levelling' a business may prosper. Certain grocers, for example, stock large quantities of Continental delicacies, while others find that the demand in their area is so small for such goods that it is a waste of time and money to stock them. On the whole, retailers are inclined to work at an average level, keeping some

of the finer types of goods with a general stock of the articles most in demand, thus catering for the fastidious customers as well as their 'bread-and-butter' ones.

Choosing a Name

Under the freedom we enjoy in this country we can do many things which at first appear to be rather daring, and one of these is that if we do not like our name we can change it. Generally speaking, we should have a good reason, but authorities do not put obstacles in the way, except where frivolous changing from one name to another is likely to complicate records and other matters. Sometimes a complete change of name is very desirable. A doctor whose name is Death may find it better to change it. People are superstitious, and more so when feeling unwell. A dentist whose name is Pain may have a good reason for changing this.

The fact that names do influence people is shown by the amount of thought that is given to names of branded goods. A washing-powder, for example, would not be given a name such as "Slow-clean Washing-powder"; rather would a name such as "Swift-clean Washing-powder" be chosen, which would be more likely to attract custom.

In the same way, then, a retailer may decide to change the name under which he is going to trade, but the difference with the retailer is that, unlike the doctor or dentist we have noted above, he still keeps his own name for himself. In other words, the name he uses is a **trade name** or **business registration name**. His shop will be known by this name, and his orders received and carried out under the registered name. He will pay his bills under the new name, and the local customers will get to know him not by his real name, but by his trade name. A grocer whose real name is Mr Slow may trade under the name of Swift Stores, or, if his name is Mr Catch, he may trade under the name of Honest Trading. The fee for registering a business under a new name is very small, but formal application has to be made.

Keeping Records

However small a retailer's business is, he will find it necessary to keep some kind of record of what he buys and what he sells. Here, then, a knowledge of **accounts** is most useful. The time for making up the books is usually after the shop has closed. Some retailers spend a great deal of time in making up these accounts. Others, with larger businesses, are able to employ a clerk, who also acts as cashier. Others use mechanical aids such as National Cash Registers, which total up the sales and also show individual sales.

Whatever method is employed, some system must be devised to enable the shopkeeper to know what money has been received during the day, how much is owing to him, what he owes to other people, such as his wholesalers, the electric-light authority, transport companies, and so on, and also what profits he is making. Accurate record-keeping is very important, for on this will depend his finding out where waste is occurring and what he could gain by making certain savings in some way or another. By accurate record-keeping a shopkeeper can tell what lines are selling well and what lines are not, what lines are giving him a good profit and what lines are giving him such a small profit that it is hardly worth his while to go on stocking them.

Accurate records are also required for calculating the profits of a business on an annual basis, to comply with the requirements of the Inland Revenue for income-tax purposes. The profits have to be ascertained, after allowing for any debts due to or by the retailer, annually as at a specific date, and for this purpose the valuation of stock is an important item, as it will vary from year to year. The retailer is liable for payment of income-tax on the profit for the previous year, and the inspector can insist on proper records being kept, so that a reasonable check can be made if necessary.

The small retailer can usually tell at a glance the position of his stock, so that many shopkeepers do not bother with a stock-book. They should really keep one, however, so that they

know more about their stock than they can do by merely memorizing their articles. The large retailers find such books essential. The pages of these books are divided into a number of columns, so that classified entries can be made of their goods.

Annual stocktaking is a big job, and some establishments close for a whole week, during which time a complete stock of everything in the shop is taken.

Retailer's Overheads

Another item which the retailer has to consider is that of **overheads**.

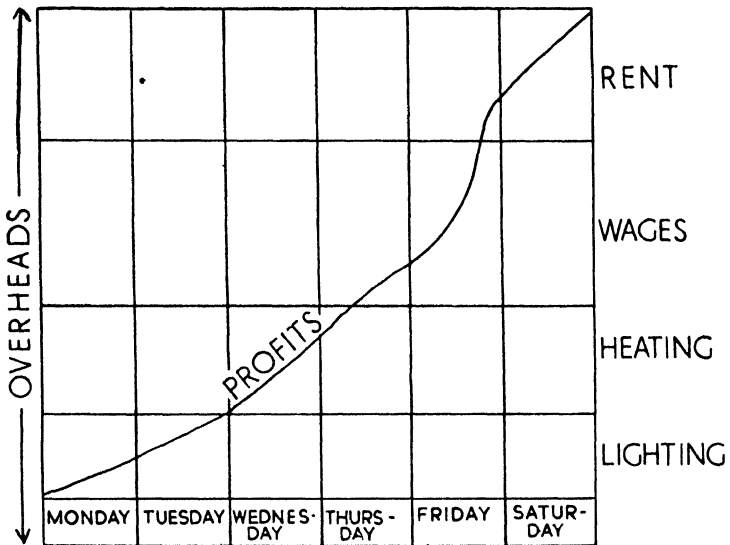


DIAGRAM SHOWING RELATIONSHIP OF OVERHEADS TO PROFITS

Whether profits are high or low 'overhead' expenditure will be fixed. The 'profit' line varies from Monday to Saturday, but the overheads are a fixed quantity spread over the week.

During very dense fogs it may be necessary for the shop-keeper to keep his lights in the shop going all day long. He cannot charge his customers for this extra expense. It is some-

thing he must include in his expenses when making up his accounts. He calls this his overheads. It is not the only item under this heading, but it is a heavy one. Lighting which is used for window display may attract more customers, and so make up for its expenditure, but the lighting used during a fog does not necessarily bring in any more customers, and, in fact, it is quite likely that fewer customers will come because of the fog.

Again, most of the business may be done during certain 'peak' periods in the day, sometimes known as 'rush hours.' The retailer cannot employ assistants to work only during these hours. He must pay them for a whole week's work. During the week many hours will be 'dead'—*i.e.*, the assistants will have nothing to do. These periods might be called 'overhead periods,' because payment must still be made, though no return by way of business is given.

Rent is another overhead, because the agreed sum must be paid each week or month, irrespective of the amount of business done.

QUESTIONS

1. Show the important difference between the retailer and the wholesaler.
2. Why are there so many retailers to-day?
3. Should the retailer have (*a*) a thorough knowledge of the goods he is selling, (*b*) a thorough knowledge of his customers?
4. Are manufacturers personally interested in the products they put on the market?
5. "Certainty is an important part of production." Discuss this statement.
6. "The retailer is a distributor." Discuss this.
7. Should the retailer allow personal likes or dislikes to enter into his business?
8. Name four well-known methods of retailing goods.
9. Explain fully one of the methods in Question 8.
10. Explain the term 'unit retailers.'
11. "A retailer selling his business will not only sell his furniture and fittings, but derive the most value out of his goodwill." Discuss this fully.

12. What do you understand by the term 'a going concern'?
13. How is 'goodwill' usually calculated?
14. What do you understand by the term 'seasonal trade'?
15. What is (a) leasehold property; (b) freehold property?
16. What advantages has freehold property over leasehold?
17. How are businesses bought and sold? Through what agencies are these contacts made?
18. What is 'stock'?
19. Give two ways in which a retailer could stock his shop.
20. Why must the retailers always carry a good supply of stock?
21. How does transport help in the carrying of stock?
22. How does a well-stocked shop gain business over one in which the customers have to wait for delivery?
23. What do you understand by the phrase "levelling one's trade according to the type of customer"?
24. At what level usually do retailers work?
25. Why do some retailers choose a 'business name'? What formalities usually have to be observed in changing the name?
26. Why is it necessary for a retailer to keep records?
27. What methods in keeping records can a retailer employ?
28. When does a retailer usually take stock? How is this recorded?
29. What do you understand by the term 'Trade Name'? Why do retailers sometimes use these?
30. What are 'overheads' in a business? Explain fully and give some examples.

CHAPTER SIX

Capital and Large-scale Organization (I)

The Multiple Shop

IN the previous chapter we noticed how the would-be retailer set about starting a business. We will now follow this up with development on a larger scale.

Some retailers are content to establish themselves in one district with one shop, and to develop no further. They feel that the managing of this one shop is enough work for them, and they do not wish to take on more responsibilities and problems. Others, however, are more ambitious and do not feel content with one shop only. They want to expand and develop. Now, there are several ways in which they can do this. They can expand in the immediate neighbourhood, buying up or renting premises next door to the one they already possess, and so enlarging their establishment, or they may rent or buy premises elsewhere in the town, and so begin to **multiply** their original shop by branch stores. These branch stores will be similar to the original store. They may be painted in the same front colours, and have the same type of window displays. They may be managed by another member of the family, or by a complete stranger, a person who has been appointed to 'manage' the shop and who will receive a salary and a commission on sales in the shop. As the business progresses more branches may be opened, and the actual field itself may be widened, the branches being established 'outside' the original town, and even in other parts of the country on a national scale.

It will readily be seen, then, that if the development is carried out on such a large scale a very efficient system of administration will also have to be developed, and many problems will have

to be solved by the owner of the business before a smooth working is obtained. This is why many retailers do not want to expand beyond a certain limit, being quite content with their one shop. But in addition to this question of ambition, there is also another reason why some shops do not expand at all and why there is even a limit to the ambitious ones.

The Optimum Size of the Business Unit

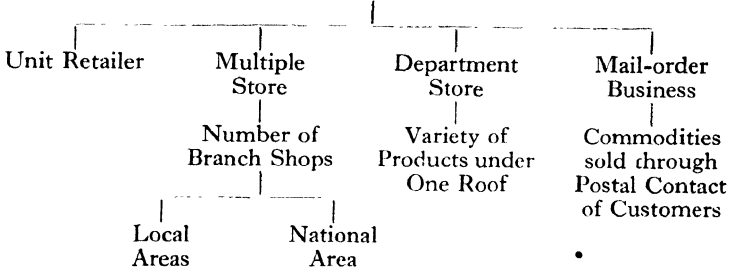
Although expansion does at first present many problems, once a business has been established these problems lessen and even running is obtained. Accounting must be efficient; placing of orders and delivery must also be of a high standard. The managers of the various branch shops will, of course, cover much of this ground, but a central check will have to be made at the **head office**. Here a number of clerks will probably be employed who will prepare complete accounts from those submitted from the various branches. Inspectors will probably be employed who will travel to the various branches finding out what stocks are being held, what lines are selling best in that particular area, and so on, reporting back to the head office.

Since things even themselves out after a time, it is reasonable, therefore, to ask, What prevents an ambitious establishment from expanding beyond the dreams of avarice? The answer is that a business will expand only so long as the expansion is giving a good return on capital. If the opening of an extra branch will mean a diminution of profits, then obviously it would be more economic to stop at the present number of branches. The village store, for instance, would find it very uneconomic to open another store if the number of customers were still the same in the village. If by opening another store it could attract customers from a wider field, then it would be worth while going ahead with this policy; if not, it would be as well to stop at the present level with the one store only.

Before opening further branches, therefore, multiple-store organizations study carefully the 'potential' demand—*i.e.*, the number of extra customers which the store is likely to attract

or the extra 'buying' power which its present customers are likely to bring. The size at which a business will operate with maximum return on capital is called the **optimum size**, and losses, rather than profits, may develop if the business goes beyond this.

STRUCTURE OF RETAIL DISTRIBUTION



Market Research

How does a retailer, then, decide when to expand and when not to expand? In every way a retailer does a certain amount of **market research**. Many small shopkeepers would feel flattered if they were classified as 'market researchers,' yet in effect this is what most of them are, for they are always trying to work out how they can meet the demands of their customers and develop new demands. 'True, they have many aids—the wholesaler, in particular, who does most of the 'research' work for them—but in his own way each retailer must study his customers. Hence the slogan "The customer is always right." In big multiple-store organizations, however, market research is an even more complex matter, and specialists are often employed by these organizations whose work it is to study market conditions and to make suggestions for further expansion, or perhaps the opposite—contraction.

It is for this reason that some multiple stores close down branches in some districts and open again in others. Sometimes this closing down and opening up is done on a narrow-area basis. A large multiple-store organization may decide

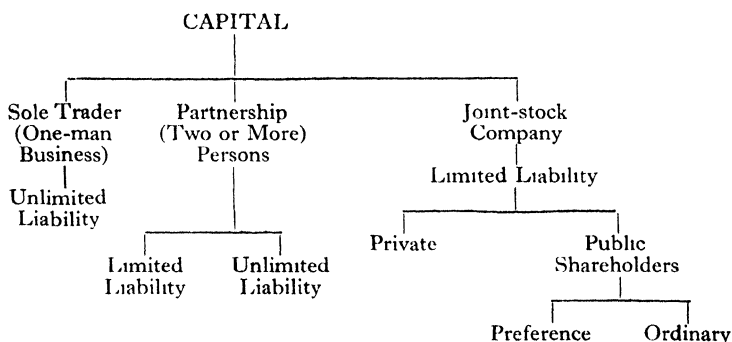
that its present branch for some reason or another is now on the wrong side of the street; and that better trade would accrue if it were moved to the opposite side. Hence the branch may be closed down and opened up again with new premises on the other side.

Market research is to-day playing a very important part in the development of large businesses. The market researcher works through the medium of trade journals, industries fairs, direct contact with manufacturers, opinion surveys, through Chambers of Commerce and trade associations, and so on. He collects as much information as he can, and then sifts it, advising the executives on the procedure to be followed.

Large-scale Capital

It is, of course, obvious that an organization with a number of branch shops will require more capital for its operation than the small shop controlled by the owner himself. We have seen from previous information that capital is saved-up wealth which is used to further production, and it is possible for a one-man shop to develop further along these lines by the thriftiness of

FORMS OF BUSINESS ORGANIZATION



its owner. Money is saved from the profits, and this money is **ploughed back** into the business—*i.e.*, it is used for further

development either by expanding the shop itself (by changing its structure) or by opening another shop of a similar kind.

One-man businesses have grown somewhat in this way, but, just as there is an optimum size for a business beyond which it does not become profitable to expand, so is there an optimum size with capital investment beyond which the return does not warrant the sacrifice that is made in accumulating the capital in the first place. A man may feel he is getting little out of life if he has to go without things all the time in order to save up enough capital continually to open up branches. Furthermore, apart from this human element, there is the economic element, in that the shop, while giving a good return and enabling the owner to save part of the profits for capital, does not give sufficient to enable him to save enough capital to expand.

The Partnership

In most cases, therefore, a contribution towards the capital outlay is made by bringing in another party into the business and forming the business into a **partnership**. True, profits will now have to be shared, but the return to capital may be much larger, and this may warrant the division of the profits. The additional capital may so develop the business that larger profits are made and the owner is better off than he was before. Partners' interests should be protected legally, and a **Deed of Partnership** should be drawn up showing the capital each partner puts into the business and how the profits are to be shared. A Deed of Partnership should always be made out properly by a solicitor or other member of the Law Society, even when the partners are relatives or very close friends. Verbal agreements are of little account, and much time and money might be wasted by parties arguing over and disputing matters in years to come.

Should the partners disagree and decide to break the agreement, the partnership will be said to be **dissolved**, and if the original agreement is disputed and the parties go to law, then **litigation** is said to be carried out. The law is an expensive

machine, and dissolution in this way may be far more expensive than the initial expense of engaging the services of a solicitor to prepare a proper document.

Active and Dormant Partners

If the one-man owner, known as a **sole trader**, does decide to bring in another person into the business in order to develop further he may do so in two different ways. He may take on some one who will not only bring in more capital, but also take an active part in the business itself. It may be agreed between the partners that the original owner's name be used, since goodwill has already accrued, but that the partner shall work either in the original shop or in the new establishment. The new partner may, of course, bring in goodwill of his own. He may know many people in the town and attract their custom. All this will be taken into consideration when making out the agreement, and division of profits decided upon accordingly. Though it is usual for partners to divide profits equally, this is not a cast-iron rule, and profits may be divided in other proportions, agreed upon between the parties. Such a partner is known as an **active partner**.

On the other hand, it may be that the new partner does not wish to take an active part in the business, being content to 'lend' his capital, or, rather, 'invest' it, in the business, and be given a return from profits. He may find that investment in this way is more profitable than investment in other directions, such as leaving the money in the deposit account at a bank. In such a case he will have little to do with the actual running of the business, leaving this to the original owner. A partner who simply invests his money in this way is known as a **dormant**, or **sleeping partner**.

Liability of the Partners

When the original owner of the business started his shop he knew that he was undertaking a great risk. If he failed he would lose all his money, but, more than this, he would

obviously owe money to people—to his wholesaler, manufacturer, landlord, and so on. These people are his **creditors**, and they would ask for their debts to be paid. Should the partner have no more **business capital** left he would have to look round to see what **personal assets**, or **personal capital** he had, so that he could pay his debts. He might have a house which he could sell, or furniture or land—anything, in fact, that would bring in money. He would normally be obliged to sell these personal assets in order to satisfy his creditors.

When a partner is taken on, the same state of affairs applies to the partner. He would now be responsible for all debts to the extent of his own personal property, whether he was an active or a dormant partner. The fact that he is a dormant partner and takes no active part in the business makes no difference: he is **liable**. For this reason even a dormant partner should take some interest in the business, and check up from time to time to see how his money is being used, or he might find himself in a very difficult position, with having to pay debts which were incurred, not directly by himself, but by his active partner.

Limited Liability

Yet there is a partial way out of this liability. It is called **limited liability**, and the liability here incurred is to the extent not of the personal property of the partner, but only of the business capital. In other words, a partnership registered as a **limited partnership** has the added protection that the creditors can claim for settlement of their debts only to the value of whatever assets exist in the business at the time of its liquidation. Most businesses avail themselves of this protection, and this is why so many businesses have 'Limited,' or the abbreviation 'Ltd,' after their names. It gives protection, and good legal protection at that. The creditors can claim only a **composition**, or an amount agreed upon by the **Bankruptcy Court**, on their debts, which may be as little as one shilling for every pound owing to them. Thus a creditor with a debt owing to him of

fifty pounds may be given only fifty shillings, and he has no further claim on the business. The subject of bankruptcy is discussed more fully in a later chapter.

On the other hand, a partnership which enjoys this privilege of limited liability must still comply with the **Law of Partnership**, in that there must be at least one partner, known as a **general partner**, who assumes full liability for all debts to the extent of his own personal assets, and who is also actively engaged in the business. Limited partnerships were made legal in 1907, and businesses which operate as limited partnerships must conform with the regulations of the Act.

Disadvantages of Partnerships

Apart from the disadvantages of unlimited liability, which, as we have seen, still operates to some extent even in a limited partnership, a partnership has also the drawbacks which are inevitable owing to the personal nature of the concern. The rules governing the constitution of a partnership are clearly set out in the Partnership Act of 1890, which, in addition to other matters, states that no partnership may have more than ten members in a banking concern or twenty members in other businesses. In actual fact, few partnerships work on such a large basis, since they are mainly family concerns or small business units.

In such professions as the law partnerships are very common, since the personal relationship between the lawyer and his client is very close, and the remoteness of a large business concern would not operate so successfully. The personal disadvantage of such businesses, however, is that in the event of one of the partners dying or retiring from the business, difficulties occur in connexion with its continuance. It is true that the remaining partners may decide to carry on by themselves, but more often than not a new partner is brought into the business, and here problems may arise. It may be that the new person is not welcome by *all* the remaining partners, and, since complete agreement on such a matter is necessary, much trouble and

delay may occur. Usually partnerships make provision for such changes in their Deeds of Partnerships.

Private Limited Companies

In order to overcome the difficulties involved in a partnership the **Private Limited Company** form of business was introduced, which enables a small concern to enjoy all the privileges of limited liability without any of the difficulties involved in a partnership. A business already established as a partnership may change into a limited company, or a new business may be set up in this form. The maximum number of members is fifty, each of whom is a shareholder in the company. The minimum number is two. Thus it is possible for a man and wife to open a shop and register this as a Private Limited Company, each taking part of the shares in their business. Apart from the very great advantage of limited liability, a Private Limited Company has also the convenience of continuing its perpetuity—*i.e.*, the business is not dissolved upon the death of a partner.

Private Limited Companies must register with the Registrar of Companies, and comply with the rules for such concerns as set out in the Companies Act, 1948.

More and More Capital

The partnership, then, will enable the owners of a shop to open branches and to become a multiple store with many shops in a small or wide area. But even this may not be sufficient. Where more capital is required more partners can be brought in, but here, again, the optimum size will affect the number which it is profitable to have, for each partner will require a good return on his capital. What is the alternative? The solution lies in the formula—smaller doses of capital contributed by a large number of people.

If fifty people each contributed £10 towards an aggregate total of £500 required, the return expected on each £10 capital would be smaller than if one person contributed the whole

amount. Such a person would expect a larger return on the total than all the individual returns on each £10 would amount to. Yet the total **capital power** is the same—namely, £500. It is on this principle that the **Joint-stock Company** works. It is called 'joint stock' because each contributor has a **share** in the fortunes of the company. Such companies have limited liability, since few people would care to contribute a small sum of money and be responsible for heavy liabilities, as such a company might incur. Hence each individual member is liable to the extent of his money invested, and in the event of the company's being liquidated and debts having to be met, the shareholder would be losing only the amount of money he originally invested in the company. By encouraging people to invest money in this way large blocks of capital can be gathered and used for the development of projects which require large capital resources.

Registration of Public Joint-stock Companies

Joint-stock Companies must be registered with the Registrar of Companies, and must comply with the law relating to companies as set out in the Companies Act, 1948. Among other rules, the Companies Act states that there must be at least seven members in a Joint-stock Company, and that the objects and powers of the registered company must be set out in a document known as the **Memorandum of Association**. This must contain information as follows:

- (1) The company's name, with 'limited' as the last word in the name.
- (2) The address in Great Britain in which the registered office of the company is situated.
- (3) The objects of the company.
- (4) Statement that the members' liability is limited.
- (5) The amount of the share capital which is to be registered, and the division into shares of a fixed amount.

Division of Capital

The capital of a Joint-stock Company is limited only to the extent of the shares issued to the public. The usual method of obtaining this capital is for a company to issue a prospectus setting out details of the company and inviting people to purchase shares. These shares are divided into the following classes:

- (1) Founder's shares (issued to the promoters of the company).
 - (2) Preference shares
 - (3) Ordinary shares
 - (4) Deferred shares
- } issued to the public.

Division of Profits

The shareholders who purchase shares in a company will, of course, expect to receive a return on the capital invested, and this in turn will be made according to the class of shares purchased. Those fortunate enough to possess **founder's shares** will receive the largest share of profit, since a large percentage of the profits is usually divided among holders of these shares, the number of such shares being small in proportion to the amount of profit available for distribution. The next to benefit will be the **preference shareholders**, who will receive a fixed dividend out of the profits before any dividend is paid to the holders of ordinary shares. Preference shareholders have the additional advantage of receiving arrears of dividend where profits of any one year do not justify distribution. Thus a holder of preference shares who does not receive any dividend for one year may expect to receive this fixed dividend as an additional distribution. These shares are known as **cumulative preference shares**. The **ordinary** and **deferred shareholders** respectively will be given a share of the remaining profits.

Management of the Company

Because a company is not a personal business concern, as in

the case of a partnership, it is necessary for a number of persons to act as directors. These persons are known as the **Board of Directors**, and the person chosen to act as the manager of the concern is known as the **Managing Director**. Periodical meetings of the 'Board' are held, when the policy and the development of the company are discussed. The Board of Directors are responsible to the shareholders for the most profitable management of the company, and in order that they may have a personal interest in its progress and prosperity they are also shareholders.

Debentures

Sometimes people prefer to *lend* rather than *invest* their capital. The advantage is that a loan must be repaid, and interest on the loan has to be paid before any profits are distributed to the shareholders. Where the lender, who is known as a **debenture holder**, has a 'lien,' or 'right,' to certain property of the company the debenture is known as a **mortgage debenture**, and in the event of the company being unable to repay the loan the holder may make a claim to this property. An **irredeemable debenture** is one where repayment is made for no fixed date, whereas a **redeemable debenture** has a fixed date when the loan will be repaid.

QUESTIONS

1. Explain the term 'multiple shop.'
2. Has the multiple shop any advantages over the 'unit retailer'?
3. Why are multiple shops in evidence to-day?
4. Why do some retailers content themselves with one shop only?
5. Name some of the problems which a multiple shop has to solve.
6. What do you understand by the term 'optimum size of the business'?
7. Name three types of business which would not be successful as a 'multiple-shop' concern.

8. What do you understand by the term 'potential demand'? How does this affect the expansion of a business unit?
9. What is 'market research'?
10. What part does market research play in the development of a business?
11. "Retailers are market researchers." Discuss this statement.
12. What do you understand by the term 'ploughing back' profits?
13. "The larger the undertaking the more capital is required." Discuss this statement.
14. How is more capital brought into a business? Need this change the character of the business?
15. What advantages has the partnership over the sole trader?
16. What is a 'Deed of Partnership'?
17. Why should legal advice be sought when making out a Deed of Partnership?
18. What do you understand by the term 'dissolution of partnership'?
19. Explain the term 'limited liability.' How does this assist in development of business enterprises.
20. Explain the following in connexion with Joint-stock Companies: Registration Share, Memorandum of Association, Debenture, Board of Directors.
21. What is a Private Limited Company? What advantages does this form of business organization have over the Partnership?

CHAPTER SEVEN

Capital and Large-scale Organization (2)

The Department Store

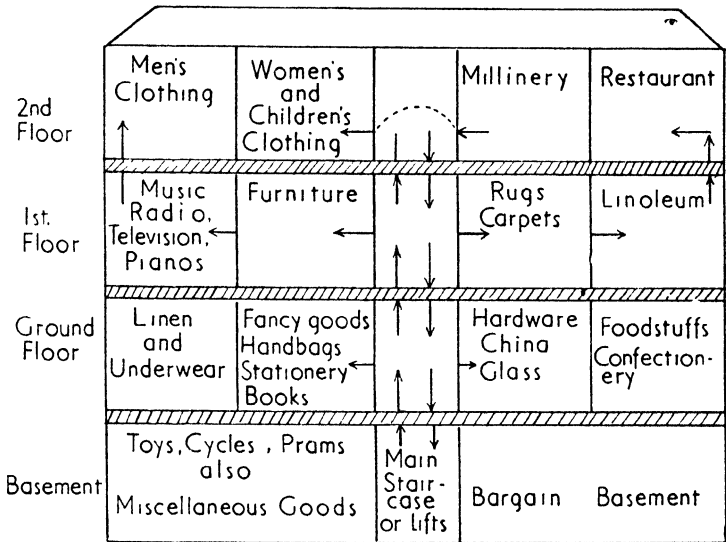
While the multiple shop tends to 'decentralize' retailing, the department store does exactly the opposite. It 'centralizes' retailing under one roof.

Most large towns possess a large store, and the best idea of such a store can be obtained by a studied visit to one of the stores themselves. It will be noticed that a broad sectionalization is effected in the first place, with subdivisions. For example, the food retailing is in one main section, and then subsections will retail meat, groceries, fish, and so on. Again, clothing will be in one main section, and then divided into women's and men's clothing, which will again be divided into subsections for children's wear, underwear, etc. Some department stores use whole floors for a main section with subsections, so as to concentrate the selling of a certain type of article within an area.

Usually the departments are static—*i.e.*, if the furniture is on the ground floor one week it will still be there the next week. Mobility is not used in this direction, though it has been argued that a certain amount of mobility could be used in order to make the more regular customers 'walk round' the store, and so see some of the things that they might never have imagined the store to deal in. But against this is the fact that such mobility might put customers off, since a certain amount of conservatism exists in most people, and they prefer to know where they are, rather than that changes should make them look around for things. Furthermore, this static approach gives the store an air of having been long established, a fact which works largely

in its favour, since customers have confidence in stores which have had a long life.

The size of a department store will vary, some being huge emporiums within which practically everything is retailed, from



LAY-OUT OF A DEPARTMENT STORE

It will be seen that the lay-out of the store is prepared with a view to obtaining maximum circulation of customers. Although it is necessary to have the quick-selling lines to hand at the point where most customers will enter the store, encouragement must also be given to visiting the rest of the store. If customers can obtain all they want from one floor they may never visit the other floors, and so miss the opportunity of seeing all that the store can offer. For this reason the lay-out in this particular case has been designed to 'oblige' customers to go from one floor to another, and in so doing to circulate around the various departments of the store.

a toothbrush to a piano. Others work on a smaller plane, but each tries to be self-contained within its own framework. The larger department stores boast that the shopper can do all his

shopping within its walls, and refresh himself with tea or lunch in comfortably furnished restaurants or tea-rooms. These stores also contain rest-rooms, where the tired shopper can rest quietly before going home or continuing his shopping expedition in the store. Others have also post-offices, banks, telephone-rooms, and even crèches, where mothers can leave their children in the care of trained nurses, while they do their shopping. Such large stores, of course, require very large capital to work with, and most of them are Joint-stock Companies.

The organization of such a store is naturally far more complex than that of a small retail shop. Buyers, underbuyers, accountants, clerks, department managers—all have specialized work.

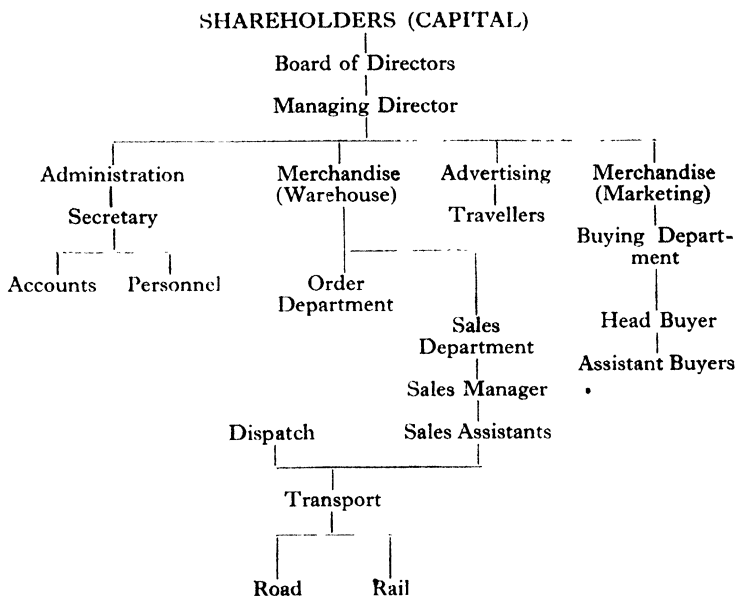
Remote Control

The main argument against these large stores is from the labour rather than the distributive point of view. It is argued that the employees of these large stores never come into contact with the actual owners, an arrangement that would be difficult to achieve, since the owners are not a few men, but a large number of shareholders. The policy of the store will, of course, be made by the directors, and the Managing Director will be responsible for much of the internal administration through the various departments. Shareholders will be invited to attend **Shareholders' Meetings**, when they can put forward their points of view to the directors. Where a store is managed efficiently, and a good return on the shareholders' capital given, little criticism is made, but where the return is not good the shareholders will naturally want to know why.

Bulk Buying

Before leaving the field of the retailer it is necessary to examine the opportunities which **bulk buying** affords. The big multiple concerns and the department stores, by virtue of the fact that they can lay out more capital, are able often to take

ORGANIZATION OF A LARGE RETAIL BUSINESS



advantage of buying goods in large quantities, for which they receive a larger discount than the small retailer, who usually buys on the $33\frac{1}{3}$ per cent. basis in dozens or gross. Through this means, then, the department store is often able to retail the goods at a cheaper price, but much of this is offset by the fact that certain goods must be sold at the regulation price. Bulk buying, however, is effective in certain types of store, where goods of no particular brand may be sold at a cheaper price.

The Co-operative Store

This form of trading began in the nineteenth century for the purpose of preventing the exploitation of the working people by unscrupulous employers who installed their own shops, known

as **tommy-shops**, at which their work-people were obliged to make their purchases. The prices charged at these shops were exorbitant, the employer knowing that his customers were assured, and that they had to shop there, otherwise he would dismiss them from his employment. The 'experiment' in co-operative trading was started at Rochdale in 1844, and so popular and successful did it prove that the Co-operative movement grew rapidly. At first a trading organization based upon the ideal of the early Socialists, it has grown into a strong political body with branches in education as well as trading.

The chief criticism levelled against the Co-operative Stores is that they base their sales upon a 'secure' market of members, that there is therefore little stimulation in the form of competition, and that their products as a result are not produced at the best economic level. On the other hand, their members claim that they receive a return on the money they spend, and can always rely upon the sound quality of the goods they buy. For some years the Co-operative Stores catered for the working classes by supplying them with the ordinary, everyday things of life, but to-day many of their stores are modelled along the lines of the big West End stores, with large display departments and products of a luxury nature.

Co-operative Stores Organization

Each Co-operative Society is controlled by a committee elected by the members of the Society at a general meeting which may be held every six months. The committee is known as the **Management Committee** and the elected members may or may not be experienced business persons or persons of managerial ability. They must, however, be members of the Society; and this also applies to the employees, for, in addition to being a trading organization, the Co-operative Society has 'ideals' which its members are encouraged to support.

As well as the main store, which is generally situated in the chief shopping area of the town, the Society has various branches each under the management of a branch manager, who

is responsible for the conduct of business at that branch. The branches are specialist ones, some dealing in groceries, some being butcher's shops, and may be compared to the branches of a large multiple-shop organization. The main store is very similar to the large department store, retailing most articles that are found there.

QUESTIONS

1. What is a department store? Name three department stores you know.
2. How far is it true to say that the department store centralizes retailing?
3. Does the department store have any advantages over the multiple shop? Explain your answer fully. •
4. What do you understand by the term 'mobility within the store'?
5. What advantages has the department store over the specialist retailer?
6. What are the main arguments against the department store as a form of retailing?
7. What do you understand by the term 'bulk buying'? Explain fully.
8. What is a Co-operative Store?
9. How does the organization of the Co-operative Store differ from the business owned and controlled by the Joint-stock Company principle?
10. Give a brief outline of the history of the Co-operative Store.
11. Is it true to say that the present-day Co-operative Store caters essentially for the 'working classes'?
12. What is the main criticism levied against the Co-operative Store as a form of retailing?

CHAPTER EIGHT

The Nationalized Industries

HAVE you ever thought how rich you are? You own the Post Office, in itself worth millions of pounds; you own all the coal-mines in Great Britain; you own miles and miles of railway-track and millions of pounds' worth of rolling-stock. You own huge electricity undertakings, gas-works, the whole of the B.B.C. sound and television services, and in case you are short of money you have been given the Bank of England. To celebrate your good fortune the State has given you State-Management breweries and distilleries! You are now in addition to be given atomic energy, the future of which none can really foretell.

A 'silent' revolution has taken place. Undertakings, sometimes of gigantic proportions, have been taken away from private ownership and given to the country, so that we are all in a way 'part-owners' in industry, and expect to reap the benefits.

This has been the revolution of **Nationalization** for which various Governments in the past have been responsible, for though it is the averred policy of the Labour Government to nationalize wherever possible, a steady process of industries gradually being taken over by the State has been going on ever since the Port of London Authority was set up in 1908 to look after navigation in the Pool of London and various other matters relating to shipping. To-day it has grown into a large administrative organization, with big offices housed in its own buildings, known as Trinity House, near the Tower of London.

In 1919 the Electricity Commission was formed to look after the supply of electrical power, and the Forestry Commission to take care of forests and carry out a policy of afforestation to make good the depletion of wood-supplies in England.

In 1926 the B.B.C. was established to take charge of broadcasting, and in 1928 the Racecourse Betting Control Board to supervise totalizators.

The London Passenger Transport Board was formed in 1933 to co-ordinate transport arrangements in London, and the various competing motor-bus companies were dissolved and absorbed by the newly formed board. In 1939 air travel was put under Government control with the establishment of the British Overseas Airways Corporation.

This might be called the 'first phase' in the story of Nationalization. The 'second phase' took place when the Labour Party came to power in 1945, immediately after the Second World War. The party pledged itself to a policy of Nationalization, and the first industry to be taken over was the coal industry. The industry had had State intervention over many years, with Acts of Parliament being passed to safeguard the lives of miners and the conditions under which they worked. It was the establishment of the National Coal Board, however, under the Coal Industry Nationalization Act of 1946, which finally put the seal to the industry's coming under State control.

In the same year the Bank of England was nationalized, and also the British airways—this under the Civil Aviation Act, 1946. The Transport Act of 1947 nationalized the railways, canals, and inland waterways, also hotels and restaurants owned formerly by the railway companies. Nationalization of transport is dealt with more fully in Chapter Fifteen.

The Electricity Act of 1947 tidied up the nationalization of the electricity industry, and fulfilled the needs, which became apparent when the Central Electricity Board was set up in 1926, to standardize the supply of electricity under what became known as the 'national grid.' The Gas Act, 1948, set up the National Gas Council, with twelve area gas boards.

The Town and Country Planning Act, 1947, established a Central Land Board to compensate landowners for loss of rights. In addition the Act gave full permission to local and central planning authorities to develop land as they thought necessary.

The Minister of Housing and Local Government was given power under the New Towns Act, 1946, to create new towns in entirely new areas, or extend and develop existing sites such as villages or small towns. He was given power to establish Development Corporations to carry out this work. About fourteen such corporations have been established.

Under the Overseas Resources Development Act, 1948, the Colonial Development Corporation was established with power to spend large sums of money on the development of the Colonies.

The importing and selling of raw cotton was placed under Government control by the Cotton (Centralized Buying) Act, 1947. The work previously carried out in the Liverpool Cotton Exchange was taken over.

The Iron and Steel Act, 1949, was passed just at the time when the Labour Government left office, so that the effects of the Act were never really felt. The Iron and Steel Corporation was to be established to conduct the industry. The Conservative Government denationalized the steel industry and road haulage and freed the Liverpool Cotton Exchange.

The Public Corporation

Now, it is obvious that if you dissolve the privately owned company which has been conducting the undertaking you are about to nationalize, then you must put something else in its place, for although the 'theory' of Nationalization is to hand the industry to the people to 'own,' you cannot expect a whole mass of individuals to be able to administer the concern. For this reason it is made into a **Public Corporation**, which generally has a board of officials who have to work out the best means of conducting the Corporation. They are responsible in most cases to a particular Minister. In the case of the National Coal Board, for example, the Board is responsible for the proper conduct and efficient working of the industry to the Minister of Fuel and Power, and in the case of the railways the Transport Commission to the Minister of Transport.

The Public Corporation, however, though a Government body, is not a Government department in the true sense of the word. Its employees are not civil servants, though scales of payment and conditions of work are often based upon those in the Civil Service. Neither is the Corporation tied in the same way to the Government, though control is exercised by the appropriate Minister. It is considered that the Corporation can be best successful and work most efficiently if it is allowed some of the freedom accorded in private enterprise to those in charge of the concern.

Management of the Nationalized Industries

One of the difficulties in conducting a nationalized industry is to appoint suitable people to manage the concern. It is not enough that they be persons who are in favour of the project: they must also be people of experience and ability, well able to conduct the concern at the most profitable level. Furthermore, because the profit-and-loss motive is non-existent in these industries from the individual's point of view, they must be people who are capable of developing and stimulating initiative and morale among those employed under them. The concern is still to be conducted like a 'business undertaking,' even though the guiding principle is to offer goods or services to the public at the lowest possible charge. Maximum efficiency, therefore, is looked for, as in many cases the undertaking was nationalized for the very reason that it was believed that this 'efficiency' did not exist, as in the case of the coal industry.

Opponents of Nationalization claim that this 'managerial' side is overdone, and that the industry is conducted by a large number of petty officials, or 'bureaucrats,' who, feeling that they have the power of the Government behind them, enjoy making and supervising the carrying out of regulations and conditions, rather than efficiently managing the concern. Again, it is felt that too much power is placed in the hands of a Central Administration, and that this is so far removed from the actual scene of operations that it tends to become detached, losing the

personal contact which is so important to successful administration. For this reason the policy of **decentralization** is advocated even by supporters of Nationalization. Again, employees in these organizations are remunerated upon 'scales' which guarantee increases in salaries whether an efficient 'margin' is reached or not. On the other hand, investigation of 'efficiency' conditions are made by expert statisticians and economists, so that on the whole the 'managers' are not omnipotent. Because the 'managers' have such power, however, Nationalization is sometimes referred to as the **Managerial Revolution**.

Nationalized Industries and Revenue

It may now be time to refer to our opening paragraph, and the question 'be asked that if we all own these wonderful industries, why are we not given a share of the 'profits,' as any other shareholder would be given in a private company? Now, that is exactly the difference between a Public Corporation and a privately owned company. In the former there are owners, but no shareholders. Any surplus must go back into the industry itself for development purposes, and if this surplus is too large, then the cost of the service or goods must be reduced to the consumer. The argument, of course, is put forward that by lowering the costs you are in effect giving back a 'share' of the profits, because you are increasing the purchasing power of the individual's income, and therefore helping in raising his standard of living. Furthermore, the surplus can be used for research work in connexion with the industry or installation of new plant or introduction of new methods of production, more economic and more efficient. This difference must be clearly understood, for it is one of the keynotes of the policy of Nationalization.

Compensation to Owners

In a democracy the process of Nationalization is through **compensation**. Before an industry is nationalized negotia-

tions are opened between the Government and the owners or their representatives, and the terms of compensation agreed upon. In the case of the Bank of England the stockholders had been given Government securities which would give the same return of dividend that they had received during the previous twenty years. The owners of the coal-mines were compensated by considering the net maintainable income which the colliery could have been expected to earn in the future under present ownership, this figure then being multiplied by an agreed number of years' purchase.

It is usual for the compensation, moreover, to be paid for out of the industry's own 'profits,' so as not to be a burden on other sections of the community, and it may thus be a number of years before the owners receive the full agreed amount.

The Planned Economy

In line with the above policy of no profit share-out to the 'owners' is also the fact that the whole idea of Nationalization is linked up with the policy of a **planned economy**. The exponents of the policy say that only under a planned economy can employment be guaranteed and the great depressions with heavy unemployment which overtook the world in the 1920's and 1930's be avoided. It is for this reason that the first industries to be nationalized are the **basic industries**—*i.e.*, those connected with fuel, power, and transport—for these are the 'basis' of any economy. Control of the monetary policy was realized—hence the nationalization of the Bank of England, as noted above. Planned economy, it is claimed, will give guaranteed full employment.

Economies of Large-scale Production

We noted in Chapter Six that a business undertaking has an optimum size at which it operates at the greatest margin of profit. Where an industry operates most profitably upon a large scale it is often more beneficial for the concerns to **amalgamate** and form **combines** or **trusts**. This amalgamation

can take the form of **horizontal combination**, when organizations of a similar kind join together—for example, private banking houses—or **vertical combination**, where the various 'stages' in the manufacture of a product are amalgamated or 'controlled,' as in the case of an oil company which, in addition to owning the oil-wells, may own a transport system such as a railway, docks, tankers, road distributing agencies, etc.

Now, once a private concern operates upon such a large scale it is able to obtain a 'hold' on its market and to monopolize the marketing of a product, and so force the consumer to purchase the commodity under monopoly conditions. Furthermore, these large amalgamations or trusts have a hold upon the labour they employ, though trade unionism may to some extent counteract this hold.

Sometimes these amalgamations and 'reforms' in production are known as **Rationalization**, and they are the argument which the opponents of Nationalization use. They argue that the large 'combine' does the same work as the State would do if it took over the concern, but that the stimulus of private enterprise is still there.

On the other hand, the exponents of Nationalization claim that the owners of these large combines or trusts do not work in the interests of the community, and that if the State took over a large concern it would see that that concern did so. They argue, furthermore, that the trust or combine is too big an undertaking to be in the hands of private individuals, and that once a productive organization reaches such dimensions it can be more efficiently operated by the State.

Advantages and Disadvantages

Of course, not everyone believes in this policy of Nationalization. In the first place, there are the actual owners of the concern to be considered. Although they are compensated for their undertakings, they would prefer in many cases to continue with the business in their own hands. They feel that, having

built up the business, it is not fair to have to part with it. Then there are those who, though not directly affected in this way, believe that Nationalization does away with initiative because it destroys the stimulus of competition. They claim, further, that these national industries are, in effect, nothing more or less than **State monopolies**, and that because the consumer has no alternative choice he is obliged to consume the goods or services offered, however poor in quality or high in price. As an answer to the latter, **Consultative Councils** have been set up to smooth out difficulties and establish fair and equitable charges. In other words the consumers, claim the supporters of the policy, are given protection against absolute monopoly conditions.

We may sum up the arguments for and against Nationalization as follows:

For Nationalization

1. The industry can be better 'centrally controlled.'
2. It can give better returns on its capital outlay.
3. Government money can be spent upon research and developments within the industry.
4. It can guarantee to safeguard the interests of its workers.
5. Any profits accruing from the industry can be passed back to the consumers in the form of lower charges for goods or services.
6. It can facilitate political as well as economic relationships between countries where the industry involves some vital product, such as atomic energy.

Against Nationalization

1. Because the industry is 'centrally controlled' local interests may not benefit to the fullest extent.
2. It interferes with private initiative, and does not give individual rewards for enterprise and resourcefulness.

3. By its control and regulation no freedom of action or movement is allowed beyond the limits set down by the policy of the Government.
4. It can become a 'drain' on the taxpayer, since any losses or deficits will be made up from Government funds.
5. It prevents the setting up of similar concerns, and thus destroys the driving force of competition for better services and commodities and the lowering of prices.
6. It restricts the consumer's choice.

Nationalizing for Security

In addition to the nationalizing of an industry for purposes of more 'efficient' administration and production, a Government may also do so because it considers that the services or goods which the industry supplies are so 'vital' to the economy of the country that it is essential for their 'flow' to be guaranteed to the consumer without the hazards that might beset private enterprise. Water and gas, for example, were two commodities which it was realized at an early stage should be guaranteed as to flow and quality. These services are known as the **Public Utilities**. Water and gas came under Government supervision in 1870 with the passing of the Gas and Water Facilities Act, which guaranteed to the public a regular service. The Electric Lighting Acts, 1882-88, guaranteed supply of electricity to consumers.

Another example of nationalizing for security is where the commodity would be 'vital' or 'essential' in times of war. Usually, when a country is in a state of war, the Government will 'automatically' take over essential services—the railways, for example—but the nationalizing of an industry during peacetime may be made in order to bring that industry up to maximum efficiency, because it was realized during the war period that it was operating at too low a level. Or, again, the Government might consider it to be essential that a particular industry should be 'nurtured,' because, though not essential in peacetime, it would be most important during a war.

Nationalization of New Industries

It may seem from the foregoing that the State is an ogre ready to swallow up an industry as soon as it thinks fit, and that it does little to establish new industries. This, however, is not quite true. Two important new industries have been established by the State: one is the Scottish Hydro-electric Development Scheme, which was put into operation by the establishment of the North of Scotland Hydro-electric Board in 1943 for the development of water-power resources of the Scottish Highlands, and for the distributing of electricity to consumers outside the areas of other authorized electricity undertakings, and the other the Atomic Energy Corporation, 1953, for the development and distribution of atomic energy.

Commercial Distribution of Industries

Under the Distribution of Industries Act certain **State Factories** are 'hybrids,' so to speak, of Nationalization. They are factories which are not owned by the Government, but the establishment of which has been encouraged by the Government, through the Finance Corporation, in what were known during the depression post-war years after 1918 as the 'depressed areas.' The capital is supplied by the Government to private concerns, and the development of 'new' industries in those areas encouraged. In addition to capital, certain **priorities** in the form of raw materials and the supply of gas and electricity at special rates were given. South Wales, Durham, West Cumberland, and parts of Scotland have such factories.

Marketing Boards

It was by the Acts of 1931 and 1933 that the marketing of produce was put into the hands of certain Boards such as the Milk Marketing Board to afford safeguards to consumers on quality and prices. With the establishment of the Ministry of Food, many of these marketing schemes lapsed, since control of production and distribution of food was in the hands of the Ministry. Furthermore, the Ministry also assured markets to

the farmers for their produce, and guaranteed certain prices at which they would sell.

With the lifting of controls and gradual de-rationing of food many of these former marketing schemes have been re-established, together with the introduction of a Marketing Scheme for Livestock and Cereals, and a Deficiency Payments scheme whereby the farmer is assured of a minimum price for his produce, which is assessed by impartial economists and statisticians appointed by the Government.

Conclusions

As yet no hard-and-fast statement can be made as to whether Nationalization is the best policy or not, since insufficient time has elapsed for those industries which have been nationalized to prove their case. Further, the exponents of the National Industry policy claim that it is not fair to judge results on the basis of a few vital industries which have been nationalized, since only when *all* industries have come into this orbit will the benefits really be felt.

QUESTIONS

1. What is meant by the term 'Nationalization of industry'?
2. What do you understand by the term 'Managerial Revolution'?
3. Name some of the industries that were nationalized before 1945.
4. What is a Public Corporation?
5. Give some of the arguments against Nationalization of industry.
6. What do you understand by the term 'compensation' in relation to the nationalized industries?
7. What is a Public Utility? Why are these generally under Government control?
8. What are 'horizontal and vertical combinations'? Give examples of such.
9. Are only industries already functioning nationalized? Give examples of any new industries that have been nationalized.
10. What are Marketing Boards? What recent changes have taken place in these Boards?

11. What do you understand by the term 'bureaucracy'? Is there danger of this becoming apparent in the nationalized industries?
12. Since nationalized industry is a form of monopoly, what measures are taken to protect the consumer?
13. How does nationalized industry fit into the scheme of a planned economy'?
14. What are the objects of a 'planned economy'?
15. What do you understand by the 'second phase' of Nationalization? What industries were nationalized during this phase?
16. Write an essay on the advantages and disadvantages of Nationalization.

CHAPTER NINE

Business Accounts

MOST of us dislike paying bills. Some of us rarely have bills to pay, the reason being that we usually pay **spot cash** for whatever we buy, but in actual business practice very few things are paid for the moment they are bought. If this were the case many businesses, small and large, would find it very difficult to carry on. The capital they invest in their business may be enough to keep them going for a time, but if they had to pay immediate cash for all the stock they wanted the amount might be so large that they could never do so. For this reason most business is carried on through the principle of **credit**. *Credit is the confidence which the seller has that the buyer will ultimately pay him for the goods he has purchased.* The buyer may be certain that he can sell the goods, all he wants being sufficient time to collect the money from his own customers.

Now, most retailers sell goods for cash, though many big stores permit their customers to open accounts with them, against which they will supply the customers with goods, to be paid for at a later date, usually at the end of the month. But most small shops do not extend this credit to their customers. They require the goods to be paid for over the counter. Hence a retailer who has a stock of a certain line may calculate that this stock will cost him £100. Assuming that the line of goods can be divided into units of £5 each, it means that he must have twenty customers who will each buy the article from him. He has probably a far larger number, and the stock he carries in this line is greater, but the basis is the same even for larger amounts. The point is that the customer has to find only £5 worth of capital to buy the goods, whereas for the retailer to satisfy the

customer he has to carry £100, since he cannot buy in small quantities from the wholesaler. It means, therefore, that the retailer must have far more capital than it warrants him to have for a small return of £5. He will eventually cover the £100, but if he had to pay out 'cash' at the rate of £100 every time he wanted to fulfil a £5 order he would soon need an enormous amount of capital, and, what is even more important, he would be getting a very small return to outlay of capital. The wholesaler, again, would have to lay out an even greater amount of capital, since he supplies not one but many retailers. Assuming that he supplies ten retailers with £100 worth of goods each, if he had to pay the manufacturer 'cash,' he would have to lay out £1000 to satisfy ten retailers with £100 each. Again, the wholesaler will get the £100 from each retailer, but *time* is necessary.

What about the manufacturer? He has to make the article. If it is furniture he is making, then he must pay for the timber, the skill of his craftsmen, the working of his factory, rent, rates, lighting, and other overheads. If *all* these had to be paid for in cash, think of the huge amount of capital he would require!

In actual practice, then, none of these people pay for everything in spot cash. In the case of the manufacturer, the only people probably who would be paid in cash would be the craftsmen in the form of their wages. The timber merchant who supplies the wood would wait perhaps a month until his account was 'settled'; the wholesaler would give the retailer a month in which to pay, in the same way that he would himself receive a month's credit from the manufacturer. We noticed in the chapter on Capital that it was because of this that the 'time factor' in production could be effected, and that people 'lived' on their capital while their product was being marketed. In our modern society we have an additional aid—the power of credit, the agreement that manufacturers and producers will wait for settlement of their accounts until the various distributors have been able to market their commodity.

A Good Memory

Now, although this power of credit is most useful, it makes the retailer's life a little more complicated, because when he takes delivery of the goods from the wholesaler he has to sign a receipt for the goods. This is simple enough, but what happens at the end of the month? How is he reminded that he owes the wholesaler, say, £100? He is reminded by the wholesaler's sending him a **Statement of Account**, showing that he bought the goods on a certain date, and that the goods were worth a certain sum of money. He does not show what the goods were. There is no need for this, because at the time when the retailer bought the goods he would have received from the wholesaler a detailed sheet on which would be 'invoiced' the goods he bought. The sheet is called the **invoice**, and it will set out clearly how many articles have been bought or whatever quantity of a certain commodity has been purchased. Invoices are very important documents, since they serve as a check against the Statement of Account which will be sent at the end of the month. If there is any query as to an overcharge the retailer can look up the invoices and find out what has happened. It might be an error on the part of the wholesaler's clerk, who has inserted an extra item which was not supplied, or incorrect addition or subtraction. If too much has been charged the retailer will point this out, and the wholesaler will send not necessarily another statement, but a special note showing how much has been overcharged and acknowledging this mistake. This note is called a **credit note**, and is usually in red, to distinguish it clearly from other documents. This document is also used where goods are returned for various reasons by the buyer. The note will, of course, be sent by the seller.

A specimen Statement of Account is shown on p. 107, from which it will be seen that the account is **rendered** with two amounts—namely, (i) the amount actually owing for goods purchased and (ii) the amount deducted for payments already made (since it is possible that the retailer may decide to pay for

No. 582

INVOICE

Bought of

AMALGAMATED PUBLICATIONS, LTD

27-29 COLEMAN STREET, E.C.4

10th November, 19..

MESSRS JOHN BREAKWELL AND SONS, LTD

58 ROSE AVENUE, N.W.1

Your Order No. 789

Quantity			£. s. d.	£. s. d.
3	doz.	<i>News Illustrated @ 2/- doz.</i>		6 0
10	doz.	<i>Photo Weekly @ 3/- doz.</i>		1 10 0
2	doz.	<i>Summer Harvest @ 10/- ea.</i>	•	12 0 0
81	Copies	<i>Weekly Notes @ 6d. ea.</i>		2 0 6
				£15 16 6
E. and O. E.				

CREDIT NOTE

27-29 COLEMAN STREET,
E.C.4

15th November, 19..

MESSRS JOHN BREAKWELL AND SONS, LTD
58 ROSE AVENUE, N.W.1

CR BY AMALGAMATED PUBLICATIONS, LTD

			£	s.	d.	£	s.	d.
19..								
Nov.	13	By Returns Miscellaneous items sent in error				3	4	6

No. 3749 a

STATEMENT

Telephone Central 7272
(3 lines)

27-29 COLEMAN STREET,
E.C.4

30th November, 19..

MESSRS JOHN BREAKWELL AND SONS, LTD
58 ROSE AVENUE, N.W.1

DR to AMALGAMATED PUBLICATIONS, LTD

19..			£	s.	d.	£	s.	d.
Nov.	3	To A/c Rendered				30	2	6
"	10	„ Goods	15	16	6			
"	23	„ Goods	10	10	6			
						26	7	0
						56	9	6
Nov.	15	By Returns	3	4	6			
"	17	„ Cash	20	0	0			
						23	4	6
						£33	5	0

E. and O.F.

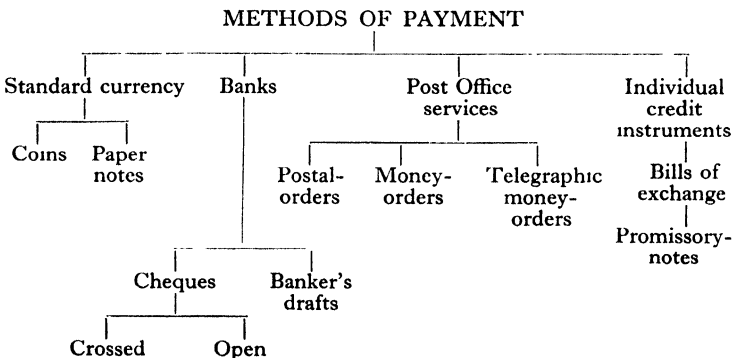
Terms: *Nett Monthly*

some of the goods during the month *before* he received the statement) and for goods returned as damaged or unsuitable.

It sometimes happens that a wholesaler makes a mistake in the retailer's favour—*i.e.*, that he does not charge enough for goods supplied. The invoice will have shown the goods charged, at the *wrong* price, being cheaper than they should be. When this is discovered the wholesaler will not send another invoice showing the correct amount, but another note, known as a **debit note**. This debit note is in ordinary black ink, and it will show the amount that has been **undercharged**. These correcting documents are used in preference to duplicating the invoices or Statements of Accounts, so as to avoid confusion. A retailer receiving two invoices might think he was being supplied with two lots of goods.

Paying the Account

The retailer, having examined the Statement of Account or invoice, and having satisfied himself that the amount charged is correct, will proceed to pay the debt. Now, he can do this in several ways. In the first place, he can send the actual cash by post or take it to the wholesaler himself. The first procedure



is not to be recommended, even when greater security of postage is assured by *registering* the letter. The Post Office charge

extra for this security, but do not assume total liability to refund the money if it is lost. In fact, they always recommend that where money is to be sent through the post it should *not* be transmitted as actual money, but in the form of a postal-order or money-order. The retailer can change his money at a post-office for either of these forms, for which he has to pay a small charge known as **poundage**.

This method is quite good, but it involves a loss of time, particularly if the post-office is some distance from his shop, or if it is a busy office and he has to wait a long time before being attended to.

The second procedure—namely, taking it to the wholesaler himself—is again a wasteful one, since time would be lost in travelling and waiting about.

Payment by Cheque

The best and most convenient method is the **cheque system**. This is very simple, and certainly as safe a means as any yet devised. To use this method, however, the retailer must open a **banking account**—a simple procedure. In the first place, the retailer will have an interview with the manager of a local bank, which will most likely be a branch of one of the **Big Five** banks—*i.e.*, Westminster, Barclays, Lloyds, National Provincial, or Midland. Bank managers are generally very helpful people. They are chosen for their tact in dealing with clients and for their understanding of people. Naturally, a bank will not agree to issuing a cheque-book just for the asking. The manager will ask a few questions about the retailer—how long he has been in business, where he has come from, etc., and then how much he proposes to deposit in the bank against which amount he may draw cheques.

If everything seems in order the bank manager will agree to an account being opened, and the customer, for that is what the retailer has now become, will be asked to sign his name in the **Specimen Signature Book** or on a card. This is done to prevent fraud, since the bank will now have a copy of the

BARCLAYS BANK LIMITED

195

CREDIT

Notes over	£1			
"	£1			
"	10/-			
Silver				
Nickel, 3d. Pieces				
Copper				
Total Cash				
Postal Orders				
Drafts				
<i>Total Credit</i>	£			

Paid in by

Customers are advised that the Bank reserves the right at its discretion to postpone payment of cheques drawn against uncleared effects which may have been credited to the account.

signature which will in future be used when the retailer signs his cheques. When the retailer desires to pay in money at the bank from time to time he will fill in a small slip of paper showing how much he is paying. This is called a **Paying-in Slip**,

and sometimes, where a series of regular payments is made, the slips are clipped in a book, called the **Paying-in Book**. The cheques are also usually in book form, about 25 or 50 being clipped together.

These two books are all the customer will require for his everyday banking. From time to time the bank will send the retailer a copy of his account in the bank's books, showing how much he has in his account and what amounts he has been paying out or drawing out for his own use. Sometimes this information is kept in a book which is called the **Bank Pass Book**.

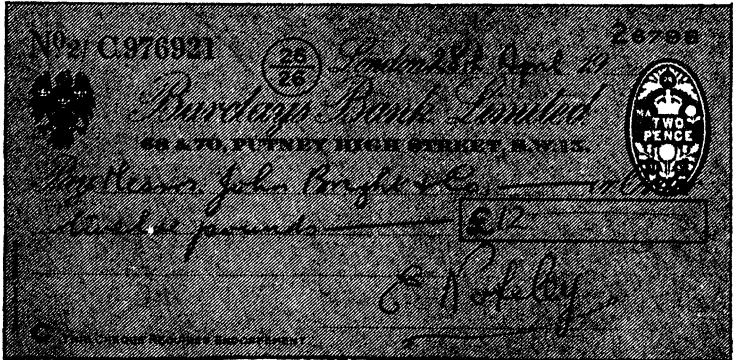
The bank manager may ask the customer whether he would prefer to have a cheque-book with **crossed cheques** or **open**

		& Co					
			Not Negotiable				
					Barclays Bank A/c Payee only		
						Barclays Bank Not Negotiable	
							Barclays Bank Wimbledon
GENERAL CROSSINGS				SPECIAL CROSSINGS			

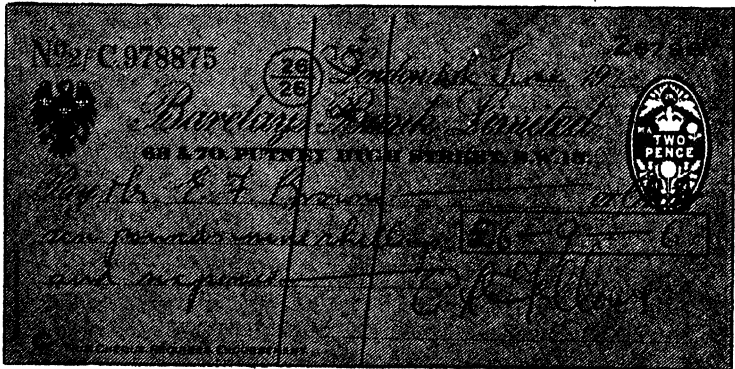
cheques. He will explain that when a cheque is crossed it can be paid only to a person who already has an account with a bank, and what really happens is that the value of the cheque is advanced to the person through his own account in the first place. Then, when the cheque is passed through and everything is found to be in order, the amount will be taken out of the **drawer's** account—*i.e.*, the person who pays the value of the cheque. Thus an added factor of safety is provided, since sufficient time is given for a cheque to be verified and for the rightful person to receive the money. Fraudulent dealings do take place, and money is sometimes paid out on a forged cheque,

but a banker is always careful, because he has to stand the loss on the payment of a **forged** cheque. Thus the customer is safeguarded.

The retailer, then, may feel satisfied that in future all he has to do in order to pay his bills is to take out his cheque-book and write a cheque.



AN OPEN CHEQUE



A CROSSED CHEQUE

Parties to a Cheque

The retailer will soon realize the great convenience which the cheque system gives him, not only for paying his own accounts, but also for getting others to settle their debts with him. In handling these cheques he will gradually become acquainted with their various forms, and should understand that to every cheque there are at least the following parties:

- (a) The *drawer*—the person who makes out the cheque, and from whose account the money for paying the cheque will eventually come.
- (b) The *payee*—the person to whom the cheque is made payable.
- (c) The *drawee*—the bank on which the cheque is drawn.

Let us suppose, for example, that A. Brown is a retailer, and that he has purchased goods to the value of £50 from E. Jones, and that he has decided to settle the whole of this account by means of a cheque drawn on his bank, which happens to be Barclays Bank. Then the parties to the cheque would be as follows:

- (a) Drawer - A. Brown.
- (b) Payee - E. Jones.
- (c) Drawee - Barclays Bank.

On the cheque-form he will put the date when he makes out the cheque, the name of the payee, the amount to be paid in words and also in figures, and then sign it with a **similar** signature to the one inserted in the Specimen Signature Book. If the cheque is crossed nothing more need be done, but if it is not—in other words, if it is an open cheque—then he may close it by drawing two lines across it. This makes it into a crossed cheque, which will be dealt with in the same way as if it had already been printed with the lines across. He may notice incidentally that the cheque has a twopenny embossed stamp on it. He may think for a moment that the bank charges a great deal of money for these forms, but if he inquires further he will discover that the banks do not get this twopence. It

is duty put on by the Government, who collect the money as a form of **Inland Revenue**. The banks do not charge for the cheques, but for their services they do, and these charges are known as **Bank Charges**. In proportion to what the banks offer, however, these charges are very reasonable.

Bank Overdraft

The retailer will probably find that it is so easy to pay money by the cheque system that he may go on paying his bills until one day he receives a letter from the bank.

The letter will be worded very courteously, but it will point out that the account has been **overdrawn**, and may request either that the customer call on the manager to discuss the matter with him or that no further cheques be drawn until the overdraft has been cleared. The customer may have many outstanding debts due to him which he will be able to collect in a very short time, and on this basis the manager may decide to extend the **overdraft** to a further sum or time. The customer can then go on drawing cheques to whatever amount the bank manager has agreed he may have. Bank overdrafts are a very useful service with which banks accommodate their customers, though they do not like the service to be abused. They are really a form of loan.

Receipt

On sending the cheque the retailer will hear no more from the wholesaler until a receipt has been sent. Usually the cheque is sent with the Statement of Account, and the receipt is made out on the statement itself. Every receipt for two pounds or over must have a twopenny stamp. It is the same kind of payment as on the cheque—namely, payment to the Government, the **Stamp Tax**. The receipt must show the date when it is made out, the amount of money received, and the name of the person from whom the money has been received. Then it must be signed by a responsible official of the business, such as the cashier, secretary, or accountant.

Payment Completed

The receipt will complete the payment. It should be filed, and not just thrown away, since it is the official acknowledgment that the debt has been settled, so that should another Statement of Account arrive showing this amount as still owing the retailer has proof that it has been paid.

QUESTIONS

1. What do you understand by the term 'credit' in modern business?
2. Why do retailers refrain from extending credit to their customers?
3. "Credit frees capital." Discuss this statement.
4. Write an essay with the title "Credit is the pivot around which modern business can turn easily."
5. Give some of the disadvantages of credit.
6. "Credit enables a given amount of capital to be used a number of times." Discuss this statement.
7. Show how the development of the credit principle of doing business has necessitated the use of a much more complicated system of record-keeping.
8. Show the importance of the invoice in modern business.
9. Why should invoices received from sellers be kept by the buyers?
10. How can a mistake on an invoice be rectified when the invoice shows an overcharge?
11. What is the normal period of time for paying of accounts? How are customers reminded of their outstanding accounts?
12. Make up the document in the above question from the following information of a transaction carried on with F. Thomas:

		£	s.	d.
Jan. 6th.	Sold goods	12	12	6
„ 9th.	Goods returned, as damaged	2	2	0
„ 14th.	Sold Goods	17	4	6
„ 19th.	Received cheque as part payment	10	0	0

13. Explain the term 'account rendered.' What encouragement is given by business-men for prompt payment of their accounts?

14. Give an example of a 'credit note.'
 15. Make out an invoice for the following :

Bought from Messrs H. E. Even and Sons, Ltd., 141 Nuthall Street, Leeds.

3 gross exercise-books No. 14	@ 90/-	gross.
5 ,, writing-pads No. 51	@ 105/-	,,
3 ,, notebooks No. 8	@ 98/-	,,

Make up the invoice with your own name and address and your own Order No.

16. Make out a Statement of Account for the following transaction with E. Norman and Co., Ltd. :

		£	s.	d.
Mar. 5th.	Sold goods value	25	14	6
,, 10th.	Received cheque in part payment	12	12	0
,, 12th.	Sold goods value	17	18	0
,, 15th.	Goods returned, as damaged	5	6	4
,, 27th.	Sold goods value	32	0	0

17. Make out an invoice for the following goods sold to S. Minter and Sons, Ltd., 9 West Road, London, N.1.

9 yds. of cloth No. 57	@ 10/6 per yd.
26 ,, ,, material Cat. No. 206	@ 17/8 per yd.
15 ,, ,, silk No. 75	@ 19/6 per yd.
24 ,, ,, material Cat. No. 31	@ 14/2 per yd.

Invoice subject to 33 $\frac{1}{3}$ %.

18. Why is the 'cheque system' the best method to be employed when paying accounts?

19. What other methods besides the 'cheque system' are used? Name some of the disadvantages of these methods.

20. What formalities have to be observed when opening an account with a bank?

21. Is there any advantage apart from the safe-keeping of money in having an account at a bank?

22. Why must a bank manager act in a confidential capacity when dealing with a customer?

23. What is the difference between a 'crossed cheque' and an 'open cheque'?

24. What do you understand by the term 'a/c payee' on a cheque?

25. Explain the term 'Stamp Duty.' Show how this applies to cheques. Do you consider it is a good duty?

26. How many parties are there to a cheque?
27. Who is responsible for payment of a forged cheque?
28. What are Bank Charges? In what circumstances do these arise?
29. What is a 'bank overdraft'? In what way does a bank overdraft help the retailer?
30. In what circumstances will a bank grant an overdraft?
31. What formalities must be observed in making out a receipt?
32. Make out a receipt for a sum of money you have received from a friend. Use fictitious names.
33. Why should a receipt always be dated?

CHAPTER TEN

More about Banks

IN the previous chapter we noted that the retailer can derive great benefit from the cheque system in the payment of his own accounts, and also in settlement of accounts by his customers. We noticed furthermore that a little knowledge of the details relevant to the making out of cheques and their modes of payment was necessary. We shall look into the work of the banks rather more closely now, and discover that their services can indeed be very useful to the business community.

In the first place, it should be understood that although we took as our specimen customer a retailer, any individual with sufficient reason for so doing may open an account at a bank. Two main requisites are asked of him: that he shall be a person of respectable standing—*i.e.*, not a criminal or other undesirable character—and that he shall have money to deposit.

The Money is Safe

In the Middle Ages, when life was not so secure as it is to-day, rich people did not like keeping too much money in their houses, so they **deposited** their money with those better able to look after it. Money in those days consisted mainly of gold and silver, and it was deposited with goldsmiths or silversmiths, people who knew its value and who had the means of keeping the precious metals safely. Large, strong, ironbound, heavily padlocked lockers or coffers were used to store the money, and the coffers themselves might be hidden in cellars or **strong-rooms**. The depositors felt that it was much safer to leave their money with these people than to keep it at home, where thieves might break into the house and steal it. In return for

the money which was deposited the goldsmiths or silversmiths would give a receipt, and this document acted as a legal acknowledgment that a certain sum of money had been deposited, and would be returned only on production of this receipt.

For the services of safeguarding the money the goldsmiths or silversmiths charged a commission in the same way as the modern banker makes Bank Charges for the services he renders to his customers. As long, then, as the receipt was kept by the customer and produced by him when he desired to take away his money the system acted smoothly. But supposing the customer did not want to take away all his money, but only a part of it? Then a new receipt would be made out for the remaining part of the money left in the care of the goldsmith. It was found, however, that very often the money was withdrawn from the goldsmith not to be made use of by the depositor, but to be handed over to some one else in settlement of a debt.

Now, it occurred to these goldsmiths that much time and safety could be gained if, instead of the money's being withdrawn and then handed over to the customer's creditor, a receipt for this sum of money were given to the customer to be given to his creditor, who could then go to the goldsmith and collect the money directly from him. The receipts would be kept by the customer until he wanted to use them. In other words, these receipts were orders made out to the goldsmith to pay to a certain person a sum of money from the depositor's store. These receipts were, in effect, a kind of cheque system. No actual money needed to pass between the goldsmith and his customer beyond the initial or added deposit, and settlement of accounts could be effected without actually carrying around precious gold or silver.

The nett effect would be that the *ownership* of part of the money would be transferred from the original owner to his creditor, although the money itself need not be disturbed from the care of the goldsmith. This was the beginning of the **cheque system**.

On the whole, of course, these 'cheques' were not used to

the same extent as in the modern system, but they showed the possibilities of paper transfer, and were excellent, particularly where fairly large sums of money were involved.

Deposit or Current Accounts

As we have seen from the above, even in the Middle Ages money was mobile—*i.e.*, it could be moved easily from one person to another. Now, bankers soon discovered that there were two types of customer, or, perhaps more correctly, customers desiring to use their money in two main ways. In the first place, customers wished to place their money mainly for safe-keeping, withdrawing only small sums at long intervals. In the second place, they wished to place their money not for safe-keeping, but only because it was easy to pay their bills through the cheque system. Thus the banks divided their accounts into two kinds—the **deposit account**, where the money is left for a long time without being constantly reduced or added to, and the **current account**, where the opposite takes place.

Business-men make great use, as we have seen, of the cheque system; hence the current account is very popular with them, but they deposit their capital, which is not constantly affected, in the deposit account. Sometimes they call the current account their **working capital**, because they are always using this money to pay bills and meet their other expenses.

Generally speaking, banks pay interest on money which is left in the deposit accounts, partly to encourage the money to be left there, partly because little bother is experienced in dealing with such accounts.

Working Capital

We have seen that the business-man regards this fluctuating capital as working capital, but the banks in their way regard the deposit accounts as working capital, because when the money is deposited in the bank it does not just stay there. This money is used by the banks in the form of loans to other customers,

towards investments in companies and new undertakings. The banks have to cover themselves before making these loans, and will ask for security against which the loans can be made. In making a loan the banks require the security always to be much higher than the loan itself. The reason for this is twofold. In the first instance, the borrower is encouraged to repay the loan, since default would mean loss of the security, and, this being more than the loan, would mean an extra loss to him. In the second place, this method discourages the making of loans for frivolous reasons. It places a serious aspect on the use of loans.

When loans are made as security against property the property is said to be **mortgaged**, and the borrower cannot sell the property without permission from the bank which makes the loan. If a loan is not repaid by the agreed date, and no further time can be given, then the bank is said to **foreclose** on the mortgage, and the property passes from the ownership of the borrower to that of the bank. Usually banks are very helpful where mortgages are concerned, and will try to tide a person over his difficulties. Much will depend upon the circumstances of the case.

The banks, then, make use of the money deposited with them in many ways, but they must always keep a certain amount in hand for meeting their customers' requirements. If they did not do this confidence would be lost in the bank, and a **run** on the bank would result, with disastrous effects not only on the bank itself, but on all the businesses connected with it.

There are hardly any private banks to-day, most of the large banking houses being Joint-stock Company concerns with very extensive capital reserves. These banks usually work in an interrelated way, helping one another whenever necessary, and passing on information which may be of use to any of them.

The Clearing House

The interrelationship of the banks is so strong that the **clearing-house system** has now become an established part of banking, and is used not only for clearing cheques, but also for

other transactions. The system itself is nothing more or less than the method whereby cheques drawn payable by one bank can be paid through another. In other words, supposing that John Jones drew a cheque for £20 payable through his bank, which might be Barclays Bank, to Alan Smith, whose bank might be Lloyds Bank. Then Alan Smith, on receiving this cheque, might have to go to John Jones's bank—namely, Barclays—to have the cheque cashed if it were not for the clearing-house system, which enables him to go to *his own bank*—that is, to Lloyds Bank—to cash the cheque there. This cheque will then be listed, together with others paid on behalf of Barclays Bank, by Lloyds Bank, and the list compared with any such cheques drawn by customers of Lloyds which Barclays have paid on behalf of the former. A cancellation on the following lines might then take place:

<i>Cheques drawn on Barclays, paid by Lloyds</i>	<i>Cheques drawn on Lloyds, paid by Barclays</i>
Frank Brown £10	John Jones £20
Ellen Good £30	Fred Williams £20

From this statement it can be seen that both sides agree, and that therefore there is no need for any settlement. All customers have been accommodated, and a balance has been made. Often, however, there is a balance either in favour of or against one of the banks; this will then be paid into the clearing house, with the difference or balance to write off the debt. With the use of the clearing-house system all kinds of complicated transactions can be effected which otherwise it would be impossible to carry out.

From One to Another

We noticed in the above transaction that John Jones made a cheque payable to Alan Smith, and that Alan Smith took the cheque to his bank and cashed it. We do not know what he did with the £20; perhaps he used part of it to pay his clerk's salary and kept part of it for his own use. Let us suppose now

that Alan Smith has a creditor Ronald Tight to whom he owes £20. He could cash the cheque and give him the money, or he could pass on the cheque to Tight and let him claim the money himself from the bank. Before, however, doing the latter it would be necessary for Alan Smith to look at the cheque carefully and note whether it was a **bearer** cheque or an **order** cheque. If it were a bearer cheque, then it could simply be passed on to Tight, but with an order cheque it would be necessary for Alan Smith to sign his name on the back of the cheque. This is known as **endorsing** a cheque, and the signature is named an **endorsement**.

Kinds of Endorsement

The simplest form of endorsement is for the payee to sign his name on the back of the cheque, as noted above, but there are also cases which call for additional information.

(a) *Special Endorsement.* Where a cheque is made payable to a specified person this is known as a **special endorsement**. For example, if Alan Smith wished the cheque to be paid specially to Ronald Tight, then he could endorse the cheque as follows:

Pay Ronald Tight
Alan Smith

Ronald Tight would have to endorse the cheque with his own signature to receive payment.

(b) *Restrictive Endorsement.* A special endorsement does not prevent a cheque passing on from one person to another. In the example above Ronald Tight, by endorsing the cheque himself, could pass it on to some one else. It merely acts as a precautionary measure that no one except Ronald Tight shall be the recipient of the cheque as far as Alan Smith is concerned. If Alan Smith wished no one except Ronald Tight to receive

payment of this cheque, then he would restrict its negotiability with a **restrictive endorsement** as follows:

Pay Ronald Tight only
Alan Smith

The life of this cheque would now end with Ronald Tight, who could not pass it on to anyone else.

(c) *Companies and Business Names.* We noticed in our chapter on the establishment of a business that the name of the business could be changed from that of the proprietor to any 'business' name he chose, and that from that time on all his business transactions would be carried out in this new name. Payments to him would then be made in his business name, and where this was the case cheques would have to be endorsed accordingly. For instance, the personal name of the proprietor of a shop might be Edward Lane, but his business name might be Swift Trading. Hence he would receive cheques made payable to Messrs Swift Trading, and in order to receive payment or to pass these on to others he would have to endorse the cheque as follows:

Swift Trading
Edward Lane
CASHIER

In the case of large concerns where a number of officials are employed one of these officials must sign the cheque on behalf of the company. A specimen endorsement for a company might be as follows:

United Products Ltd
F. Jamieson
SECRETARY

(d) *Impersonal Cheques.* Firms often make out cheques for

wages, cash, etc. In such cases the drawer of the cheque must endorse it, or some other responsible official of the firm.

(e) *Wrong Spelling.* Sometimes the name of the payee has been wrongly spelt. In such cases the payee must endorse his name on the cheque as it is spelt—*i.e.*, incorrectly—and then sign his name correctly underneath. Thus a cheque made payable to F. Browne would be endorsed as follows if the drawer omitted to spell the name with the final *e*:

F Brown

F Browne

(f) *Married Women.* A cheque made payable to a married woman—*e.g.*, Mrs John Jones—should be endorsed as follows:

Edith Jones

Wife of John Jones.

Responsibility of the Banker

A banker cannot be held responsible for paying a cheque with a forged endorsement, since the endorser may not be a customer of the bank, and therefore no 'comparative' record of his signature is at hand.

Stop Payment

Although endorsement gives some degree of safeguard, it is still possible for a cheque to reach the bank if lost or stolen. As soon as the loss is discovered notification should be made to the bank to stop payment of the cheque. The date and number of the cheque should be given, and any other particulars known, such as the original drawer, payee, etc. The stop must be made by the *drawer*. The particulars should be telephoned to the bank or direct application made, after which the whole matter

should be confirmed in writing. When the cheque arrives at the bank payment will be refused. The cheque may be stamped **Refer to drawer**, though obviously if it has been stolen such reference will not be made. 'Stop payment' of cheques may also be made for some quite legitimate reason or other by people who have decided not to have a cheque **honoured**.

Accepting a Cheque

Creditors are sometimes wary in accepting cheques from customers whom they do not know very well, and will require the customer to wait a few days until the cheque is 'cleared' before sending on the goods purchased. If such delay is not desired it is possible for a customer to get his bank to **mark** the cheque—*i.e.*, to stamp it with the bank's stamp and mark it as **good**. The creditor then knows that the cheque will be honoured, and will accept it in payment. Naturally this is not necessary where credit dealings have taken place between a creditor and his customer, and where an account with the former has been opened.

Cheques as Receipts

It may quite reasonably be asked, "What happens to all the cheques that pass through the bank?" The bank keeps them for a time, and then they are sent back to the original drawer, together with a statement of his account, showing the sum he has left in the bank and the various transactions he has carried out through the cheque system. The cheques then act as kinds of receipts for the money that has been paid. This is not to say that they can take the place of receipts, since such statements and cheques are usually rendered every six months, or maybe once a year, but a customer can always ask for his **dead** cheques whenever he so wishes.

Negotiability of Cheques

We have seen that cheques are a very convenient method of payment, but it must not be assumed that they are **legal tender**

—*i.e.*, a creditor cannot be expected to accept a cheque if he does not wish to do so. Generally speaking, he will, but he may refuse, because, unlike ordinary Treasury notes, cheques do not have this power of legal tender behind them. In other words, when accepting a pound note in payment of a debt a creditor knows that he has the backing of the Treasury, but when accepting a cheque he has the backing only of the debtor's account, which may be good or may not. Hence sometimes a cheque is refused, particularly if the customer is not known.

Yet in spite of this, so great is the confidence in the credit system that thousands of cheques change hands every day, are honoured, and debts are thereby settled. As we have seen in the case of John Jones and Alan Smith, cheques may pass on from one person to another, and even farther, since Alan Smith may pass the cheque to Ronald Tight, who may again pass it to someone else. This power of passing on from one person to another inherent values is known as **negotiability**, and it is very useful indeed in carrying out business transactions. Documents possessing this quality are known as **negotiable instruments**. Money, as legal tender, possesses this quality, for we are all willing to accept it. Cheques possess it also, unless they are marked **not negotiable**, when we should not accept them, unless the owner is very well known to us.

The term 'not negotiable' is frequently confused with 'not transferable.' The meanings are not the same. A document which is not negotiable is transferable, but the transference cannot give the later owner any better title to the money than was possessed by the person from whom he obtained the document.

QUESTIONS

1. Show the part that goldsmiths played in the Middle Ages in connexion with banking.
2. What is the difference between a deposit and a current account at a bank?
3. Why do some customers use both deposit and current accounts?

4. What do you understand by the term 'working capital'?
5. "Capital should never remain idle." Discuss this statement.
6. What do banks do with the money that is deposited with them?
7. Why are banks willing to accept even small sums of money as deposits?
8. Show how the clearing-house system operates.
9. What is an endorsement? Why is this used on cheques?
10. What safeguards against wrong payment does a bank use?
11. What is a 'marked cheque'? Does such a cheque serve any useful purpose?
12. Explain the term 'negotiability.'
13. What is a negotiable instrument?
14. Why is money negotiable?
15. "Cheques are an alternative form of currency." Discuss this statement.
16. What is 'legal tender'? Explain fully.
17. Name two forms of payment which are not negotiable.

CHAPTER ELEVEN

Keeping Records

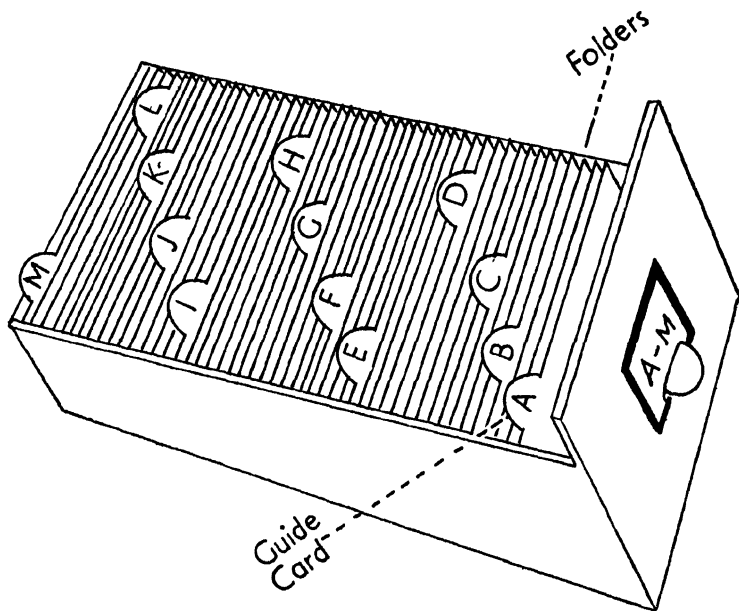
WE have all at some time or another been faced with the difficulty of finding an important letter or document which we have misplaced and cannot think where it might be. We blame all kinds of people for this loss, and sometimes even pets that are about the house. It might be a receipt that we are asked to produce, or an invoice which we wish to check up with a Statement of Account we have received. In business such documents are generally of even greater importance than in ordinary domestic life, and the business-man cannot afford to be haphazard in his methods of keeping these documents. Not only must *documents* be preserved, but *information* also.

A friend calling to see us may say that she had written to us two weeks before saying that she would be coming, and not having had a reply, assumed that it would be quite convenient. We cannot remember having received the letter, neither have we any means of checking, beyond going to the post-office and making inquiries, a procedure which we would hardly think worth while, unless the letter had contained money. In business, however, the tracing of a letter may be a very important matter indeed, and some system of keeping a record of letters which come in, and also those which go out, is necessary. A wholesaler receiving an inquiry for goods from a retailer and neglecting to attend to this may receive a further letter asking why nothing has been done about the inquiry. All this correspondence must be kept in such a way that *immediate* reference to it can be made.

Filing—Its Uses and Abuses

The usual method of keeping letters is to put them in **folders**,

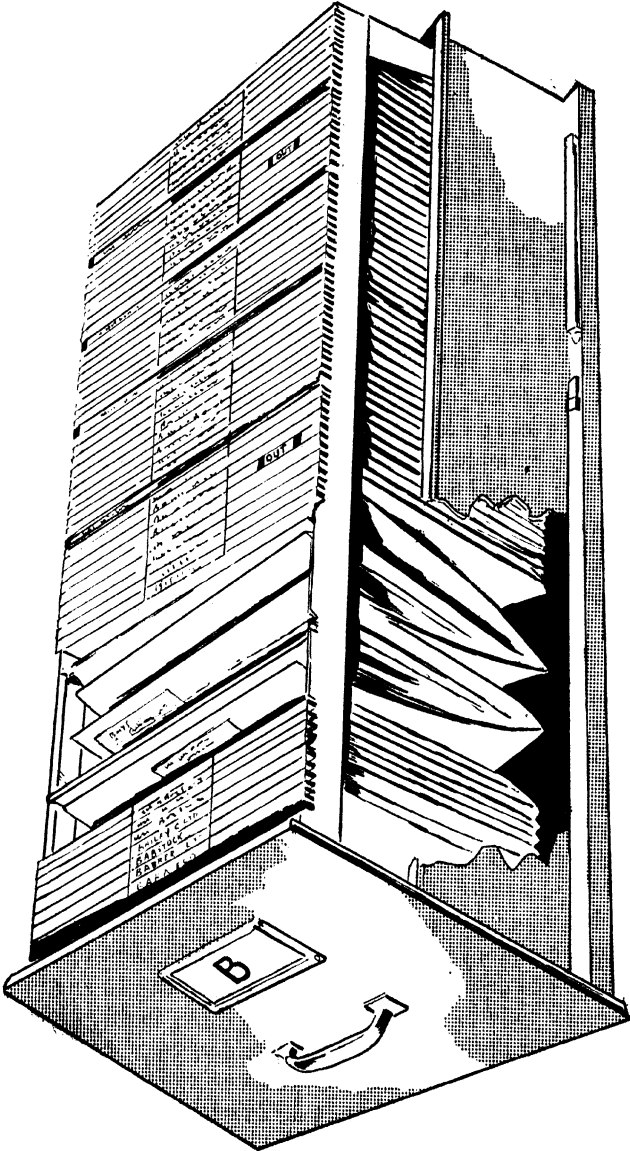
which are then kept in a **filing cabinet**—a large wooden or metal cabinet with two, three, or four drawers in which the folders are placed. Alphabetical cards, known as **guide cards**, are used to form an **index**, so that the folders can be placed behind the letter of the alphabet most convenient for reference. Thus correspondence received from John Jones would be placed in a folder marked with his name, and then put into the cabinet behind the guide card labelled 'J.' Reference to this folder in



SIMPLE FOLDER SYSTEM OF FILING

future would merely require looking behind the guide card marked 'J,' and there the folder for John Jones would be found.

In order to make it easier and quicker for reference the **visible system** of filing has been developed. In this method



VISIBLE-SUSPENSION FILING SYSTEM

alphabetical guide cards are still used, but the folders containing the correspondence are so made that the name of the firm is *visible* from the top. This system is illustrated on p. 131. Firms which use filing systems a great deal find this method is a great time-saver. Its chief disadvantage is that the drawer in the cabinet will usually take only about fifty such folders, against, perhaps, two or three hundred of the ordinary ones described above.

Where to File

Although a filing system can be very useful, it can also be very dangerous. It is easy to put a letter away in a folder and to place the folder in a cabinet; it is another matter to be able to find the letter when it is required. An inquiry from John Jones, for example, may be filed in the folder labelled John Jones. It could, however, be filed in any of the following folders:

1. Folder for inquiries.
2. Folder dealing with the specific goods required.
3. Folder dealing with 'matters for special attention.'
4. Folder dealing with 'matters for future attention.'
5. Wholesaler's folder.
6. Manufacturer's folder.
7. Another 'Jones' folder.
8. Traveller's folder.

Supposing, then, that this letter is received and filed in any of the above folders, that nothing has been done about supplying the goods asked for, and that John Jones telephones to find out what is being done, could the letter be found immediately? It might be in any of the above, and it might take some time before it was discovered. Hence it is important in any filing system not only to be able to find the folder itself, but to be careful to put the letter in the correct folder, and to keep to that folder for all matters dealing with that particular correspondence. The student should practise filing letters, and also looking them up in the file.

CORRESPONDENCE INWARDS BOOK

DATE	FROM WHOM RECEIVED	REFERENCE	CONTENTS	EN-CLOSURES	DEALT WITH	FILE
19.. Nov. 15	F. Sellers, Ltd.	NH/FT	Cheque — settlement of account Inquiry	£ s. d. 5 - -	Receipt sent 17th Nov. Order Dept. replied 17th Nov. Accounts Dept.	Sellers Inquiries E. Astor
" 15	N. Jordan and Co.	SN/Dept.57	Reply to letter of 19th Oct. re account			
" 15	E. Astor	TV/406/PR	Quotation re lamps		Mr Newton	Quotations (Lamps)
" 15	F. S. Price	LH/TN				

Correspondence Book

In order to effect a further check on correspondence, some firms keep a record of all letters that come in and all that go out in what is usually known as a **Correspondence Inwards and Outwards Book**. The ruling of this book is very simple, the book being divided into columns showing the date when the letter was received, from whom it was received, a brief summary of its contents, and what has been done with it—*i.e.*, when it was answered and in which folder it was filed. With correspondence outwards, the opposite information relative to the letter would be given. Specimen rulings are given on p. 133, and the student should study these carefully. Accuracy in the keeping of a Correspondence Book is essential. Such a book serves a very useful purpose in establishing whether a letter has been received or not without the need for looking through the files to find it.

Card Index

Sometimes firms require to keep information in a **flexible form**—*i.e.*, a form in which the information can be added to or subtracted from. The easiest method is the **card index**, which consists of a series of **record cards**, which vary in size, but are usually about 5 in. × 8 in. or smaller. The cards have an alphabetical guide-card index, so that the completed record cards may be filed behind the letters most convenient for reference, as in the case of the folders for filing purposes. The record cards may also be kept in trays, and a flat filing system can be built up.

Indexing Names

In order to facilitate reference, names should not only be indexed alphabetically, but subdivided to the **third letter**. This means that not only is the first letter indexed, but also the

second and the third letter. The following example should make this clear:

Simple Index

Bandman
Brown
Bowles
Batley
Broadman
Bell
Buckfast

Third-letter System

Bandman
Batley
Bell
Bowles
Broadman
Brown
Buckfast

The third-letter system makes for much quicker reference, and when indexing this method should generally be used.

Petty Cash Book

Another book which the business-man will find very useful is the **Petty Cash Book**. Small cash disbursements must be recorded from day to day, and the entries are made in this book. A specimen ruling of this book is given on p. 136, from which it will be seen that the various disbursements are placed in separate columns, known as **analysis columns** because they analyse the expenses, instead of merely showing these as a gross amount. The Petty Cash Book is used only for relatively small payments, such as buying small quantities of stationery or travelling in and about the town on business, or paying for postage, etc. If large cash payments are made, then the records should be made in a separate Cash Book.

Imprest System

Because it is unwise for large amounts of money to accumulate in the Petty Cash Book an agreed sum of money is usually put into this account at the beginning of the month or week. Money then spent out of this agreed amount is replaced at the end of the month or week, so that the *total* is the same as at the commencement. This method is known as the **imprest system**, and its advantage is that the clerk dealing with petty

cash does not have a large **floating balance**, which is both wasteful and unnecessary.

Supposing, for example, that at the beginning of January the cashier of a firm gave the clerk £10 for petty-cash payments during the month, and that the clerk found it necessary to spend only £6. Then he would have £4 over, and if the cashier gave him another £10 at the beginning of February he would now have £14. If during February he spent £5 he would have £9 over, and if the cashier gave him another £10 at the beginning of March he would now have £19, a sum almost *double* that which it is estimated he would need during the month. Obviously if this went on he would soon accumulate a large sum of money.

Postage Book

A simple system of keeping a record of the amount of money spent on postage should be kept. The simplest method is to keep a **Postage Book**; a specimen is given on p. 138. It will be seen from this that the Postage Book can also act as a Correspondence Outwards Book, provided each item is set out clearly. The book should be balanced either at the end of each week or once a month, and the balance should agree with the value of the stamps left in the stamp box.

Mechanical Aids to Record-keeping

Large firms, such as big department stores, find that they have to deal with a very large correspondence; hence many of them employ mechanical aids which greatly assist them in this work. The **stamp-franking machine**, for example, is a great asset to a firm which sends out hundreds of letters each day. This is a very simple device which enables letters to be stamped automatically, without the need for putting on them stamps purchased from a post-office.

Another mechanical aid in connexion with correspondence is the **addressing machine**. This can be of great use to a firm sending out regularly circulars to its various customers.

POSTAGE BOOK

DR.

CR.

RECEIPTS			DATE		PARTICULARS	PAYMENTS		
£	s.	d.	1950			£	s.	d.
3	-	-	August	6	To Balance			
				6	By Circulars		5	-
				6	M. Martin			2½
					" E. Norris			2½
					" H. Lawton			2½
					" Electricity			2½
					" Jordan, Ltd.			2½
				7	" Nelson and Co.			2½
					" Evesham			2½
					" Crate, Ltd.			2½
					" Selsdon Co.			2½
					" William			2½
					" Circulars		6	-
					" Parcel		1	2
					" Herne, Ltd.			2½
					" Archer Co.			2½
					" Phillips			2½
					" Brown Co.			2½
				8	" Adams			2½
					" Bridger			2½
					" Haydon			2½
					" Smith Co.			2½
					" Thomas			2½
					" Nelson Co.			2½
					" Purcel		2	6
					" Baker			2½
					Balance	2	19	-½
							-	11½
3	-	-				3	-	-
2	-	11½	August	9	To Balance			

The customer's name and address is typed on a stencil, which is inserted in the machine and 'printed' on the envelope. If a hundred letters were to be addressed, then the hundred stencils would be placed in the machine and the envelopes 'run out.'

Voice-recording Machines

In order to save time, some firms employ machines which record letters or other matter on plastic records or belts. These can then be 'replayed' to a typist. The **Dictaphone** is a very well-known make of such machine, and there is also a machine which records on a 'tape.' The length of recording can be up to two hours' duration for 'replaying' on these 'tape-recording' machines.

Using Mechanical Aids to Capacity

Mechanical aids are very useful indeed, but unless they are used to capacity their purpose is lost. They are generally quite expensive machines, and their use must justify their capital outlay. A small retailer sending out a few letters each day would find it unnecessary to purchase a stamp-franking machine, whereas a large mail-order firm dispatching hundreds of letters a day would find such a machine very useful indeed. The most useful mechanical aid to any business is perhaps the typewriter, and yet to a small shopkeeper even this may be unnecessary, if his correspondence is so small as not to justify its use. Furthermore, some of these aids, such as the typewriter, require skilled operators.

The small shopkeeper having four or five letters to send out each day would hardly find it profitable to employ a trained shorthand-typist for such a small amount of work. On the other hand, a large insurance firm would find the shorthand-typist and the typewriter invaluable. It is for this reason that only those firms with a large demand for the use of these machines install them.

QUESTIONS

1. Why is it necessary for a business undertaking to keep records?
2. Why must correspondence be 'stored'?
3. What method is used in preserving letters?
4. What is an alphabetical index?

5. Index the following names to the third letter :
E. Brown, S. Box, N. Baldish, F. Breakwell, T. Booker,
N. Berne, L. Bridger, D. Bendle, A. Baker, G. Bassett,
O. Bourn, W. Brittel, F. Baxter, M. Bright, C. Bale.
6. What are 'guide cards'?
7. What do you understand by the phrase the 'visible system of indexing'?
8. What advantages has the visible system over the older system?
9. Name some of the difficulties in filing a letter.
10. What is a Correspondence Book? Give a specimen ruling, inserting six entries.
11. Explain fully the uses of the card index.
12. Make out specimen record cards for the following information :
E. Brown and Co., Ltd, 19 East Street, Luton, Beds.
Suppliers of men's and children's clothing.
F. Hatter, Ltd, 24 Angel Lane, N.1.
Suppliers of men's hats.
13. Explain the importance of keeping a Petty Cash Book.
14. From the following information rule a Petty Cash Book.
Balance this at the end of the period.
May 1. Received £5 from the cashier.
,, 1. Bought stamps £1 10s. *od.*
,, 3. Paid for carriage on goods 5s. *6d.*
,, 3. Small stationery items 25s. 0½*d.*
,, 4. Fares 7s. *6d.*
15. Explain what you understand by the term 'imprest system of petty cash.' Show its advantages over any other system that might be used.
16. What is an Analysis Book? Give an example where such a book might be useful.
17. From the following information make up the Postage Book :
June 1st. Received £3 from the cashier.
,, 1st. Letters to the following :
S. Thomas 2½*d.*
N. Norton 2½*d.*
E. Hynt 2½*d.*
Circulars 7s. *6d.*
Registered letter to E. Elson . . . 5*d.*
Parcel 2s. *6d.*

18. Make out the Petty Cash Book from the following :

April 1st.	Balance in hand	£13.
„ 1st.	Fares	10s. 6d.
„ 1st.	Trade journals	7s. 6d.
„ 1st.	Stationery materials	12s. 4d.
„ 2nd.	Fares	3s. 6d.
„ 2nd.	Ink	2s.
„ 3rd.	Carriage	4s. 2d.

Balance the book on the last item.

19. Make up an invoice from the following particulars :

Sellers : P. Morris and Co., Ltd, 9 Church Lane, S.E.3.

Buyers : L. Smith and Co, 18 Horton Street, Bedford.

July 7th.	1 doz. tubes of 1 lb. each ink @ 11s. 6d. a tube.
„	1 doz. „ „ red ink @ at 14s. 6d. a tube.
„	1 gross reams quarto paper @ at 9s. 6d. a ream.
„	5 boxes of carbon paper @ 8s. 6d. $\frac{1}{2}$ box.

Subject to 33 $\frac{1}{3}$ per cent. discount. Delivery rail.

20. Make up statements from the following information :

August 2nd.	Sold goods to N. Bridger and Sons.	£17 4s. od.
„ 5th.	„ „ „ E. Poynter, Ltd . .	£32 0s. od.
„ 7th.	Goods returned from N. Bridger . .	£3 7s. 6d.
„ 10th.	Received cheque from E. Poynter . .	£15 0s. od.
„ 12th.	Sold goods to B. Archer, Ltd . .	£22 12s. 6d.
„ 14th.	„ „ „ N. Bridger and Sons.	£14 15s. 6d.
„ 17th.	Goods returned from E. Poynter . .	£3 2s. 6d.
„ 19th.	Allowed N. Bridger, Ltd . .	£2 overcharge.
„ 22nd.	Received cheque from B. Archer . .	£10 14s. od.

21. You have received a letter from a firm asking for information about a new line of goods you are putting on the market. Under what possible headings could you file this letter?

22. Give two examples of mechanical aids in record-keeping.

23. Why do not all firms employ mechanical aids in record-keeping?

24. Write a letter to a friend explaining to him how to open a banking account.

25. Make out a receipt from the following information:

Messrs H. Roberts and Co., Ltd., have paid their account value £15 4s. 2d. on 1st November, 19.., for goods which they purchased on the 15th October.

CHAPTER TWELVE

A Specimen Transaction

In order to show clearly the various stages of a transaction between a retailer and his wholesaler we shall take a specimen transaction through its parts, and also show how the documents discussed in Chapter IX fit into a complete transaction. We will suppose that John Jones has set up a shop in the house-furnishing trade. He wishes to stock his premises with various kinds of furniture and household requirements. A traveller from one of the wholesalers may call on Mr Jones and show him various catalogues or price-lists or, alternatively, Mr Jones may himself contact by post some of the wholesalers. The majority of these will be situated, if in London, around Shoreditch. Whichever way Mr Jones goes about the initial stages, he will have to study catalogues and price-lists. An index number is used for each item. This is very useful in the ordering of goods, as it avoids mistakes being made through incorrect quotations, and also saves a great deal of time and trouble. Before actually deciding on which goods to order it is very likely that Mr Jones will try to see the goods for himself, and he may make a visit to the warehouses or send his representative to do this for him. When he has decided what to buy he will make out an order.

The Order

Some firms use special order forms, but this is not necessary. Any form of order will do, but a copy must be kept by the retailer for reference.

Order Form

No. 88.

JOHN JONES and CO., LTD,
HOUSE FURNISHERS,
15 HIGH STREET,
LONDON, S.E.4

Date: 14th August, 19..

TO MESSRS F. W. BROWN AND CO., LTD,
108 SHOREDITCH HIGH STREET, E.

Please supply :

- 1 No. 42—Bedroom suite.
- 1 No. 50—Bed.
- 2 No. 108—Carpet rugs.
- 6 No. 18—Chairs.

Delivery : Immediate.

Please quote all Order Nos. in future correspondence and invoices.

It will be noted that in this particular order no prices have been quoted. On most orders it is not necessary to quote the price, though this is optional and some firms prefer to do so. Furthermore, some firms insist that all orders shall be signed by a person in authority. We have mentioned that at least one copy of the order must be retained by the retailer, though in large concerns more than one copy would be made, the copies being distributed as follows :

One copy to the Order Department for filing.

One copy to the Accounts Department.

One copy to the Receiving Department for checking against
Advice Notes.

Receipt of Order by the Wholesaler — Credit Control

When the wholesaler receives the order he may do either of the following:

1. Dispatch the goods immediately.
2. Make inquiries as to the status of the retailer if an account is to be opened.

If he decides on the latter course a few days will elapse while inquiries are made. The usual method is for the wholesaler to make an inquiry from the retailer's banker, not, of course, without permission from the retailer, since a banker will not disclose information relating to his customers without their permission. The banker is in a very responsible position, and there must be confidence between him and his customers. The wholesaler will therefore ask Mr Jones for a **banker's reference** and, provided that Mr Jones has no reason to do otherwise, he will give the name of his banker as a reference. Then Messrs Brown and Co., Ltd., can go ahead and make inquiries.

Inquiry Agencies

Sometimes traders do not like to ask for a reference, and prefer to use the services of an agency. A **Status Inquiry Agency** will furnish information about a business, stating whether they think credit can be extended or not, and giving a general picture of the firm in question. For this service a fee is charged, which is usually paid by the trader's becoming a 'subscriber' to the agency. On the whole agencies work very well, and collect much information that is of great assistance. It is felt that because such a method is discreet and unobtrusive it is better than asking a prospective customer outright for references, and, furthermore, the agency can often supply information which the banker has not time to obtain, such as the personal integrity of the directors or owner of the business, his methods of payment—whether they are prompt or otherwise—and whether he is likely to become a good and sound customer

for the future. Such information may be of more value to a business-man than the knowledge that the firm has a good account at the bank and no overdraft.

Should these particulars be satisfactory the wholesaler will put Mr Jones on his books, and the next step will be to prepare for the dispatch of the goods to him.

Dispatch of Goods

In most cases, for fairly local delivery, the wholesaler will have his own van or vans, but where the distance is considerable, rail will most probably be used.

The dispatch of the goods will be dealt with by the **Dispatch Department**, who will see to it that the goods are properly wrapped, with protection against damage. Prospective buyers do not, of course, want to purchase goods which are scratched or damaged, and adequate protection against this must be taken. Corrugated cardboard is generally used, with sacking or paper as added protection. Special 'packers' are employed, experienced in knowing the right kind of material to use and the right way to use it. Packing of goods is not an easy task, particularly where breakages are likely to occur, such as in the packing of china or glass goods. In the case of furniture the protection naturally must be against scratches and broken legs or other parts.

In spite of all precautions, however, goods do get damaged, and for this reason either the goods should be examined when received by the retailer, or else a note to the effect that they have not been examined should be made. The Dispatch Department will now make two records, one on a note known as the **Advice or Dispatch Note** and the other in a book known as the **Goods Outwards Book or Dispatch Book**.

The Advice Note is simply a notification to the retailer that the goods have been dispatched, and may be sent separately or with the goods. If sent with the goods it is handed to the retailer when the goods are delivered, and he will be asked to sign this in duplicate, one copy being kept by the carrier

delivering the goods and the other by the retailer himself. It is on this Advice Note that mention should be made as to whether the goods have been examined or not. In some cases, however, instead of an Advice Note, a **Delivery Note** is made out, and the retailer is asked to sign in the Dispatch Book. These formalities differ slightly with different firms, but the underlying principle is the same—that is, that a **signature** for

No. 62/3

Advice Note

F. W. BROWN and CO., LTD

Your Order

No. 88

108 SHOREDITCH HIGH STREET,
LONDON, E.MESSRS JOHN JONES AND CO.,
15 HIGH STREET, S.E.4

20th August, 19..

We have this day dispatched to you goods as under

Quantity	Articles
1	No. 42—Bedroom Suite
1	No. 50—Bed.
2	No. 108—Carpet rugs
6	No. 18—Chairs

Own Van

delivery of goods should be obtained, and a record of this initial stage of the transaction made by the wholesaler. Any documents such as Advice Notes or Delivery Notes should be kept by the retailer and filed for reference.

Let us now assume that the goods Mr Jones has ordered have been delivered, but that, as he has no time to examine the goods at the actual delivery, he will sign for them and insert the word 'Unexamined.' Later on, when he begins to unpack the goods, he may find that two chairs have been damaged, one having a broken leg and the other being badly scratched. He must in

this case immediately notify Messrs F. W. Brown and Co., Ltd, of this, and he will probably also send a letter on the following lines:

JOHN JONES and CO., LTD

HOUSE FURNISHERS,

15 HIGH STREET,

LONDON, S.E.4

Our Ref.
FH/JJ/15

20th August

MESSRS. F. W. BROWN AND CO., LTD,
108 SHOREDITCH HIGH STREET,
LONDON, E.

DEAR SIRs,

re: Our Order No. 88

With reference to the recent delivery of a consignment of furniture, as per your Delivery Note No. 56, we regret to inform you that on examining these goods the following were found to be damaged:

1 No. 18 Chair—broken leg.

1 No. 18 „ —badly scratched.

We shall be returning these to you as per passenger train to-day, and shall be pleased to receive your Credit Note or replacement.

Thanking you.

We remain,
Yours faithfully,

pp. JOHN JONES AND CO., LTD

An examination of the letter will show that the 'references' are made very clear. These references on a letter are most important, as they save a great deal of time and trouble in business. The references may be listed as follows:

1. Our reference.
2. Order No. reference No.
3. Delivery Note reference No.

Our Reference

This is known as a **Letter Reference** and should be quoted on all future correspondence, since it shows :

1. Who sent the letter—the particular person in the firm.
2. Which department sent the letter (most important in a large firm).
3. Who will be dealing with the matter.

When Messrs F. W. Brown and Co., Ltd, reply to the letter they will quote this reference, and also add their own, which will serve the same purpose for them.

Order Nos. and Delivery Note Nos.

Quoting of these numbers will save time, since the particular order can be referred to without delay.

The Invoice

While the Dispatch Department have been preparing the goods to send to Mr Jones the Accounts Department have been preparing the **invoice**. The invoice is practically always sent not with the goods, but separately through the post. On receipt it should be checked carefully to see that no errors have been made, such as an overcharge, or items omitted, or wrong calculations made. Some invoices have the letters E. and O.E. printed on them, which means 'Errors and Omissions Excepted.'

Pro-forma Invoice

When goods are sent on approval the seller will sometimes send an invoice showing exactly which goods have been supplied and the prices charged, but because, as yet, no actual transaction has taken place, since the prospective buyer has not decided whether to buy the goods or not, the invoice is marked

pro forma. In other words, it means that the invoice is not really an account charging the value of the goods, but merely a statement showing what the goods would cost in the event of

Invoice

No. 116

108 SHOREDITCH HIGH STREET,
LONDON, E.

Order No. 88

22nd August

To MESSRS JOHN JONES AND CO., LTD,
15 HIGH STREET,
LONDON, S.E.4

DR. to F. W. Brown and Co. Ltd.

Terms: 3½ per cent. monthly. •

		£	s.	d.	£	s.	d.
1	No. 42—Bedroom suite.	120	—	—			
1	No. 50—Bed	30	—	—			
2	No. 108—Carpet rugs @ £5 ea.	10	—	—			
6	No. 18—Chairs @ 42s. ea.	12	12	—			
		172	12	—			
	Less 25% Trade Discount	43	3	—	129	9	—

an actual sale taking place. It is sent as a matter of form. Should the prospective buyer decide to buy the goods a proper invoice will be sent, cancelling the pro forma and acting as account rendered to the buyer. The pro-forma invoice differs in no way from an actual invoice except that the words 'pro forma' are printed at the top.

Pro-forma invoices are used a great deal in foreign trade, since goods are sent on consignment to agents who do not actually buy the goods, but act only as intermediaries. Hence the invoice gives a statement of what goods are sent and the price they are expected to realize. In the case of John Jones a pro-forma invoice would not be necessary, since an actual sale has been effected.

Invoices as Accounts and Records

Invoices, in addition to showing the amount owing for the purchase of goods, also form an excellent record. Many firms use these documents instead of Purchases Books, since the invoice will show everything that has been bought at any particular time. By filing these invoices a complete record of purchases is maintained, and a Purchases Book is not necessary. Many firms use these also as a duplicate form of Purchases Book, thus having two sets of records. The seller, on the other hand, by filing the copies of invoices, has a complete record of his sales, and thus can build up a **Sales Book**. When filing invoices two methods may be adopted, as follows:

1. Numerical index.
2. Alphabetical index.

Numerical

Under the **numerical index** the invoices are, of course, filed in numerical order, but this system can apply only to outgoing invoices, since the incoming invoices will be from all kinds of firms, using differing series of numbers. Hence in the case of incoming invoices the alphabetical system has to be used. Usually a double **cross-reference** system is used, whereby the outgoing invoices are filed numerically and also alphabetically, double copies being used for this purpose. They are kept in special filing binders, which can take a large number of these forms, and as they are binders on the loose-leaf system, they are capable of expansion as the need arises. Great care must be exercised in the filing of these documents, particularly where they are to form a complete record of purchases or sales transactions.

Account Entries

The account entries will be made from the invoice. In this particular transaction Messrs F. W. Brown and Co., Ltd, will

make an entry in their ledger under the account of Messrs John Jones and Co., Ltd, as follows:

		<i>Ledger Account</i>			No. 98a		
DR.	Messrs John Jones and Co., Ltd			CR.			
	£	s.	d.		£	s.	d.
19..				19..			
22 Aug.				27 Aug.			
To Goods	129	9	-	By Returns	4	4	-

Rendering the Account

Once the goods have been dispatched, the invoice issued, and a record of the amount made in the ledger, nothing further will be done until the end of the month, when the Statement of Account will be sent. The invoice is not a request for payment, but only a statement showing what is owing. The Statement of Account, however, is a definite request for payment, and if the account is not settled a further statement will be sent at the end of the second month. The first statement would be as follows:

Statement

108 SHOREDITCH HIGH STREET,
LONDON, E.

Acc. No. 98a

MESSRS JOHN JONES AND CO., LTD,
15 HIGH STREET,
LONDON, S.E.4

1st September

DR. to F. W. BROWN and CO., LTD

Terms 3½ per cent. monthly.

	£	s.	d.	£	s.	d.
22 Aug.	129	9	-	-	-	-
To Goods				4	4	-
CR. By Returns						
				125	5	-

Now, it will be remembered that Messrs John Jones and Co., Ltd, returned two chairs as being damaged, and in their letter to Messrs F. W. Brown and Co., Ltd, they mentioned the reason for the return, and also requested either a replacement of these chairs or else that they be credited with the value of the chairs. In order to avoid confusion, we did not mention what Messrs Brown had done on receipt of this letter, but what probably happened is that they sent a letter in reply to Messrs John Jones and Co., Ltd, stating that either a replacement had been sent or else a Credit Note. If a Credit Note had been sent it would mean that John Jones would not need to pay for these chairs, and that their value would be deducted when the statement was rendered. As we see from the statement above, a Credit Note had been sent instead of the replacement, and this amount has been deducted from the total amount owing. Replacements are not always possible immediately—sometimes only a certain quantity of a particular line of goods is in stock—thus Credit Notes are very useful documents, since they correct **overcharges**. The Credit Note in this case would be as follows, and the entry would have been made in the Ledger Account.

56

O/No. 88

Credit Note

Invoice No. 116

108 SHOREDITCH HIGH STREET,
LONDON, E.*27th August*

TO MESSRS JOHN JONES AND CO., LTD,
15 HIGH STREET,
LONDON, S.E.4

CR in account with

F. W. BROWN & CO., LTD

2 No. 18 chairs returned damaged	£4	4	0
----------------------------------	----	---	---

Payment of Account

Business firms usually settle most of their accounts monthly, and they make out cheques for the various statements they receive. The cheque system is the most common, though some accounts might be paid with postal orders or money orders. As we have seen, ordinary money is not sent through the post unless registered at a post office.

If the account is settled straight away, then a discount will be allowed, in this case $3\frac{1}{4}$ per cent. This is offered as an encouragement for prompt settlement.

Messrs John Jones would probably cross the cheque, to ensure safety, and if further precautions were necessary a special crossing would be used. This would mean that the cheque could be paid only through the bank mentioned on the crossing. Generally speaking, cheques are not crossed with special crossings, but some firms insist on their own bank being mentioned on the crossing. This part of the work would be done by the Accounts Department, the cashier or some other responsible official making out the cheques.

Receipt—Final Document

On receiving the cheque Messrs F. W. Brown and Co., Ltd, would send a receipt. The receipt would complete the transaction, no acknowledgment of this usually being necessary.

QUESTIONS

1. Show the first step in a 'buying' transaction.
2. Why must an 'order form' be made out very carefully?
3. What essential information should an order form contain?
4. When a wholesaler receives an order, what steps does he take in its execution?
5. Under what conditions will a wholesaler dispatch goods on credit to a retailer?
6. What are Status Inquiry Agents? Describe briefly how they operate.

7. How many copies of an order should be kept?
8. What methods would a wholesaler use in the dispatch of goods?
9. Why is careful packing necessary?
10. What is an Advice Note? Why is this necessary?
11. What should a retailer do on receiving a consignment of goods?
12. Write a letter to a wholesaler asking for current price-lists of goods in the stationery trade.
13. What procedure is carried out when goods are received in a damaged condition?
14. What is a letter reference? Give two examples of such a reference, and show how useful it can be.
15. Make out an invoice for the following, inserting all the necessary names, addresses, and other relevant information :

4 doz. tins of paint @ 1s. 11½d. a tin.	No. 32
8 doz. tins varnish @ 3s. 6½d. a tin.	No. A2
15 doz. rolls of paper @ 6s. 7d. a roll.	No. 47/1
9 doz. paint-brushes @ 4s. 6d. each.	No. 3/C Series

Whole subject to 33½ per cent. trade discount.

17. Write a letter to a firm pointing out that the invoice they sent showed an overcharge on the goods.
18. Why is an invoice an important document?
19. What is a pro-forma invoice?
20. Make out a pro-forma invoice for the following :

Sellers : T. H. Henderson, Export Agents, 19 Ludgate
Hill, London, E.C.4

Prospective buyers : J. Chandelle et Cie,
72 Leighton Street, Liverpool 3

June 8th.	21 doz. cutlery pieces	No. 52 @ 6s. 2d. each.
„	31 „ cases	No. 27 and 28 @ 9s. 5d. each.
„	23 „ ornamental trays	@ 7s. 4d. each. 27/A.
„	12 „ photograph frames	@ 2s. 7½d. each. 23/F.

Subject to 33½ per cent. discount.

21. In what ways can invoices act as records? Give an example of such an instance.
22. What is a numerical index? Give an example.

23. Make out a Statement of Account for the following goods sold by Modern Motors, Ltd., 219 Colley Road, London, S.W.11 :
- Aug. 3rd. 4 inner tubes @ 17s. 6d. each.
5 gallon-drum oil No. 17 @ 7s. 6d. a gallon.
5 " " " No. 28 @ 10s. 6d. a gallon.
,, 7th. Returned one tube damaged.
,, 10th. Cheque received for half-value.
24. Make out a Credit Note from the following information :
Returned by J. Gorringe and Co., Ltd.
10 yards of material sold on the 9th Sept. Value 7s. 8d. per yard. Wrong pattern.
25. Make out a receipt for the statement in Question 23.
26. Give an example of a transaction step by step, naming the documents which would be used.

CHAPTER THIRTEEN

Incomes

Income, Wages, and Salaries

Income is the sum-total of revenue which a person receives by rendering services to another person or to the community. The shareholder who invests his money in a Public Joint-stock Company receives a dividend, payable out of the profits, in relation to the amount of money invested and type of share purchased.

It is often argued that the shareholder has no right to this dividend, since he does not do anything to *earn* it. The fallacy in the argument lies in the fact that since he supplies the necessary capital with which to operate the business, he is in effect doing something towards the earning of the dividend. We have seen that capital is saved-up wealth, and in many cases shareholders have preferred to save their money and invest it in concerns which are willing to take it, rather than spend it in other directions. Unless some inducement in the form of this dividend were offered there would be little encouragement for saving and for capital development.

Income from a Business

Many businesses are not Public Joint-stock Companies, but small Private Limited Companies—*i.e.*, instead of the **public** being invited to subscribe, the shares are subscribed by a small number of relatives, friends, or partners. All these people are **shareholders**, and will expect a return on the money they have invested. A Private Limited Company, by virtue of its limitation as to members, may have less capital contributed than a Public Joint-stock Company, and the incomes of its members

may be less as a total sum, but may be more as individual incomes. The shareholders in a small company may, in addition to investing their money, work in the business themselves, and so derive their income in a twofold manner.

Salaries

A shareholder in a small Limited Company investing, say, £500 may also act as a manager, and he will expect to receive an income for doing this work, in addition to a return on profits on his capital of £500. The money he receives for doing the work as manager would be called his **salary**, and would be paid at a **fixed** amount. The clerks working in an office receive a salary which is fixed either by the year, the month, or the week. They expect this figure to be always the same, not fluctuating from week to week. A clerk engaged at a salary of £6 a week will expect to receive this each week. Salaries are not dependent for payment upon the extent of the profits a business makes, but a shareholder investing money in a company is dependent upon these profits. A year may pass without his receiving any return on his share, and he has no legal claim to anything, whereas a clerk has a legal right to the fixed amount of his salary.

Wages

Money paid to persons who have a legal right to claim this as a return for services may, however, fluctuate, and where this occurs the money is usually said to be a wage. People paid on a piece-time basis—*i.e.*, paid for making a certain number of articles or part of an article—are said to receive a wage, or they may be paid on a **time** basis—that is, they are paid for each hour's work. Generally speaking, wages are paid to people who are classified as **manual workers**—*i.e.*, people working with their hands. This is not to say that manual workers do not use their brains, but the skill they possess or the ability they have in working with their hands is much greater, and they are

therefore classed as such workers. A carpenter, for instance, must be able to think clearly, measure wood, calculate sizes, understand different kinds of timber, and so on, but ultimately the major part of his work will consist in what he can do with his hands when it comes to the actual construction of an article.

Now, the **rates** at which the wages are calculated are **fixed**, but the amount is liable to fluctuate, and where **overtime** is involved the sum of money may differ largely from week to week, according to the amount of overtime such workers are called upon to do. The rates of wages are fixed by organizations such as **trade unions**, which set down a definite scale of payment, and employers are not allowed to pay less or employees who are members of the union allowed to accept less.

Fees

Persons engaged in a **professional** capacity, such as doctors, lawyers, and teachers giving private lessons, are said to receive **fees** for the services they render. The reason for this is that their services are required only periodically. We ask a doctor to help us only when we are sick or wish his advice on a matter of health. When we are well we do not bother him. We seek legal advice only when we have some difficulty in which such advice may be useful.

It would be very expensive if, before we could consult a doctor, we had to employ and pay him a salary for a whole year. We cannot pay him a wage, because it would be difficult to assess the rate, since it may take him but a few minutes to diagnose our trouble and a few minutes to prescribe a bottle of medicine to cure it. Behind these few minutes, however, lie years of study and training, during which time he had to accumulate much knowledge and give a great deal of his time to clinical work in hospitals, acting, perhaps, also as an assistant to another doctor, until he felt confident enough to set up on his own. His 'fee,' then, will be fixed to cover all this work, even though now it takes him only a very short time to cure us. The same applies to the solicitor, who may advise us quickly

on a matter the knowledge concerning which he has gathered over a great length of time.

Generally speaking, the fees are fixed by the professional men themselves, according to the value they place upon their services or the value their clients place on them, but some professional organizations have a minimum below which the professional man *may not* practice.

Profits, Net and Gross

A person who owns a business and works in it regards the income which the business gives him as a return to capital which is called **profit**. We have seen that a person investing capital in a business will expect a proportional return—the greater the capital the greater the profit to be expected—though there are other factors, such as the time it takes for profits to materialize and the attractiveness or distastefulness of the business. Profits are regarded either as **gross** or **net**, the former meaning the profit without the expenses of conducting the business having been completely deducted, and the latter the profit that remains after taking into consideration all items of expenditure. Before any profit can be made, for example, in a business dealing in groceries, goods have to be purchased, and the excess of the selling price of the goods over the purchasing price will be looked upon as the gross profit, but before the net profit can be discovered the cost of such overheads as rent, lighting, heating, etc., has to be deducted.

The net profit is the income which the owner receives, and which may be more than he would get if he worked for some one else as a **salaried worker**, or it may be slightly less. If it is very much less he may decide to give up the business and work for another person, but, on the other hand, he may prefer to make less money and be his own master. Many small shopkeepers would make more money working for others as salaried managers, yet they prefer to run their own shop and have the feeling that they are responsible to no one except themselves. They often work longer hours and put in much more work,

taking also the chance of losing their capital in the event of bad times.

The subject of net and gross profits is dealt with more fully in the next chapter.

National Income

Revenue, then, derived from services rendered in the form of dividends from shares, profits from a business, or salaries or wages for work carried out for someone else all form income, and the sum-total of all these incomes for the whole population is part of the **national income**. We say it is *part*, because in calculating the total national income of a country the value of the goods produced must also be included. The reason for this is that the national income is not only the total of the money which people receive, but also the value of wealth which the country receives as a whole, and the higher the productivity of a country the more goods or wealth it will produce, and the higher will be its national income, and consequently its standard of living.

Another reason why the national income must include this 'production wealth' is that the goods may be looked upon as 'congealed' services rendered. A person, for example, who receives £5 for making a table has enriched the country by another £5, making in all £10. He will have £5 which he can exchange for other existing goods, but the country will still be richer by the existence of a table worth £5. If he were paid £5 for doing nothing and he consumed £5 of food or luxuries the country would now be poorer by £5, since nothing for this has been contributed and he has consumed £5 of goods.

In times of depression people are often paid for doing nothing, since through no fault of their own they may not be able to find anyone who wishes to employ them. This **unemployment benefit** is a waste from the economic point of view, since money is consumed without any contribution being made, but these people are members of the community and must be looked after. Assistance towards this is made by those who are employed and

who have to pay towards the Unemployment Fund, and also by drawing upon national sources of revenue which the Government of the country receives from various directions. Because, however, contributions to the national income can be made only by producing goods or rendering services, unemployment is wasteful, and each country tries to do its utmost to avoid the number of unemployed becoming a major item.

Income Tax

Before concluding this chapter on incomes a word about **income tax** is not out of place.

Most people resent payment of this tax, regarding it as unjust that the State should take away from them what they regard as their earnings. To-day more than ever before this form of taxation is a most important source of revenue for the Government, and the rate is very high indeed. At the beginning of the present century income tax in England was low, and people generally did not feel it a burden, but to-day it takes away a large part of the income of those whose earnings are above a certain level.

The tax to-day is deducted at **source**—*i.e.*, before the salary or wages are paid the income tax has to be deducted and forwarded to the income-tax authorities by the employer. This is done so as to make it easier for the tax to be paid, because, since it is so high, many people would find it impossible to save the money each week and then pay it at the end of a year or six months. This system is known as the **Pay as You Earn** method, or **P.A.Y.E.** Firms who deal with large numbers of employees and have large **pay-rolls** have to apply special methods of accounting, with special analysis columns in their books, in order to calculate accurately the amount to be deducted from their employees. Large concerns use mechanical forms of **punched cards** for these salary calculations, particularly where other deductions, such as superannuation, have to be made. Returns showing all tax deductions should be made to employees, so that they know what their salary

or wage really is, and how much is deducted in the form of tax.

The argument against heavy income tax is that it gives little inducement for people to work extra hours, since, taxation being so heavy, little of the money is left for themselves, while the tax on profits robs the business community of much capital that could be used for 'ploughing back' into the business or the opening up of other concerns. On the other hand, being a graduated tax—that is, a tax the burden of which is levied according to the income received—it is regarded favourably by Governments, who try to impress those they govern with an attitude of fairness in sharing the burdens of the community.

QUESTIONS

1. Show how a person investing his money in a Joint-stock Company receives an 'income.'
2. Explain the difference between a 'salary' and a 'wage.' Give examples of occupations where these particular forms of remuneration apply.
3. Write an essay entitled "Time and Piece-work Remuneration." Compare the two, and say which one you think is the more satisfactory form of payment.
4. Why are salaried workers usually not paid 'overtime'?
5. How are wages generally 'fixed'?
6. Why do professional people usually receive 'fees' for their work?
7. Distinguish between 'net' and 'gross' profit.
8. Why do some people prefer a small profit while managing their own business to a larger salary if they worked for some one else?
9. What is the 'national income'? What factors have to be taken into consideration in calculating this?
10. "Payment of unemployment benefit is a wasteful necessity." Discuss this statement.
11. What is the "Pay as You Earn" system of income-tax collection?
12. What is there in favour of continuing income tax as a form of revenue for the Government?

CHAPTER FOURTEEN

Profits and the Business

We noted in the previous chapter that the income which a business gives as a return to capital is regarded as profit, and that this profit is considered for convenience as net profit or gross profit. Also that the net profit was the income taken into consideration after deduction of all overheads, such as heating, lighting, salaries, etc. We shall now consider in greater detail these deductions.

Business Accounts and the Net Profits

In the first place, it is most necessary for every business to show clearly how this profit, whether gross or net, is arrived at, and to do this a special account known as a **trading account** is prepared. The account shows in a very methodical way the following information :

- (a) The stock which a business possessed at the commencement of the period. This period might be a week, a month, or a year. Usually it is a year.
- (b) The total amount of the purchases made during the period *less* any goods which have been returned.
- (c) Any *gross* overheads, such as wages.
- (d) The total amount of goods sold *less* any returns made.
- (e) The value of the stock at the *end of the period*.

By adding together items (a), (b), and (c) and deducting the answer from the total of items (d) and (e) the *gross* profit can be

ascertained. The following will show how the account sets out clearly this profit:

Trading Account

For the period ending 31st January, 19..

DR.				CR.			
19.. Jan. 1	To Stock	£	£ 500	19.. Dec. 31	By Sales <i>Less</i> Returns	£ 1200 40	£
	„ Purchases <i>Less</i> Returns	800 50					1160
	To Gross profit		750 550	„ 31	By Stock		640
			£1800				£1800
			£1800				£1800

Profits and Turnovers

The **turnover** of a business is the total *net* sales during a period—*i.e.*, the gross sales less any returns made. The turnover alone will not determine whether a trader is doing well in his business or not, but it will indicate the trend of his business, because if his business is not prospering it is unlikely that he will be selling very much. On the other hand, a large turnover with very heavy gross costs will not leave very much in the way of a profit. In addition to the total amount of the turnover, the business must also take into account the **rate of turnover**—*i.e.*, the rate at which the stock is sold and replaced. This is also known as the **stock-turn**.

The rate of turnover will, of course, differ with different businesses. A motor-car dealer, for example, will sell far fewer actual cars per week than a greengrocer will sell pounds of vegetables. A motor-car dealer who sells three cars may show a total sales for one week of, say, £1500, reckoning on an average of £500 per car. A greengrocer may have a total sales of £300 for the week. On the face of it it may seem that the

motor-car dealer is the one who is better off on this particular week's business, but this may not be the case, since it will depend upon the profit for each car which the dealer has made against the profit that the greengrocer has made on his sales. Each of the cars may have cost the dealer £480, so that on each he will make £20 gross profit, making a total of £60. The greengrocer, on the other hand, may have paid £200 for the total stock he has sold for £300, so that he will have realized a profit of £100. Thus, although his total sales in £ s. d. appear much lower than those of the motor-car dealer, his gross profit is larger by £40. For the motor-car dealer to realize a similar profit he will have to increase his turnover by another *two* cars.

Thus the rate of turnover is relative to sales, and according to the business will have to be increased relatively to meet with further profits. By relating sales to rate of turnover in this way a business can **estimate** its likely profits. The price on which such estimates are based is, of course, the *selling* price, and when goods are estimated in this way the price is said to be **marked up**—*i.e.*, a figure based on the selling price is given for the stock.

In order to express the rate of turnover as a percentage the total net sales are divided by the average value of stock after this has been marked up to the selling price. The actual stock can, of course, be calculated by **stock-taking**, and in the case of the motor-car dealer this would not be very difficult. Assuming that the dealer's stock for a particular week was ten cars, each valued at £500, of which he had sold five at the end of the week, then his rate of turnover expressed as a percentage would be as follows:

$$\begin{array}{r} \text{Turnover} \quad \quad \quad \text{£2500} \\ \text{Stock 'left'} \quad \quad \quad \text{£2500} \\ \hline \quad \quad \quad \quad \quad \quad = 1 \end{array}$$

He has, of course, marked up his remaining five cars to £2500 at £500 each, this being the price at which he would sell them.

The obvious conclusion can be drawn that, generally, the greater the turnover the greater will be the gross profit.

expenses may be far from small—for example, rent, rates, taxes, depreciation, and so on. These are set out in the form of a **Profit and Loss Account**, and the net figure is shown clearly as a balance either as a profit or as a loss.

MODERN CARS, LTD

DR.

PROFIT AND LOSS ACCOUNT

CR.

for the period ending 30th June, 19..

19..		£	19..		£
	To Salaries	10		By Gross profit	60
	„ Rent	10			
	„ Rates	3			
	„ Lighting and heating	2			
	„ Advertising	5			
	„ Net profit	30			
		£60			£60

It will be seen in this case that, although the motor-car dealer appeared to make £60 profit in one week, he really has made only £30. Generally Profit and Loss Accounts are not made out each week, but either half-yearly or yearly, but the principle is the same.

Net Profits as a Percentage of Turnover

In the same way that gross profit may be expressed as a percentage of turnover, so also may net profit, and this may be done in order to compare the net profits of one year with those of another. The following example, continuing with the motor-car dealer's business, will illustrate how this may be carried out:

$$\text{Net profit } \frac{£30}{£1500} \times \frac{100}{1} = 2 \text{ per cent.}$$

Profits and Capital

We have seen in a previous chapter that the business-man is anxious to know what return his business is giving him in relation to the capital he has invested. In order to obtain a more accurate picture it is possible for this return to be expressed as a percentage of the net profit on capital.

Let us assume that the motor-car dealer wishes to find out what his net profit percentage on capital is, and that his capital is, say, £4000. Generally speaking, he will not work this out for any one week, but for the whole year. Assuming that he has an **average net profit** of, say, £30 per week, then for twelve months he will have £1560. The following method would then be used in finding the percentage:

$$\begin{array}{l} \text{Net profit for year} \\ \text{Capital} \end{array} \quad \frac{\text{£1560}}{\text{£4000}} \times \frac{100}{1} = 39 \text{ per cent.}$$

Useful Information

By studying carefully these various percentages a business may be able to gain information of much value. It may realize that it is not turning over its stock fast enough, or because its stock is of such a nature that it cannot be turned over very quickly, then higher selling prices should be charged in order to increase profits. On the other hand, by studying carefully the percentage of net profit to turnover a business may realize, where such a percentage is small, that it is not investing its capital wisely enough. Such information is very useful for department stores, where different lines are carried and where capital assessment for each line may be made. If a store finds that the return to capital on one line is insufficient it may decide to look into the matter either to find the cause or to drop the line entirely. Accounts and statistics help the business-man in planning his affairs, and a knowledge of individual losses or profits may help to make his business a success.

The Final Summing-up: The Balance-sheet

So that a business-man may see at a glance the sum-total of his financial position a special statement known as a **balance-sheet** is prepared. The statement is divided into two sections, one showing all his **assets** and the other all his **liabilities**. The assets represent all the material wealth at his disposal in the business, and also the value of any debts which are owing to him from his debtors. The liabilities represent all the debts which he owes to his creditors, also any loans which he has contracted during the course of his business.

Included in the liabilities is also his **capital**, which, incidentally, is the difference between the assets and the liabilities. This capital is not a liability in the sense that it is a debt he has to pay to a creditor, but at the same time it is a liability in the sense that he cannot use the capital for his own *personal* ends, but only in so far as it is involved in the business itself. In other words, if he uses part of the capital for buying a motor-car for his own pleasure, then he will be robbing the business of this money. Capital, we may recollect, is wealth which is used for the production of further wealth, and if money is taken from the business, not for further production, but for one's own use, as distinct from the business, then this amount, whatever it may be, will no longer be in the business, and there will be less wealth or capital to use in its furtherance. It is for this reason that the term 'capital' appears on the liabilities side of the statement, and not on the assets side, since we have a responsibility to the capital to use it only in direct connexion with the business itself.

Working Capital

The amount of capital needed to carry out the business from day to day, week by week, is known as the **working capital**, and this is arrived at by deducting the liabilities which have to be met within a fairly short period (current or floating liabilities) from the assets which are available at short notice (current, floating, or liquid assets).

For example, the working capital of the sole trader E. Samuels at 31st December, 19.., could be arrived at by abstracting the following figures from the balance-sheet (p. 172):

Current or floating or liquid assets:	£
Cash in hand	150
Cash at bank	1000
Debtors	450
Stock	350
	1950
<i>Less</i>	
Current or floating liabilities:	
Creditors	250
Working capital	= £1700

Solvency and Insolvency

A business which is able to pay all its debts is said to be in a **solvent** position, whereas one which cannot do so is said to be in an **insolvent** position. Insolvency is *not* the same as **bankruptcy**, since, although a business is not able to meet all its debts, it can still carry on because of the medium of credit, provided the creditors do not press unduly for payment and are prepared to wait for payment of their accounts.

In cases where they are not prepared to do this, or where the business does not think it will ever be able to clear itself, it may be forced to declare itself **bankrupt**. In such circumstances the assets would be divided among the creditors proportionately. Where the assets are not sufficient to satisfy the creditors in full a **composition** is made, and a **dividend** is paid. Thus a business with assets of, say, £500 and liabilities of £1000 would make a composition of 10s. in the £1—*i.e.*, for every pound which a creditor claimed he would receive only 10s. Creditors may be classed in order of priority, as in the case of debenture-holders in a company, who would have first claim for settlement of their debts.

Act of Bankruptcy

In order to protect both the creditors and the business itself from possible abuse of this principle of business liquidation, the whole procedure must conform to the law governing bankruptcy. The Bankruptcy Act of 1883 laid down certain rules governing bankruptcy procedure, though the Act has been amended since that time. The first step which a creditor takes against a business is to file a **Petition of Bankruptcy**, and to ask that a **receiving order** be made. There must be a debt of at least £50 before such a petition can be lodged, and the debt must be a sum which is payable either immediately or at a determined future date. Once a receiving order has been made, the next step is to prepare a **Statement of Affairs**. This statement will show all the available assets and liabilities, and in addition the amount of **deficiency** which exists.

The next stage is a **court examination** of the debtor. The causes of his bankruptcy will be examined, so as to ascertain that no fraudulent representations have been made, and that the bankruptcy is due to straightforward business losses. It is at the end of this examination and after careful inspection of the Statement of Affairs, and after the meeting of creditors, that decision as to acceptance of the composition offered by the debtor will be made. If agreement is reached, and if the court considers the procedure satisfactory, the composition will be accepted and the business terminated. Once the court has sanctioned this composition and accepted the evidence given, the debtor has no further liability, and the creditors can claim nothing more from him. It will be seen now how important is the scheme of **limited liability**, since the debtor, in order to satisfy his creditors, is liable only to the extent of the assets existing in the business.

QUESTIONS

1. A retailer's sales for the current year amounted to £17,000. His gross profit was 27 per cent. of his turnover, and his rent was

£780. His other expenses amounted to £1250. Find the percentage of net profit, rent, and other expenses to turnover.

2. A retailer bought various articles at the following prices: (a) 17s. 6d., (b) £9 12s. 6d., (c) £1 10s. 0d., (d) £7 10s. 6d. What will his selling price be in each case if he wishes to make a profit of 25 per cent. on (i) the cost price, (ii) the selling price?

3. A retailer sells each month 350 articles at 6s. each. He pays 3s. 8d. each for them, and his expenses for rent, wages, lighting, and heating average 1s. 4d. per article. Find his gross profit and his net profit, and express each as a percentage of turnover.

4. A trader bought goods for £85. Cost of delivery was £2 17s. 0d., and the stock charges amounted to £4 12s. 0d. The gross profit on costs was to be 33½ per cent. Find the price at which the goods would have to be sold.

5. Calculate from the following information the percentage profit to the retailer on (a) cost price, (b) selling price:

<i>Cost Price</i>	<i>Mark-up Price to Cost</i>
1s. 4d.	7d.
2s. 8d.	1s. 6d.
£2 12s. 6d.	15s. 0d.
£15 14s. 6d.	£3 12s. 6d.
£5 6s. 0d.	£1 10s. 0d.

6. A retailer turns over his stock six times each year. His selling prices are such that his cost prices are in every case 33½ per cent. less. His business expenses amount to 25 per cent. of his gross receipts. The total purchases for the year amounted to £18,000. Find (a) the net profit for the year, (b) the average selling price of the stock carried.

7. A retailer carries stock which is valued at £3000. He turns this over five times a year, making 20 per cent. gross profit on sales. His total expenses amount on an average to £1200. Find (a) his annual gross profit, (b) his annual net profit. Express each of these as a percentage of his turnover.

8. A retailer's premises are valued at £5000. His valuation of stock is £3000. He turns over his stock three times a year, making 20 per cent. gross profit on sales each time. His expenses for the year amounted to £750. Find the percentage of his net profit to capital.

9. From information below find the total gross and net profit for the year and the cost of doing business expressed as a percentage of total turnover :

AVERAGE STOCK AT COST	STOCK TURNED OVER	GROSS PROFIT	EXPENSES
Dept. A. £6500	2.5 times	25 per cent.	12 per cent.
B. £2900	5 "	33½ "	10 "
C. £3000	8 "	20 "	25 "
D. £1750	15 "	30 "	15 "

10. The working expenses of carrying on a retail business amount to £850 per year. The average rate of gross profit on the turnover is 20 per cent. Find the net profit and the net profit per cent. on turnover for two years in which the turnover was £9500 and £11,000 for each year respectively.

11. A trader's capital is £8750. His stock is £3250. He turns the stock over four times a year, making 25 per cent. gross profit on sales. Find the percentage of his annual gross profit to capital.

12. E. Morris and F. Leighton are both in the radio business. E. Morris has a capital of £8000 and carries a stock of £10,000, which is turned over four times a year at a gross profit of 20 per cent. on sales. His expenses for a year's trading are £2000. E. Leighton has a capital of £10,500 and carries stock valued at £16,000, which is turned over five times a year at a gross profit of 22 per cent. on sales. His expenses for a year's trading are £3700.

Find the percentage of net profit on capital in each case.

13. Explain the difference between sales and the rate of turnover. Give an example to make your answer clear.

14. A retailer's stock is turned over six times each year. The cost prices of the articles are increased by 33½ per cent. in order to determine the selling price. Expenses for a year's trading amount to 12½ per cent. of selling price of all goods sold. His turnover for the year amounted to £14,500. Find the net profit for the year and the average value of the stock carried during the year at cost price.

15. Show the difference between (a) solvency, (b) insolvency, (c) bankruptcy.

16. (a) What do you understand by the term 'working capital'?
- (b) Show how this is arrived at by drawing up a specimen balance-sheet for a sole trader.
- (c) Is it essential for a trader to know what his working capital actually is? Give your reasons.
17. Explain the terms (a) current or floating liabilities, (b) current or floating assets. Give examples of these.

CHAPTER FIFTEEN

Transport

WE noted in the chapter on production that goods could not be said to be produced until they were in the hands of the consumer, and it is necessary for us now to examine a little more closely some of the problems which exist in this field.

Transporting of goods from one place to another has progressed greatly through the ages. In early times the chief method of carrying goods was either by burdening the human being or by animals such as the horse. The individuals were known as packmen, and the horses as packhorses. In many parts of Asia the human form of transport is still used, and the natives carry goods either on their backs or on their heads. The chief disadvantages of such a method, however, are that, in the first place, the amount of goods that can be carried is limited, and, secondly, the pace at which the carriers can travel is comparatively slow. Hence the method is uneconomic and very wasteful.

The discovery of the wheel changed the whole nature of transport, since it became possible now to load a much greater amount of goods in a cart, and thus to increase the number of consumers. The wheel itself, however, was not sufficient. Wheeled vehicles require good roads, and these were not available until the nineteenth century, when it became evident that if the goods which the factories were producing were to reach the consumers in large quantities, then road transport would have to be improved. The roads were developed by such men as McAdam and Metcalf.

McAdam used a special method of road-construction. His main idea was to use broken granite bound with small chippings,

consolidated with pressure from a steam-roller, which, when put together, gave the road a good surface. So good were these roads that to-day we still talk of McAdam roads. Not only were these McAdam roads of good surface, but they also lasted a long time.

Metcalf was a blind engineer who not only constructed roads of good surface, but also planned the best direction in which such roads should go. Sometimes he would make a road which went straight over a hill; at other times he would construct the road so that it went round the hill. According to the lie of the land, the road would be constructed. In this way the greatest efficiency was derived from these roads.

Traversing dry land was one thing; crossing rivers was another. It was Telford who contributed towards the second. His bridges were often constructed of iron, some of them being suspension bridges. The famous bridge over the Menai Straits was one of the many which he constructed.

Canals

But though improvement in the roads made transport more efficient, the actual method of transport was still the same—namely, by horse-drawn vehicles—so that the amount which could be pulled and carried was still limited. For this reason the alternative method of transport by water was developed, and between 1760 and 1780 a network of canals connected the main industrial towns with one another and with London. The Bridgewater Canal from Worsley to Manchester enabled the price of transporting coal to fall from 40s. per ton to 12s. The barges on the canals could take large quantities of coal, and several could be tied together and towed along. The Grand Trunk Canal served the potteries of Josiah Wedgwood, and connected the pottery towns with Liverpool, also joining other canals, thus forming 'junctions.'

Railways

It was the railways, however, which really met the need of the century. Canals were very efficient as far as they went,

but their great drawback was that they were *slow*. A much faster method of transport was needed, and prizes were offered for anyone who could devise such a method. Many tried and failed, and it was not until George Stephenson perfected the famous locomotive *The Rocket* that rail transport as a practical method came into existence. The early inventors of the steam locomotive believed firmly that it would be impossible to design an engine to run on smooth rails. Their conception was that the wheels should have cogs fitting into coggled rails. So great was their belief in this that when a trial of such an engine was made the whole thing blew up from too much steam pressure, killing a number of people.

In 1825 the Stockton to Darlington Railway was running, and many more railways were to follow. All over England there now appeared a network of rails where before there had been canals. That the canals had been constructed with great engineering foresight can be seen from the fact that the railways followed their routes very closely, these being the shortest routes between the various places. The construction of tunnels was nothing new to the engineers, since these had already been made for the canals. In fact, the building of the canals provided a great deal of useful experience for the construction of the railways. So rapid was the construction of the railways as they fulfilled the urgent needs of the manufacturers that by 1844 most of the main lines were already operating. Standardization of the gauge became necessary, and a Bill was passed in Parliament making it imperative for all railway-builders to use the 4 ft. 8½ in. gauge of Stephenson.

Cheaper Transport—Cheaper Goods

The railways possessed the same advantage over the roads as the canals, in that they could carry much more than the horse-drawn carts, but they also possessed an advantage over the canals themselves, in that they were much faster. The locomotive could race along at speeds of twenty to thirty miles an hour, which terrified the onlookers.

Many superstitious folk disliked the railways, considering them the work of the devil, and prophesying that no good would come out of them. Yet good did come from the railways. Cheaper household goods meant a raising of the standard of living. Instead of crockery being a luxury for the rich, it became an everyday article for all and sundry. Clothing too became cheaper, and so did a host of other things. The railways in themselves opened up new hope and life for those people living in distant places. The local shopkeeper did not need now to keep such large stocks, since with the railways delivery at regular periods could be assured.

This was another feature which the railways introduced—the **time-table**. The locomotives could be relied upon to run to schedule, and the hazards of travel were greatly reduced. It was not until some time later that passengers were carried on the railways. At first they travelled in open trucks, with all the smoke and dirt settling on their clothes, but later the closed carriage was introduced, and travel conditions for passengers became much better.

Common Carriers

Any person or persons who agree to transport goods for others are known as **common carriers**. They may be classified as follows:

Railways. A vast network of lines covers the country. Terms and conditions for carrying of goods must be adhered to. (The railways are now nationalized.)

Local Carriers. These are road carriers who operate within a limited radius. They usually link up the neighbouring towns or villages.

Long-distance Haulage Contractors. They usually operate between large towns—for example, London to Birmingham or Glasgow to London.

Special Carriers. Because of the nature of the goods they carry, these special carriers restrict their activities to certain lines such as fish or meat collection and delivery.

Common carriers cannot refuse to accept goods for transport provided that the goods come within the line they are willing to transport, and that the charges made are accepted. They are not allowed in practice to discriminate between one person and another, but must treat all consignors on the same basis. Responsibility for safe transit of goods lies with the common carrier, though he is exempt from such accidents as may occur through an act of God. Fire through lightning or destruction by flood are considered to be in this category.

Consignor and Consignee

The person who sends goods by road or rail is said to be the **consignor**, and the person to whom the goods are sent the **consignee**. Where goods are sent by rail the consignor has to complete and sign a document known as a **consignment note**. This note is in effect a contract between the railway company and the consignor for the carriage of the goods mentioned.

Before goods are accepted for transport certain conditions must be clearly understood by the consignor, otherwise the company might be held responsible for damage to the goods in cases where no negligence or wilful damage can be proved. The conditions under which goods will be accepted are set out in the Standard Terms and Conditions of Carriage, and the consignor must make himself acquainted with these before sending his goods by rail. There are certain goods which the railways can refuse to carry, or for which special precautions must be taken. Such are explosives, highly inflammable materials, etc. Once the consignment note has been signed by the consignor agreement to abide by the terms and conditions of transport is deemed to have been made, and the company will assume responsibility only to the extent noted in these terms.

The consignment note must give the full name and address of the consignor and the consignee, details of the goods being sent, and their weight. It must also state whether the carriage

for these goods is to be paid by the consignor or the consignee. Where the former pays for the carriage the goods are said to be sent **carriage paid**, and where the latter pays, **carriage forward**. Consignment notes are now copied on **Microfilm**, and a permanent record is thus kept.

Owner's and Company's Risk

In order to make it perfectly clear to what extent responsibility for carriage of goods by rail is to be assumed, goods may be sent at either **owner's risk** or **company's risk**. Where goods are sent at owner's risk no compensation can be claimed for loss or damage by the company, except where direct negligence on the part of the company can be proved. Provision for possible losses or damage additional to negligence can be made by the consignor sending the goods at company's risk. The cost for transport at company's risk is, of course, higher than at owner's risk, but the added security is obtained, in that compensation will be given for valid claims. It must be clearly stated on the consignment note whether the goods are being sent at owner's or company's risk.

Goods sent by rail must be properly packed, and where liable to breakages must be marked **fragile**. It is true that even with the most careful packing breakages do occur, and allowance for this is often made by manufacturers. Any special markings used on the packages should be stated on the consignment note.

Nationalization of the Railways

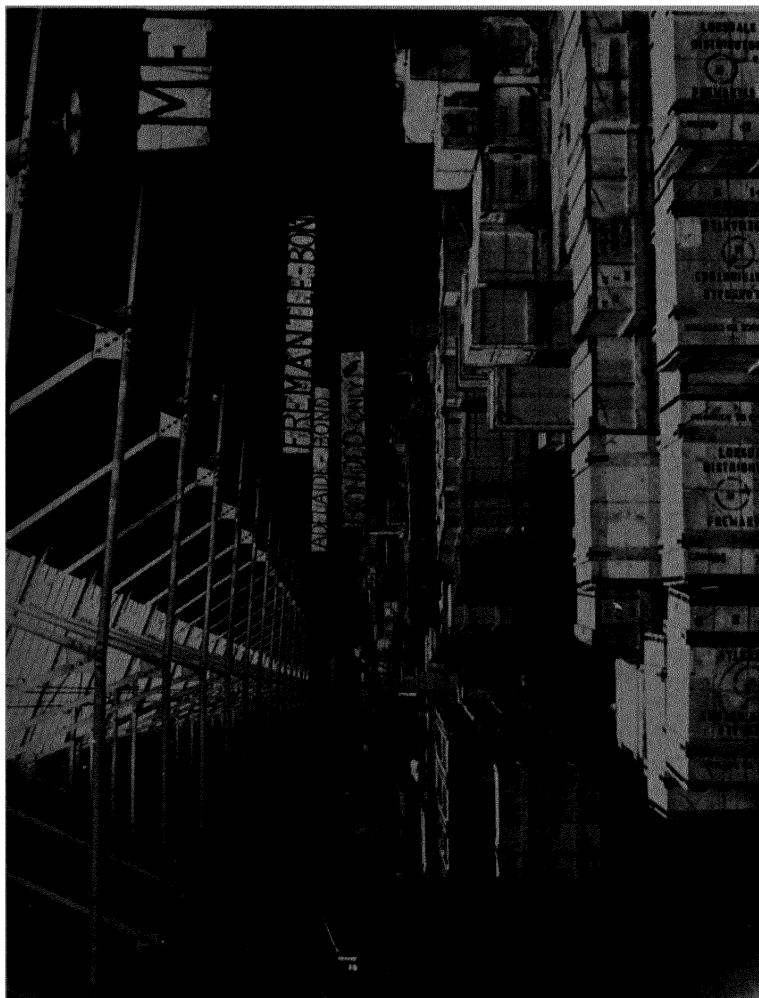
The tendency in the development of the railways has been towards a central control and administration. In 1921 the large number of different companies was amalgamated into four large companies (Railway Act, 1921), controlling the north, south, east, and west of England. This made for simpler administration, and reduced considerably the running costs. But even this combination could not meet the heavy competition from road transport.



The Microfilm Reader

Documents recorded on film are viewed on the Reader, which projects an image of the document the original size or larger.

By courtesy of Messrs Burroughs, Ltd



A Large Warehouse with Bonded Goods for Australia

By courtesy of the Port of London Authority

By the Transport Act, 1947, the railways were nationalized, as, indeed, were the canals, inland waterways, and also the chain of hotels and restaurants owned by the railways. Under this Act a Transport Commission was instituted, whose work it was to acquire transport undertakings and to co-ordinate the main branches of transport. These were six in number, each under the control of a Transport Executive, one member of which was the Railway Executive. The railways were 'regionalized' into six 'regions.' The Transport Commission itself is directly responsible to the Minister of Transport.

Some changes in Nationalization have been made under the Transport Act, 1953, the main features of which refer to road haulage, and also the dissolution of the Railway Executive, the work of this body to be carried out entirely by the Transport Commission.

The experience which the Joint-stock Company-controlled railway had gained was of immense value to the State when it took over the railways, yet even with State support the railways find it hard to pay their way, and increases in fares and freight charges have had to be made from time to time to meet the additional expenses and the losses incurred.

Railway Rates

During the early days of railway construction much confusion arose over separate companies covering the same area, and it was soon realized that unless something were done duplicate lines would be springing up everywhere, and that the country would be overrun with railway-lines all doing the same work. In view of this it was urged that a halt should be called in the number of such tracks that could be laid, but this involved permitting those already in existence to carry on in a state of monopoly. We have seen elsewhere that a monopolist is in a very favoured position, since owing to lack of competition he can charge very high prices for his services. As this was considered a form of exploitation which was against the spirit of the nineteenth century, steps were taken to curb somewhat the powers of the

railway companies, and so prevent them from exploiting their monopolistic position.

State interference in any form was looked upon with disfavour, but it was evident that in the case of the railway companies a deviation from the laissez-faire policy was necessary. So the companies were made into what were known as Statutory Companies,—*i.e.*, companies which, though in themselves private ventures, were yet subject in certain respects to control by the Government. The standardization of the gauge, we have already seen, was a Parliamentary condition of construction, and now Acts of Parliament were passed to ensure an adequate degree of safety on the lines themselves. Conditions as to signalling methods, upkeep of tracks, and locomotives were laid down.

The next step was to reach an agreement as to what the railways could charge in the way of fares and for transport of freight. A Railway Tribunal was set up, and the freight charges, known as **standard charges**, were laid down for goods of twenty-one classes. The principle upon which the freights were based was: "charging what the traffic could bear." It was evident that goods which were bulky would take up more room, yet the actual value of these goods might be less than that of some goods which were not so bulky. Hence the less bulky goods were made to pay in some measure for those goods which took up more room, and so the charges were evened out. Again, the lines which carried larger quantities and were busier were made to pay for those lines which, though essential in themselves, did not have so much 'traffic' on them. In addition to this 'freight' rate, the 'mileage,' or distance, rate had also to be taken into consideration, and a comprehensive figure arrived at.

The Railway Tribunal was replaced by the Transport Tribunal, set up by the Transport Act, 1947. The Tribunal has very wide powers, and, according to the Act, has "full jurisdiction to hear and determine all matters whether of law or of fact." Thus it has a definite 'legal' authority, and can award damages where necessary. Furthermore, the British

Transport Commission must submit to the Tribunal draft schemes connected with the charges to be made, and the Tribunal will consider objections on these matters.

In order to help the railways to face the competition of the road-haulage contractors, certain relaxations from the old 'classified' rates have been permitted, and the railways may now make certain 'preferential' contract agreements with their customers.

By the Road and Rail Traffic Act, 1933, the railways were permitted to make a 'flat-rate,' or 'agreed-rate,' charge for transport of goods, irrespective of distance, but the customer had to agree not to send his goods by any other form of transport.

Passenger Trains for Goods

In order to speed delivery of certain goods; particularly perishable articles, the railways introduced the system whereby goods could be sent by passenger train. Since the railways have far more passenger trains than goods trains travelling along certain routes, transport by passenger train is bound to be quicker, though the rates are higher.

Road Transport

Though the railways carry a large quantity of goods, yet the competition of the road-haulage contractors has greatly reduced this amount.

We noted above that at one time the railways were in a monopolistic position as regards transport. As a mechanical form of locomotion they were the most developed and advanced. Up to the time of their introduction the only 'fast' road transport was the stage-coach, and these coaches felt the competition of the 'iron horse' so severely that by the end of the nineteenth century they disappeared from the scene altogether. But after the War of 1914-18 the advantage changed back again to the roads, with the advent of the internal-combustion engine. Furthermore, the motor-car did not require a specially laid track. It could use any road that was available, provided the

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surface was fairly good. Its capital expenditure, therefore, was concentrated mainly in the vehicle itself, and not on the track. The railways require heavy capital expenditure on tracks and on safety devices, such as elaborate systems of signalling, construction and maintenance of stations, shunting-yards, repair workshops, and so on. Such heavy capital expenditure could hardly be undertaken by one individual, but one individual could, and did, put on the road a vehicle for the transport of goods. Hence there came into the field of haulage a vast number of individual haulage competitors who, by virtue of competition, reduced freight charges to the minimum possible, a minimum with which the railway companies, with their heavy capital expenditures, found it impossible to compete.

Apart from this factor of less initial capital expenditure, road transport has also other advantages, among which is the fact that it is far more flexible than railway transport. The roads of England penetrate into districts far removed from any permanent railroad, and the motor vehicle can collect and deliver from door to door. This is a very attractive factor when goods have to be transported, as it often means that one loading and one unloading is sufficient, whereas with the railways it would mean loading to the station and from the station.

The railways have often complained that the competition from the roads is unfair, because the road-haulage contractors contribute but little to the maintenance of the roads or the safety devices, such as traffic-light signals, or to the construction of roundabouts or by-pass roads. The question as to who should pay for the construction and maintenance of roads has always been a delicate subject. It is true that revenues from licences and taxes contribute towards the Road Fund, but the variety of road-users is so great that the amount the haulage contractor himself contributes is very small when it is related to the use he has of the roads.

The main problem which faced the road-haulage contractors in keeping their freight charges low was covering costs by return loads. In other words, if a load of, say, cotton goods was

brought to London from Manchester, and if the lorry had to return to Manchester empty, compensating charges would have to be made on the load, thus increasing the charge considerably. By establishing agencies in various towns the contractor could obtain return loads, thus making it unnecessary to charge extra to cover these costs. The establishment of **freight exchanges** has also assisted in getting over this difficulty. Furniture removal contractors are able to transport households of furniture at cheap rates because of this principle of return loads. The railways still hold their own, however, where bulk goods are concerned, such as coal and coke, and where the expenditure per ton load is less than in the case of road haulage.

Road haulage was nationalized under the Transport Act, 1947, and came under control of the Road Haulage Executive, with the new name of British Road Services, but the Transport Act, 1953, denationalized this transport service, and it is in the hands of private enterprise once again.

Docks and Harbours

Although not an actual form of transport, docks and harbours enable river- and sea-transport to operate successfully, in many cases linking up with road and rail communications to form a continuous transport system.

One of the main Public Authorities for docks is the Port of London Authority (P.L.A.), with its Head Office at Trinity Square (near Tower Bridge). The P.L.A. controls navigation and the upkeep of docks on the river Thames. The busy shipping area between London Bridge and Tower Bridge is known as the **Pool of London**. On the north side of the river are the large dock areas of London Docks, King George V Dock, Millwall Docks, and Tilbury Docks, and on the southern side the Surrey Commercial Docks. Ships entering the Thames Estuary must take on pilots at Gravesend.

Warehousing and Storage

Not only is it necessary to provide facilities for the loading and unloading of goods at the docks, but provision must also

be made for **storage** of goods. Mention of some storage problems was made on page 53, but, in addition to certain conditions being maintained, goods on which **duty** is payable must be stored in special warehouses known as **bonded warehouses**. The duty on goods stored in these warehouses is paid only as the goods are taken out. This means that capital does not need to be tied up, as would be the case if the duty on the *whole* consignment were paid and the goods then stored in the merchant's own warehouse. In some cases the duty on the goods is very heavy, as, for example, on tobacco, wines, and spirits.

QUESTIONS

1. Show how transport has benefited the consumer.
2. Write a descriptive essay entitled "Transport on Sea and Land."
3. Why were canals used extensively during the nineteenth century?
4. "Without a good transport system the Industrial Revolution could never have taken place." Discuss this statement.
5. Mention some of the difficulties in the development of rail transport in this country.
6. Show how road transport is a severe competitor with the railways to-day.
7. What future developments do you think are likely to take place in transport?
8. Explain the terms 'consignor' and 'consignee' in connexion with the carriage of goods.
9. What kind of commodities do you think should be sent at 'company's risk'? Give your reasons.
10. Why were the railways made into 'Statutory Companies'?
11. Write an essay giving your reasons for and against the Nationalization of the railways.
12. Explain the use of a 'consignment note.'
13. Explain the term 'common carrier.'
14. Why is transport by road cheaper than by rail?
15. With special reference to your own area, describe some of the dock and shipping facilities.

CHAPTER SIXTEEN

More about Markets

The Sellers' Market

UNDER normal conditions of production "the customer is always right." In other words, the market is said to be a **buyers' market**—*i.e.*, one where the buyers decide what they want to have, how much, and at what price. When the opposite occurs—*i.e.*, when the sellers can decide upon these things—then the market is said to be a **sellers' market**. . Such a state of affairs existed during and immediately after the Second World War, when buyers were often only too glad to be able to purchase certain articles at prices far above what the goods had been worth in the previous buyers' market. The reason for such a condition was that the supply of these goods was not sufficient for them to go round, so that competition among the buyers was very great. The seller was thus in a privileged position. He could ask a much higher price than ever before, because he knew that the buyers would compete against one another. Furthermore, the quality of the goods often suffered, the buyers being prepared to purchase articles of similar kind of inferior quality. For example, at one time it was very difficult to obtain cigarettes of the well-known brands. Cigarettes of unknown makes appeared, and these, though sometimes of inferior quality, were still eagerly sought after and purchased at prices at which the superior brands had previously been sold.

Sellers' Market and Competition

Generally speaking, a sellers' market is not good for production, since, as we have seen, the urge to produce articles of a

good quality is not there. The producers know that whatever the quality, the goods will sell, since there is such a large demand for their articles. It does not encourage development of new ideas or new products. There is such a large demand for the existing products, and the prices paid for them are so high and paid so willingly, that there is no incentive to avoid waste or make use of economic methods of production. Hence a sellers' market is wasteful, and does not help in the prosperity of a country. It is costly in the materials that are used, since the sellers do not seek to buy these in the cheapest markets, knowing full well that the extra cost can be covered by charging more for the articles. Naturally, there is a 'ceiling' to the prices they can charge, but this is usually very high, and leaves ample margin for careless production methods.

In a sellers' market, again, overheads are usually higher, since the cost of these can be passed on to the consumer. A factory, for example, producing an article that is in great demand but short supply will not be so rigid about saving in lighting or fuel, or in wastage in other directions, since it can cover this in the non-competitive selling price.

Wages and the Sellers' Market

Workers often prefer a sellers' market to a buyers' market, because it appears at first sight that they earn higher wages. In actual fact, however, although the sum of money in the pay packet is greater than during a buyers' market, the actual purchasing power of this money is not so high, for a sellers' market is a general, rather than a specific, state of affairs, and it is rarely that only one market is a sellers' market, so that higher prices have to be paid by the workers for most of the commodities they want.

Monopoly

Where a seller is in complete control in producing an article he is said to be in a state of **monopoly**. Generally, few producers are complete monopolists, but many are part-monopolists.

Producers of certain **branded goods** are part-monopolists, for no one else is allowed to sell a similar article under this name. Certain brands of tea, for example, can be sold only under their particular names, and no one else is allowed to put tea on the market with those names.

Substitutes and the Sellers' Market

Until production gets into its stride, and so turns a sellers' market into a buyers' market, **substitutes** for the articles in short supply may ease the situation, and sometimes these substitutes prove so good that the original article may lose its position in the market and the demand for it fall considerably. Evidence of this was apparent in the various washing-powder substitutes which were introduced to make up the soap shortage experienced after the Second World War. Some of these substitutes proved to be so good that many housewives preferred them to soap, and even when certain brands of well-known washing-soaps were made available again they refused to have them, choosing rather the washing-powder substitutes. It is therefore possible for a sellers' market to do some good in this manner, and to help economic progress, but generally it is not a good state of affairs.

Buyers' Market

The buyers' market is preferable, because it stimulates competition, which in turn stimulates production at a high level. A product has to compete with other products of a similar kind, and in order to sell on a larger scale must possess certain features. There is, however, another type of market wherein the monopoly of the seller is not all-powerful, nor is the power of the buyer, by virtue of the state of competition. This market is known as the **Co-operative**.

Co-operative Market

The buyers are supposed to co-operate with the sellers in making the various purchases. The sellers are to offer the best

product a most reasonable price, and the buyers make it a bargain that they will buy from these particular sellers to the exclusion of others. Thus the sellers are protected against competitors, since their market is assured by the fact that the buyers will purchase from them. Furthermore, encouragement to the purchasers is given in the form of a division of the profits on the basis of the purchases made, for buyers will be requested to purchase at a particular centre, known as the **Co-operative Store**, details of which are given in Chapter VII.

Perfect Competition

Perfect competition is said to exist when buyers and sellers meet on equal terms, when neither party has undue advantages over the other. It is also said to exist when among the sellers themselves such advantages do not exist. For example, under monopoly conditions the monopolist possesses certain advantages over other producers of a similar product. He has, in the first place, exclusive rights to his 'branded' name, the type of packing he uses, and other features which belong to the article. In the second place, his methods of production are probably more efficient and up-to-date, since he usually has larger amounts of capital to invest in the production of an article. He probably has his own transport organization, and can thus save money on such overheads. By reason of employing larger numbers of people in production he has a certain 'pull' in the labour market, and can offer his employees more secure employment and better conditions. Attractions such as sports facilities and welfare and social conditions within the organization itself all tend to encourage labour to enter these larger units. Saving on overheads in other directions, he can often offer higher wages and claim the most efficient type of worker. Capitalization of production by the use of more expensive and more efficient machinery enables him to sell the product at a cheaper price. All these factors tend to make competition with the smaller producers **imperfect**, for by virtue of their smaller organization they cannot compete on the same basis.

Variations in Competition

According to the articles produced or retailed, so does the extent of perfect or imperfect competition exist. In organizations where smaller units of capital are required competition tends to be more perfect than in those cases where larger units are necessary. In certain personal trades, for example, such as the hairdressing trade, competition tends to be more perfect, whereas in the engineering industry, where larger units of capital are necessary for the product, competition tends to be more imperfect, for reasons outlined above.

In competing for markets producers and retailers tend to introduce various forms of marketing. One of the greatest innovations introduced during this century has been the **hire-purchase** and **deferred-payments system**.

Hire Purchase and Deferred Payments

Many goods with heavy capital value are very expensive to buy, and the method of paying for these goods by instalments has enabled producers and retailers to capture a large market which, but for this method, might have remained untouched. The method itself is very simple. Sales psychology indicates that people do not mind paying for an article if they can have possession of it and use it while they are paying, and so the article is delivered to the consumer, and payment for it spread over a year or more, according to the terms of the **hire-purchase agreement**. There was always, of course, the risk that the purchaser might be unable to fulfil all his obligations and pay for the article, so under the hire-purchase agreement it was understood between seller and purchaser that in the event of the purchaser being unable to carry out his commitments the article should return to the seller. For many years this was the agreed practice, and some of the more unscrupulous producers found this very profitable, since they did not return the payments already made, claiming these as a **hire charge** for the articles while they were being used. This is known as **consumer credit**, to distinguish from the credit allowed in business.

The possibility of having to return the goods, and to forfeit the payments made, somewhat deterred prospective buyers from entering into such agreements, and so the more enterprising retailers introduced what is known as the **deferred-payments agreement**. Under this system the facilities of paying for the article by instalment are still enjoyed by the purchaser, but the article cannot be claimed by the retailer in the event of the purchaser ceasing to make payments. The purchaser can, however, be sued for non-fulfilment of the contract, and be made to carry out his part of the bargain, even if it means reducing the amount of the instalments until the whole value has been paid. Other inducements for the buyer may be offered, such as **free fire insurance** and **insurance against theft**.

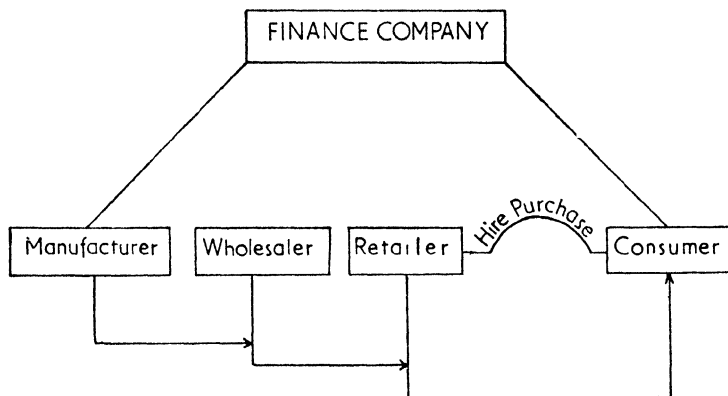
The Finance Company

It is obvious that the instalment plan of marketing goods requires a large amount of capital, since the retailer has to 'sell' his goods without receiving their selling value immediately. True, he will receive **credit terms** from the wholesaler and from the manufacturer, but these credit terms will not extend to a whole year or more. As we have seen, the usual method of payment is monthly, yet during one month he may 'sell' to hire-purchase customers goods of a large capital value only a small amount payment for which he has received in the form of **deposits** and first instalments.

Because, by its very nature, the instalment plan is concerned with expensive articles of high capital value, the retailer would soon find that his capital was insufficient, and that he, in his turn, would be unable to meet his commitments. For this reason he employs the services of a **Finance Company**, which is an organization whose main purpose is to *lend* money to the retailer on the basis of his sales of these articles. When, for example, a retailer sells a radio-set for, say, £30, the Finance Company will agree to clear this amount to the wholesaler or manufacturer, and the retailer will pay the Finance Company a charge for these services. The retailer collects the instalments

from the customer, and sends them on to the Finance Company. The Finance Company acts in effect as a **Loan Company**, but, instead of lending money as straightforward capital, lends it on the sales which the retailer makes. All legal dealings will be made between the Finance Company and the retailer, the purchaser dealing direct with the retailer.

Many Finance Companies require some one to act as a **guarantor**, and the customer has to find a person who will take on this responsibility. The legal position of the guarantor is that, should the customer fail to make the necessary payments,



LINK OF FINANCE COMPANY WITH CREDIT FACILITIES

the guarantor will be held responsible and asked to carry out the terms of the contract. No one should sign such an agreement unless he is sure the purchaser will be able to fulfil his obligations, or he is prepared to pay in the event of default.

Interest on Hire Purchase

Because the Finance Company requires payment of interest for its services, an amount usually equal to this is added to the customer's bill. This is also done to encourage customers to buy the goods for cash, and a graded scale of interest charges is usually in force, which becomes less if the goods are paid for over a shorter period than the agreed length of time.

Purchase Tax

This was introduced by the Government in 1940, as a curb on expenditure to help direction of production to serving the 'war effort.' The tax was on household goods, and luxury articles like cigarettes. It was, and still is, rationing through price-control. Since the War the tax has mainly supported Britain's export trade. To make up for the enormous cost of the War Britain has exported most manufactured products. In many cases their sale in the **home market** was prohibited initially, but gradually it was allowed to enjoy them. Restriction was still necessary, however, so the purchase tax was used as in 1940, except that now production was directed towards satisfying the **export market**.

Form of Revenue

Although initially the tax was chiefly to reduce consumption of certain goods, it is also **revenue** for the Government. The price of the article is, of course, increased considerably, and the purchaser has to pay all of this, but neither manufacturer, wholesaler, nor retailer is any better off, since the additional amount—the tax—has to be refunded to the Revenue.

Economic Effects of Purchase Tax

Manufacturers do not like the tax, since it increases greatly the price of their commodities, restricting their sale (precisely what it is meant to do). Because of the great demand for commodities since the War this restriction has been felt less keenly, but in general it has helped to make a difficult situation. Rising prices mean greater cost of living; thus demands for higher salaries and wages. Furthermore, hire-purchase facilities extend purchasing power. To counteract this the Government is forced at times to increase the purchase tax. Again, as an **indirect tax** it is felt less keenly. Because of its value in revenue and economic effects it is unlikely that it will be removed for some time to come.

QUESTIONS

1. What are a 'buyers' market' and a 'sellers' market'?
2. Do you think a 'sellers' market' benefits a country's economy?
3. Describe some of the commodities which would be in a 'sellers' market' in the event of war.
4. Why do workers often prefer a 'sellers' market'?
5. What part does competition play in a market?
6. What is a monopoly?
7. How does monopoly affect the market?
8. Give three examples of a monopoly.
9. What are 'branded goods'? Give two examples of such goods.
10. How have branded goods affected the retail trade?
11. Show the effect of substitutes on the 'buyers' market'.
12. What is Co-operative trading? Why does this form of trading appeal to some sections of the public?
13. What competition is there in Co-operative trading?
14. What kinds of goods does a Co-operative Store usually stock? Give your reasons.
15. What is a 'secure market'?
16. Show briefly the organization of a Co-operative Store.
17. What is 'perfect competition'? How does this affect the marketing of certain commodities?
18. Compare perfect competition with imperfect competition.
19. Write an essay in defence of "Competition in commerce."
20. Show the difference between the hire-purchase and deferred-payments systems of marketing goods.
21. Show how the hire-purchase system of marketing goods has opened up new markets and possibilities.
22. What psychological factors enter into the success of the hire-purchase or deferred-payments system of retailing?
23. Show the part the Finance Company plays in the functioning of the hire-purchase or deferred-payments system of retailing.
24. Give three examples of certain commodities in which the deferred-payments system has developed, and give your reasons.
25. What are the responsibilities and liabilities of a guarantor in a hire-purchase agreement? Why is it dearer to buy goods on the hire-purchase system than by paying cash?
26. Write an essay entitled "Modern Hire Purchase."

CHAPTER SEVENTEEN

Bills of Exchange

WE have seen that one of the features of the **credit system** of trading is that the goods do not have to be paid for until some time has elapsed between the actual sale and purchase. Such a system brings into existence alternative forms of payment to actual money, and we noted that the method of payment by cheque was a means by which most business accounts are settled. The cheque, however, though fitting into the scheme of a credit economy—that is, a state of affairs where people have confidence in one another and do not ask for immediate payment—is restricted in the amount of time which it allows for payment, for in the case of an open cheque payment can be effected immediately by taking it to a bank, and in the case of a crossed cheque the time-lapse is only a few days. Some transactions, however, call for longer periods of time, and the customary month may be extended to two or three months, or even longer. In such cases a more definite acceptance of legal liability for the transaction is required; hence the introduction of the **Bill of Exchange**, which is nothing more nor less than a document showing this legal obligation.

The wording of the Bill of Exchange states that unconditionally the purchaser is liable for a definite amount of money which he agrees to pay at some definite future time. Unlike the cheque, however, the Bill of Exchange is made out not by the purchaser, but by the seller, who requests the purchaser to agree to the document by **accepting** it. The seller is thus the **drawer** in this case, instead of the purchaser. In other words, the **creditor** makes out the Bill of Exchange, and the **debtor** agrees to it. A Bill of Exchange is a **negotiable instrument**.

Ad Valorem Duty

Bills of Exchange are rarely made for small amounts, the debt being usually for £100 or over. Duty is payable on all Bills of Exchange, and because this varies according to the value of the bill it is known as **Ad Valorem Duty**. This duty is not a profit to the drawer: it is **revenue** which the Government collects in the same way as the **Stamp Duty** on cheques.

Part Payment

A Bill of Exchange need not be made out for the whole amount of a debt. It may be that the purchaser of the goods has decided to give a cheque for **part payment** and to accept a Bill of Exchange for the rest. Confusion must not be made over the word 'accept,' for we have seen that in the case of Bills of Exchange it does not mean 'receive,' but agreement to pay the bill by signing one's name across the face of it. A bill is known as a **draft** before this **acceptance** has been made, and until the draft is accepted it has no legal bearing.

BILL OF EXCHANGE

£100

LONDON 1st June, 19..

Three months after date pay to United Products, Ltd, or order the sum of One hundred pounds

David Sale

To JOHN BROWN,
ALDWYCH HOUSE,
W.C.2

The Third Party

In addition to giving an extended period of credit for payment, Bills of Exchange also facilitate payments where a **third party** is concerned. For example, supposing that John Brown of London purchased goods from David Sale of Manchester, and that David Sale of Manchester in his turn purchased raw

materials from United Products, Ltd, of London, and that the total of these purchases was the same—say, £200. Then the settlement of this account to be paid in two months' time could be made in two ways as follows:

First Method. David Sale of Manchester could 'draw' a bill on John Brown of London, who could 'accept' the bill and return it to David Sale, to be paid in two months' time. United Products, Ltd, could also make out a bill payable by David Sale and send it to him for his 'acceptance.' Two bills would be involved in settling these accounts, and the parties would stand as follows:

Parties to the First Bill:

DRAWER	David Sale
ACCEPTOR	John Brown

Parties to the Second Bill:

DRAWER	United Products, Ltd.
ACCEPTOR	David Sale

Second Method. David Sale could make out a bill to be accepted by John Brown of London, who after accepting the bill could return it to David Sale, who could then 'endorse' this same bill and send it to United Products, Ltd, of London in settlement of his own debt. In this case only *one* bill would be involved, and the parties would stand as follows:

Parties to the Second Method:

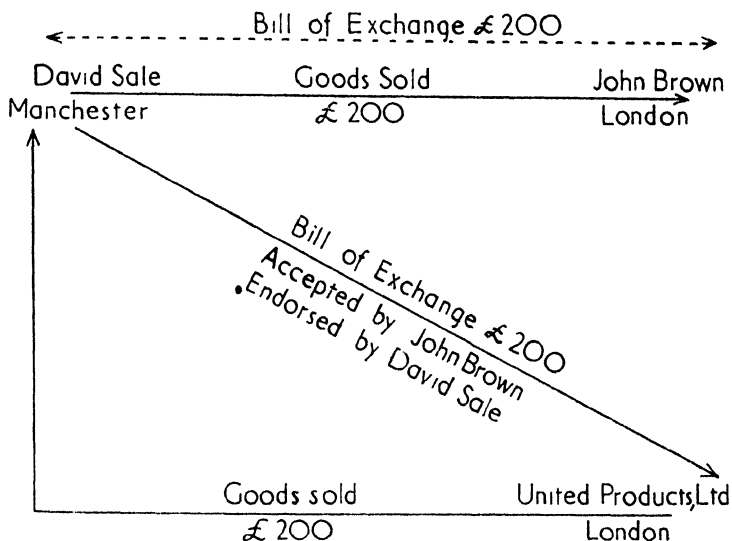
DRAWER	David Sale.
ACCEPTOR	John Brown.
PAYEE	United Products, Ltd.

Under the second method a saving of 2s. duty on the transaction would be made, since only one bill is required, and also a saving in time and trouble, since United Products, Ltd, would not need to spend time in 'drawing' a bill.

This instance shows the possibilities which exist in using Bills of Exchange as forms of settling debts.

Bills Payable and Bills Receivable

When a debtor accepts a Bill of Exchange which has been drawn on him by a creditor the bill is known as a **bill payable** from the *debtor's* point of view, because he will eventually have to pay the sum of money stated on the bill to his creditor. Thus in the example just given above John Brown would regard the



Bill of Exchange which he has accepted on behalf of his creditor David Sale as a bill payable.

On the other hand, the *creditor* would regard the same bill as a **bill receivable**, since when the bill becomes due for payment he will receive the money. In the above examples a slight complication arises from the fact that David Sale has endorsed the bill and passed this on to United Products, Ltd, but this does not alter the character of the bill from the side of David Sale, since the endorsement and passing on of the bill to another party is only a convenience which has been introduced to avoid unnecessary duplication of Bills of Exchange.

BILLS RECEIVABLE BOOK

DATE	FROM WHOM RECEIVED	TERM	WHEN DUE	L. FOL.	£	s.	d.	REMARKS
19.. 8 June	A. Cumberland	16 days	27th June	52	150	-	-	
"	E. Williams	2 months	17th July	67	270	19	-	
"	Robert Stevens and Co.	2 months	31st July	38	360	-	-	

BILLS PAYABLE BOOK

DATE	TO WHOM PAYABLE	TERM	WHEN DUE	L. FOL.	£	s.	d.	REMARKS
19.. 11 June	P. R. Evans	1 month	17th July	27	275	-	-	
"	Amalgamated Products	3 months	20th Sept.	65	450	-	-	

It should be clearly understood that a Bill of Exchange is both a bill payable and a bill receivable, depending upon whether we view the document from the side of the debtor or the creditor.

Bills Payable and Receivable Books

Where the number of transactions involving Bills of Exchange is large special books are kept for recording the receipt and payment of these bills. Separate books are kept for bills which are payable and for bills which are receivable. Specimen rulings of these books are given at p. 204, showing the essential information which must be kept. More complicated rulings can be used according to the needs of the business.

Accommodation Bills

These are legal acknowledgments that a *loan* has been made, and that this loan will be repaid at a fixed future time. Usually only two parties are concerned in such **accommodation bills**, though they can be passed on when endorsed. Care, however, must be exercised in accepting such documents, which are often made out by people wishing to obtain money.

Discounting

So great is the confidence in Bills of Exchange made out by well-known parties that it is possible to get money on them before they are actually due for payment. Such a method is known as **discounting** the Bill of Exchange. The money is given on the understanding that when the bill becomes due the lender will receive its value. The majority of bills discounted are passed through banks, though there are **Discount Houses** which will undertake this side of the work. The charges for this service may vary according to the stability of the parties concerned.

The banker or Discounting House may hold all parties concerned in the bill liable. For example, if in the case of the above transaction with David Sale the bill is discounted by United Products, Ltd, with their bank, and if on the due date

the bill is not paid, the bank can claim against any of the three persons concerned—namely:

DRAWER	David Sale.
ACCEPTOR	John Brown.
PAYEE	United Products, Ltd.

In actual practice the bank would request United Products, Ltd, for payment, who in turn would approach David Sale, who would get in touch with John Brown to find out why the bill is not paid. In the next paragraph we may examine a little more closely this possibility of a bill's not being met at its due date. A Bill of Exchange which is discounted is said to be **retired**, while one which is settled at its fixed date is said to be a **matured bill**.

Dishonoured Bills

Should the acceptor of a bill fail to pay, the bill on its due date the bill is said to be **dishonoured**. Generally speaking, bills are rarely dishonoured, because such a practice is very detrimental to a person's goodwill. Creditors lose faith in persons whose bills are dishonoured, and as the knowledge of a person's stability or instability becomes general, bankers and Discount Houses will refuse to take on bills accepted by such persons.

Pressure for payment of a dishonoured bill can be made by the bill's being legally endorsed. The method is known as **noting**. The Notary Public, who is a member of the legal profession, will take the bill to the acceptor and ask for payment. If no payment is made he will make a **note** of this on the bill, and sign it, indicating also his official position for reference. The next step is to have the bill **protested**. In protesting a bill the notary makes out a **certificate**, which gives the creditor every evidence that he has pressed for payment through the proper legal channels and been refused. He may now proceed to take action against the debtor, who, it will be remembered, bound himself legally to honour his debt when he accepted the bill.

Days of Grace

During the nineteenth century debtors were very severely treated. Imprisonment for debt was a common practice, and Charles Dickens, in *Little Dorrit*, gives a painful picture of conditions inside the famous Marshalsea Prison, where debtors were kept until some one could discharge their obligations. To-day imprisonment for debt is an unusual occurrence, being made only in cases where other circumstances justify a person's being sent to prison. Because, however, of the former attitude, the Bills of Exchange Act, 1882, included a clause allowing a debtor three days to settle, in addition to the actual date when a bill became due. These were called **days of grace**, during which time the debtor might do all within his power to get the money with which to settle the bill.

Promissory Notes (P/N)

This form of payment is simpler than the Bill of Exchange, being simply a **promise to pay** a certain sum of money. It is made out by the *debtor*, and needs no acceptance or acknowledgment. It is a legal document, and persons giving such documents do so on the understanding that they bind themselves to the payment of the money stated thereon. One of the main differences between a **Promissory Note** and a Bill of Exchange is that the latter is an *order* which the *drawer* or *creditor* makes out to his *debtor* to pay him a certain sum of money, whereas the Promissory Note is a *promise* which the *debtor* makes to his *creditor* that he will pay a certain sum of money. Ad Valorem Duty must be paid on all Promissory Notes. Bank of England notes are Promissory Notes, being promises made by the Bank to pay the holder a certain sum of money.

I O U

These documents have **no legal** properties, the recipient taking the note entirely for whatever confidence he has in the person making it out. The abbreviation, of course, simply

means '**I owe You,**' and it is an acknowledgment in writing of a debt, but it is not a legal promise that the debt will be discharged or a legal acceptance of an order to pay a debt.

Conditions of Payment

It should be clearly understood that in the case neither of Bills of Exchange nor of Promissory Notes do any conditions for payment apply. In other words, a Bill of Exchange is not made-out in such a form that a stipulation as to whether the money can be paid, provided the acceptor has enough to settle, is made. The bill states purely and simply that money is owing, and that money must be paid. It is, in other words, an 'unconditional' order which the creditor makes on the debtor, and so is the Promissory Note.

Settlement by Legal Tender

It is illegal to require the acceptance of goods in settlement of such debts as wages, or in other cases where the creditor requires money. The Truck Act was introduced to guard against abuses whereby employers setting up shops of their own forced the workmen to accept their goods as payment or part payment of their wages. In the settlement of a Bill of Exchange the same position applies. Settlement must be made in the form of money, and not in the form of goods, unless agreed upon by the creditor.

Foreign Bills of Exchange

Bills of Exchange which are drawn and payable within the British Isles are said to be **Inland Bills of Exchange**. Bills of Exchange which do not conform to both of these conditions are said to be **Foreign Bills**.

Bills of Exchange and Capital

In addition to being a convenient method of payment, Bills of Exchange also serve another purpose. By permitting a merchant to obtain stock without actually paying for it until two or three months later a Bill of Exchange puts him in the

position of extending his capital resources. The Bill of Exchange may therefore be said to be a form of capital, since it enables a producer to obtain goods and gives him time to sell these, make a profit, and then repay his creditor.

The Written Statement

In law the written document has far more bearing upon a case than verbal confirmation; hence important business decisions and agreements must always be made in writing. The Bill of Exchange is not a verbal acknowledgment of a debt or a verbal agreement to pay: it conforms with the legal attitude towards proof in that the document itself must be produced before any dispute can be recognized by law. In conclusion, it may be of interest to the student to note the legal wording of a Bill of Exchange taken from the Bill of Exchange Act, 1882:

A Bill of Exchange is an unconditional order in writing, addressed by one person to another and signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum of money to, or to the order of, a specified person, or to bearer.

It will be seen that the requirements of this statement are fully met by the circumstances in which Bills of Exchange fulfil their function in the world of commerce.

QUESTIONS

1. "A Bill of Exchange extends the period of credit." Discuss this statement.
2. Why is a Bill of Exchange a negotiable instrument?
3. How many parties are there to a Bill of Exchange?
4. What legal value has a Bill of Exchange?
5. Why are cheques used far more extensively than Bills of Exchange?
6. Show how Bills of Exchange assist in the settlement of debts.
7. Why is duty charged on a Bill of Exchange? What is this duty?
8. Show two different ways in which a Bill of Exchange could be used in settlement of a transaction.

9. What is an accommodation bill?
10. Show how an accommodation bill can be used in obtaining capital for a business transaction.
11. Make out a Bill of Exchange from the following information :
Messrs S. Field and Co, Ltd, have purchased goods from Messrs E. Williams, Ltd, to the value of £175, the account to be settled by a Bill of Exchange at three months' credit. Purchase of goods was made on the 10th of January, 19... Show when this bill is due for payment.
12. Show a simple ruling of a Bill of Exchange Book, and insert two items.
13. Why is it necessary to keep records of Bills of Exchange?
14. Show the difference between a bill payable and a bill receivable. Are these separate documents, or can the same document be viewed from different sides of a transaction?
15. What is a 'Discount House'?
16. How does the discounting of a Bill of Exchange help in obtaining more capital in a business?
17. What risks does a creditor take when receiving a Bill of Exchange in settlement of a debt?
18. How does a Bill of Exchange fit into the scheme of the credit system of paying for goods at a future time.
19. What is a dishonoured bill? Why do business-men avoid giving such bills?
20. How is a dishonoured bill dealt with legally?
21. What are 'days of grace'? How did these arise in the first instance?
22. What is an 'acceptance' in connexion with Bills of Exchange?
23. What legal liability does the acceptance of a bill make upon the acceptor?
24. What are Promissory Notes? Have they any legal binding upon the person giving such a note?
25. What advantages do Bills of Exchange have over Promissory Notes?
26. Why is a Bill of Exchange said to be an 'unconditional order'? Could you think of any conditions which might have been attached to the payment of a Bill of Exchange?
27. What is the 'Truck Act'? Why was it introduced?
28. Write an essay entitled "All agreements should be in writing."

CHAPTER EIGHTEEN

Trade follows the Flag

DURING the latter part of the nineteenth century, and particularly from 1890 to 1914, England firmly believed that the best way of expanding her commerce was by expanding her Empire, and many areas of the world which before that time had been left to 'get on with things' themselves were taken under the British flag and attached to the Empire.

This era is often known as the era of Imperial expansion, when men like Rudyard Kipling sang the praises of the Empire and men like Cecil Rhodes went out to show what wealth existed in these territories. Our Imperial policy, however, was not one of complete domination of the natives who lived there. In Africa and in India, for example, much was done to bring the natives within the sphere of Imperial allegiance. Queen Victoria, for instance, was regarded as "Empress of India," and Joseph Chamberlain called together various Ministers from the Colonies to a Colonial Conference. The riches of the Empire were to be used to the fullest extent, and the Mother Country would, and did, benefit a great deal. It was found, furthermore, that this 'Imperial trade' did a great deal to support the Foreign trade of the country, and in order to develop this further a policy of **Free Trade** was pursued.

Exports and Imports

The object of trading with a foreign country is to exchange the goods which you can make most cheaply for goods which in their turn the foreign country can make cheaply, and so by this exchange both countries will benefit. This mutually advantageous method of exchange is by no means a new thing,

as we have seen from our chapter on markets that the ancient Greeks and Romans came as far as England to exchange their wares.

During the nineteenth century England was regarded as "the workshop of the world," for by virtue of her great advance in mechanical inventions she had installed factories producing all kinds of wares at a cheap cost. Thus she was able to supply to France, in exchange for wines and silks, machinery and manufactured articles; to Germany cotton goods; to South America railway equipment, etc. The great cotton industry of Lancashire supplied the world with British-made cotton goods, which were in demand in European and Asiatic countries.

Payment for the Exports

We noted in our chapter on markets that, provided the 'coincidence of exchange' operated, barter would work satisfactorily, but if this was not the case, then no exchange would take place. Now, though some foreign trade is carried out on the barter principle, the largest measure is carried on not on barter, but on the monetary principle. Foreign countries requiring British imports might find it more profitable to sell their own products to another country and pay for the imports in money. A Lancashire cotton-manufacturer, for example, would be more ready to accept money for his cotton goods exported to China than, say, large quantities of rice from that country. The Chinese importer also may be more willing to accept money from his customers than rice. Hence the actual payment for the goods is in terms of money, not barter-exchange. But there are other countries willing to pay for rice, so rice is exported to these countries by China, for instance, and with the money that comes in, China is able to buy cotton goods.

This is what we mean when we say that exports pay for imports. The richer a country is the more it can afford to import, and the greater is the variety of its goods and the higher will be its standard of living. Of course, it is not always neces-

sary for a country to work on this principle. If it is 'rich' from within—that is, if it has goods which other countries require—it can obtain goods on the direct-exchange basis.

It is obvious that if a country has nothing to export and no resources of its own to exchange, not many other countries are going to be willing to do trade with it, and its standard of living will be low and its people poor. This explains why in certain areas of the world there is a poor standard. This inter-trading is known as **International Trade**, and brings into action a large number of intermediaries.

Balance of Trade

It will be apparent on reflection that a country which has to import more than it exports will be like a person buying more than his earnings allow him, and that he will have either to receive a proportion of the goods on *credit* or else obtain *loans* from somewhere else with which to pay for these commodities. Sometimes countries need these loans in order to develop their export trade, so that they can in time, by their own efforts, pay off the loan and be in a better economic position. Countries which are able to offer these loans are said to be **creditor** nations.

Britain in the nineteenth century was in this condition by virtue of her commercial place in the world, and was able to help many other nations to develop their own countries economically. After the two World Wars the United States of America found herself in this position, and was able to help the war-ridden countries of Europe to rebuild their economies and to re-establish themselves. The Marshall Aid plan which was introduced after the Second World War went further than the loan principle of the nineteenth century, since it concerned itself not only with lending of money, but with supplying goods and materials for specific rebuilding purposes and for relieving temporarily as much as possible the distress and misery which the War had brought in Europe.

Favourable and Unfavourable Balances

When a country's trade is in the condition that it has to import more than it exports its trade balance is said to be **unfavourable**. On the other hand, since exports which a country makes represent the earning capacity of the country, the larger these are the more *favourably* placed will be the economic condition of the country. Hence a country whose trade represents an excess of exports over imports is said to have a **favourable balance**. When assessing the balance of trade a country considers not only specific imports or exports, but the trade as a *whole*, since in order to export certain commodities it may have to import large quantities of other things. In the case of British industry, for example, large quantities of iron ore have to be imported, but this is not to say that Britain has an unfavourable balance, since in the long run the metal will help to make motor-cars and machinery which will be exported to other countries, so that the final balance may be a favourable one.

Britain's Post-war Export Trade

In the economic recovery of a country the most beneficial selection of imports will do much to help in rapid progress, though the selection may mean much hardship and irksomeness for the people. Importing of 'luxury' goods—*i.e.*, goods which have no direct bearing upon the development of the export products—may be either banned or kept to a minimum, though these luxury goods may be articles which would make life easier for the time being in the country. Governments to-day find it more and more necessary to control imports and exports and to see that goods which will bring economic recovery owing to their demand abroad are not diverted into the **Home Trade**. For this reason such articles as motor-cars were very scarce on the home market in Britain in the post-war years, and are likely to be so until the balance can be sustained with other 'export' articles, or until import requirements make it unnecessary to maintain such a high-pressure export trade.

Invisible Exports

So far we have assumed that each country receives and sends *goods* in its trading relations, but in actual practice these are not the only kind of imports or exports. Many countries are able to exchange **services** which are required by other trading countries, and which form a very important part of the export trade. Britain's shipping services, for example, have been a most valuable source of export income. Although Britain has a large shipbuilding industry, she does not always sell her vessels outright, but uses them in **carrying** goods for other foreign countries, for which services she charges, and which are in effect a form of export, as is also the insurance of cargoes. Such exports are known as **invisible exports**, and can be an important source of revenue. It is for this reason that Britain has tried to capture a large part of the carrying trade of the world, for with her experience and knowledge she is able to offer high-grade facilities in this form of trade.

The actual ships used in this carrying trade are part of the **capital** resources of a country, and the extent of a country's **Merchant Navy** will represent the richness of its potential resources.

Tourist Industry

Many countries to-day spend a great deal of money on attracting visitors to spend their holidays in their countries. Some have natural advantages, such as Switzerland with her scenery and her winter-sport facilities. Other countries try to develop attractions. Festivals, fairs, exhibitions, conferences, etc., all have their economic function in the attraction of visitors. The Festival of Britain, held in 1951, designed to attract large numbers of visitors, was a venture which illustrates very aptly this 'tourist export' factor. The Great Exhibition of 1851, held in Hyde Park and exhibiting the wares and industries of the country, attracted many distinguished visitors. In addition to developing the tourist trade as such, these

festivals and exhibitions attract business-men, who may decide to place large orders. Although tourists appear to spend the currency of their own country by bringing foreign currency into the country, they are *buying* the services and goods of the country they are visiting; hence to this country they are as an export product, and it is for this reason that tourists are always welcomed and encouraged to come. The more dollars an American converts into pounds, shillings, and pence, the richer Britain becomes, since this money is added to the national income of the country, and there is more money to spend.

The Foreign Agents as Intermediaries

The cotton-manufacturer in Lancashire will know all about cotton manufacture. He may know the different qualities of raw cotton and the value of his finished products. He may know something about pests which destroy the cotton plant, but his main interest is in seeing that his factories are supplied with the raw material, and that they are turning out a good-quality article that will sell. Because his time is probably taken up with this side of the business he will most likely leave the actual work of importing the raw cotton to others. These cotton-importers, in their turn, become experts in finding out the state of the raw-cotton market, and in carrying out all the formalities required in getting the cotton into the country. By keeping in touch with movements in the cotton world they are able to buy in the best market at the best time.

Futures

The manufacturer must be constantly supplied with the raw cotton. He cannot afford to let his factories lie idle until the cotton has been picked and sent to England. Hence the agent must seek out more than one source from which to get his cotton, so that the supply is continuous. Some cotton will come from Egypt, some from America, and some from Asia. Now, the cotton he is to buy from America may not be ready for the market until four or five months later. The grower does

not know what his crop is likely to be. It may be a 'bumper' harvest, with plenty of cotton to spare, but, on the other hand, it may be a poor one. Now, according to the law of supply and demand, if there is an excess of supply to demand the price will fall, because there is more than sufficient to go round, and the supplier will try to get rid of his product at a lower price. When the opposite conditions exist the price will, of course, be high. In times of war certain articles become very scarce, and can be obtained only at a high price. To prevent exorbitant price-dealings a system of rationing or fair sharing is generally introduced.

If, then, the cotton harvest is good, prices will be low, but if bad, high. The cotton importer, however, has to quote the manufacturer a price before the harvest has been reaped, and he will generally quote an 'average' price based on his experience of the trade. This average price will allow fluctuations to some extent, but will not give the importer all the cover he wants against a possible fall, so the importer 'buys' the cotton from the planter before it is harvested, and the price is fixed at the time of this purchase. The importer does not purchase all the cotton he is going to sell at this price, but sufficient to 'cover' himself in the event of a fall. Thus he deals in **futures**, because he buys the cotton before it is harvested at a price determined before market conditions have finally established it. He is dealing all the time in **future conditions**. For the rest of the cotton he will 'take a chance' on market conditions. If it is a good harvest he will get the rest cheaply; if not a good harvest, then he will have to pay more. The deal in his 'futures' will cover losses, however, because he will have purchased that quantity at a fixed average price.

Hedging

The speculator may cover or **hedge** his risks by **forward selling** as well as **forward buying**. In the case of the cotton manufacturer he may contract to purchase a proportion of the cotton at a certain price, and also, at the same time, contract

to sell part of his cotton consignments at an agreed price, delivery in both cases to take place at some future date. Should the price of the cotton fall by delivery date he will be able to cover his losses by the profit he will make on the part of the consignment he has agreed to sell at the fixed price.

Buying by Sample

Buying commodities before they are ready for the market does not happen only in the cotton trade, but in many other lines also. On the other hand, there are **exchanges** where 'bulk' delivery is effected, such as the delivery of wheat at the **Wheat Exchange** in London. Here the actual quantity of wheat to be delivered can be examined and purchased. This is known as **spot delivery**. Where the product is to be bought at a future time it is difficult for the purchaser to examine a 'sample' of it, since no one knows what it is going to be like. Experience of past harvests has to be used, and the commodity is 'graded' or 'typed.' Thus the purchase is effected by buying according to a certain grade or type of the commodity. When the product is delivered it may not be quite the same as the grade offered in the first place, and a dispute arises. The dispute is then taken to **arbitration**—*i.e.*, it is settled by a third party acting in an impartial capacity. Some exchanges provide for compensation, as in the case of the Cotton Exchange, whose rules allow for a purchaser to be compensated where delivery of cotton is not according to the grade ordered in the first place.

The development of transport has made delivery of goods a much easier matter than was the case previously, while the opening up of new areas for growing crops has also provided a more continuous supply. Before the development of Canada and Australia, for example, wheat dealers had to wait for the English harvests, but to-day wheat is coming into the country all the time, owing to these other areas, which are able to harvest at different times from those in England. This continuous supply makes it possible for **sample** buying, rather than 'grade' or 'type' buying, to be carried out, and the risk of un-

satisfactory deliveries is also lessened. The crop is there, and can be examined by the prospective purchasers. Furthermore, it also helps to avoid losses by violent market fluctuations, since price rates do not have to be fixed such a long time ahead.

Members of the Exchanges

It is obvious that only men with knowledge of the products and experience in the buying and selling of these goods can really deal in them, and in order to avoid inexperienced people upsetting these markets the buyers and sellers have to be **members** of the exchanges. Furthermore, these markets are well organized, with certain rules and regulations, and they are said to be **organized markets**. Since the markets deal in raw materials they are also known as **produce markets**, as distinct from the wholesale and retail markets. These markets, we have seen, have definite centres, as, for example, the Cotton Exchange at Liverpool and the Corn Exchange in London. In addition, there are exchanges for the wool trade, the metal trade, tea, rubber, coffee, and others. At the exchanges buyers and sellers or their agents can meet one another and discuss prices and quantities and other matters relevant to their business.

This meeting of merchants to discuss specialized affairs is an important part of the commercial organization of a country, and in the eighteenth century the centres of such activity were often the famous **coffee-houses** in the City of London. Here merchants would meet one another and exchange business. To-day a more centrally organized system is required, and the exchanges are the result.

The Stock Exchange

The **Stock Exchange** is another form of organized market. It does not deal directly, however, with the products, but with **securities** representing investments—in other words, **stocks and shares**. There are Stock Exchanges in most of the large provincial towns, but the largest amount of business is carried

out at the London Stock Exchange, which is situated in the City.

Members of the Stock Exchange are either **stock jobbers** or **stockbrokers**. Stock jobbers buy and sell securities on their own account (compare with a wholesale or retail merchant), whereas stockbrokers act as **intermediaries** between the public and the jobbers in the Exchange. The latter receive a commission for their services.

The procedure for dealing in securities is as follows. The investor instructs his broker to buy or sell a certain quantity of shares, and the broker approaches the jobber on the Exchange who deals in that particular line of security. The jobber quotes two prices, the higher being the price at which he is prepared to sell and the lower the price at which he is prepared to buy. He does not know whether the broker wishes to buy or sell, but the jobber is bound to keep to whatever quotation he has given. The broker then informs him that he wishes either to buy or to sell the shares he has asked for. The term **quoted or quotation** is used for securities which are included in the Stock Exchange lists, because the prices at which they are bought and sold are printed in the financial papers, such as *The Financial Times*.

The actual government of the Stock Exchange is carried out by an annually elected body known as the Council, whose rules and regulations must be strictly observed by the members.

The Stock Exchange deals with both commercial and Government securities, the latter of which are also known as **gilt-edged securities**, because they are usually very sound investments with minimum risk of loss. With the Nationalization of many industries these securities have assumed a very prominent place, and are likely to develop even further.

Generally speaking, the Stock Exchange does not deal with new capital, but with securities already on the market. Provision is, however, made for new securities to be dealt with, but certain conditions must be adhered to.

The existence of the Stock Exchange encourages investment

and business enterprise, since it offers a ready market whereby capital can be made 'liquid,' instead of being rigidly tied up.

Speculation and the Organized Markets

The organized markets give rise to favourable conditions for **speculation**—*i.e.*, the buying or selling of products or securities not for immediate use, but with a view to a change in conditions at some future date taking place, such change being favourable to the speculator. Speculation is not pure gambling, since the risks undertaken are not of a purely arbitrary nature. In effect, the speculator can, by his dealings, assist in stabilizing market conditions and prevent exorbitant rises or falls in price-levels, since he buys or sells at an agreed fixed price.

In the case of the Stock Exchange the speculators who buy securities in the hope of selling them at a higher price are known as **bulls**, while those who sell in the hope of a fall in prices are known as **bears**. Speculators who apply for shares which have been newly issued and who do not intend to retain these, but to sell them as soon as they are allotted and before all the money has been paid on the share, are known as **stags**.

Tariffs and Free Trade

Every country will to some extent try to prevent 'unfair' competition from affecting unduly a product which it is engaged in making itself. Cheap labour, a low standard of living, abundant supplies of raw materials, all these factors may be the cause why certain goods can be supplied by a foreign country at a much lower price than that at which the importing country could herself produce the goods. Where cheap labour and a lower standard of living are the chief factors the importing country may try to stop the imports, on the grounds that such conditions are not to be desired, and that if continued importing goes on the reactions may be felt in the importing country to the extent that employers may demand a much lower level of wages, which in turn may lower the standard of their workers. To prevent this, then, the importing country may put up **tariff**

walls—*i.e.*, it places a high import duty on these goods, so as to increase the price at which they are sold in the country. Thus they are made to compete with the similar product being manufactured in the country itself.

But the danger goes further, since the exporting country may retaliate by putting tariff walls against products sent to it by the importers, and so the **tariff war** goes on. The exponents of Free Trade argue that tariffs do no good, since it is better to avail oneself of the cheap goods and concentrate on making other goods which the exporting country cannot produce. After the First World War of 1914–18 England was ‘flooded’ with cheap German toys, and later with toys from Japan. The toy-manufacturers found it difficult to compete with these products, and many of them turned to the manufacture of other products. Where alternative avenues of production are to hand cheap ‘dumping’ may not do so much harm, but where such avenues do not exist it may almost destroy an industry.

Here lies another danger. It may be that the industry is one which would be very useful to have in times of war. Setting up of such an industry and training workers for it may take time. Hence, unless it already exists, it may do a great deal of harm not to have at least the nucleus of such an industry functioning during times of peace. For this reason the Safeguarding of Industries Act was passed after the First World War, placing heavy duties on, and in many cases forbidding, the import of certain goods from foreign countries, in order to keep the industries alive in the event of war. Chemical industries are particularly important in this direction, as are the iron and steel and mining industries.

QUESTIONS

1. How did the ‘Imperial policy’ of England differ from that of other countries?
2. What do you understand by the term ‘Imperial trade’?
3. Why was England regarded as “the workshop of the world” during the nineteenth century?

4. What is the object of trading with a foreign country? Give examples of England's foreign trade.
5. "Imports pay for exports." Discuss this statement.
6. Define clearly the term 'invisible exports.' Show in what way these can benefit a country.
7. Why does a 'rich' country benefit in its foreign trade?
8. What do you understand by the term 'direct exchange'?
9. How does foreign trade affect the 'standard of living' of a country?
10. Describe briefly the work of 'foreign agents.'
11. What are 'futures'?
12. In what way do 'futures' help in maintaining 'continuous production'?
13. Explain the term 'buying by sample.' Show how this assists trade in certain commodities.
14. Explain 'spot delivery.'
15. Show how the development of transport has assisted foreign trade.
16. What is an 'organized market'?
17. How do organized markets help foreign trade?
18. Write an essay entitled "Tariffs and Free Trade."

CHAPTER NINETEEN

A Foreign Transaction

IN this chapter we shall examine in more detail the procedure which is carried out in a transaction dealing with the export trade. Let us assume that the New Era Cycle Company of Birmingham has received an inquiry from an agent in South America for a large order of their cycles. This agent may be an **accredited sole agent** of the firm—that is, an agent who has been allocated an area in South America in which he can obtain orders for the cycles. Usually large manufacturing firms appoint their own agents. This may be done in several ways, two of the commonest being to send out one of their own representatives to set up an agency in a likely market and appointing an already established person as agent. In the latter method the agent usually applies to the manufacturer for the agency, and once he has been given this, then the manufacturer must not appoint other agents in the same area or territory, nor is the agent allowed to handle goods of a similar nature manufactured by other concerns.

A firm can, of course, change its agent if it finds that little trade is materializing, but usually agents are under contract for a certain period of time, though a safeguarding clause might be inserted to the effect that should trade fall below a certain minimum for a period of time the agency will be deemed to have lapsed, and a new appointment can then be made by the manufacturer. On the whole agents are keen to develop trade as much as possible, since the more they sell the more profit they make, and also make a name for themselves in the agency business, thereby increasing their chances of obtaining additional agencies from other exporters who are anxious to get the services of a good agent.

Attraction of Foreign Trade

Because competition for agencies of well-known goods which sell freely is keen, agents will often visit the exporting country and make personal contacts with manufacturers in an effort to obtain the agency. Where a country wishes to attract foreign trade it will make such agents welcome. By organizing **marketing-centres** such as fairs, exhibitions, etc., it will not only attract the 'tourist trade,' but also help in advertising the goods it can produce and is prepared to export. Many people in the English home market were discontented because in the post-war years after 1945 they could not buy many of the goods exhibited at these fairs, particularly at the British Industries Fair and the Motor Show, but, on the other hand, both of these events attracted large numbers of overseas buyers, and helped in swelling the amount of overseas trade.

A country that is keen on developing its export trade will go to great lengths to organize such events. Although much criticism was levelled against the Festival of Britain, the value of such an event cannot be denied in relation to the attraction of overseas visitors and the development of further foreign trade. On the other hand, when such marketing-publicity is carried out on a large scale it is costly, and the arguments against the Festival of Britain have been mainly concerned with the huge expenditure involved in its undertaking. Again, large events such as this have the tonic effect of showing the world that the country organizing the event is alive and full of enterprise, thus bringing itself to the notice of world markets and contacting sources which might otherwise have been missed.

Open or Closed Indent

An **open indent** does not specify the source or manufacture of the goods, but leaves the selection to the agent. Open indents are not used a great deal, since importers usually want an article of a particular manufacture. On the other hand, agents visiting overseas fairs such as the British Industries Fair might receive open indents from their customers requesting them to

purchase certain commodities, without necessarily specifying the manufacture. A ceiling price is usually quoted beyond which the agent must not go. Where the source or manufacture of the article is definitely stated the indent is known as a **closed**, or **specific**, one, and the agent must abide by the instructions of the buyer. In the case of the cycles the prospective buyer in South America would have definitely stipulated that he required cycles manufactured by the New Era Cycle Company of Birmingham.

Forwarding the Goods

The agent in South America will now send the indent to the manufacturers in Birmingham. In cases where time needs to be saved the indent may be air-mailed or cabled. When the manufacturer receives the indent he will arrange for the goods to be manufactured, packed, and dispatched. The actual packing of the goods is very important. Space and weight are both factors that have to be considered, since more will be charged if these articles take up too much room. Hence, instead of being packed in cases, they may be 'crated'—*i.e.*, the case is an openwork affair, thus reducing the amount of wood necessary and making the packing lighter. The actual shipping of the goods may be carried out by a **forwarding agent**, who is a specialist in all the formalities involved in sending goods abroad. Many large manufacturers, however, have their own shipping departments, with managers and clerks who are skilled in arranging for the shipping of goods.

Sea Freight

We noted in the above paragraph that sea-freight charges are made according to the space occupied by the goods, or according to their weight. The bulk is calculated in 'cubic contents,' and thus packing will be made to reduce this, so as to keep the cost of freight as low as possible, since this will, of course, add to the cost of the goods.

In most cases of shipping procedure the goods occupy only

part of the steamer's capacity, and sea-freight charges are made accordingly, but where an export consignment comprises a whole shipload, then the ship may be hired as a whole. This will necessitate the drawing up of an agreement known as a **charter party**. There are different kinds of charter parties according to the needs of the exporter and the facilities which the shipowner is prepared to offer, but generally speaking charter parties fall into two categories—namely, **voyage charters** or **time charters**. In the case of voyage charters the vessel is hired for a particular voyage or voyages, whereas in the case of time charters possession of the vessel is only for a specified time.

When charter parties are entered into it is sometimes necessary to state explicitly the nature of the merchandise, but where this assurance is not expressly given any goods which are not likely to damage the ship will be accepted, and are regarded as 'lawful merchandise.' For example, a shipowner must know if goods of an explosive nature are being shipped, since special conditions will be necessary if such a consignment is handled.

Arrangements having been completed with the shipping company for the carrying of the goods, the following three documents are now necessary:

1. Bill of lading.
2. Invoice.
3. Insurance policy.

Bill of Lading

The **Bill of Lading**, as we have seen elsewhere, is a contract between the exporter and the shipping company which expressly states the terms under which the goods will be carried. It shows clearly to what extent the shipowners can be held responsible for the safe carriage of the goods, and also what risks are excluded from this responsibility. It should be understood that a Bill of Lading is a **document of title**—*i.e.*, possession of the document gives its owner legal right to the goods. Another such document of title is a **Dock Warrant**,

which is given as evidence that certain goods have been deposited in a warehouse, and presentation of which is necessary before the goods can be handed over again.

Three or more copies of the Bill of Lading are usually made out—one for the master of the vessel, one for the shipping agents, and one for the consignee at the other end, who must produce this copy, so that it can be compared with the copy which the master of the vessel possesses. If they are identical it shows that the consignee is the rightful party to receive the goods. This, of course, is done to prevent the goods falling into wrong hands. The shipping agents will return their copy to the exporter when all freight charges, etc., have been settled.

Invoiced Selling Price

In view of the fact that a number of extra charges are incurred before the goods reach the importer, it is customary for quotations to state at what 'level' the price will include or exclude these extra charges. The following are customary modes of quoting prices for export :

(i) *F.A.S. (Free alongside Ship)*. The price quoted will include all charges for delivery of the goods to the ship's side, but not for loading on to the vessel itself.

(ii) *F.O.B. (Free on Board)*. The price here goes beyond the F.A.S. quotation, since it includes charges for loading the goods on to the ship.

(iii) *C. & F. (Cost and Freight)*. The price now includes not only F.O.B. delivery, but also the cost of transit to port of destination.

(iv) *C.I.F. (Cost, Insurance, and Freight)*. This is a comprehensive price which includes not only all shipping charges, but also the cost of insuring the goods.

Consular Invoices

Certain countries charge import duties according to the value of the goods (Ad Valorem Duty), and they require, in addition

to the exporter's commercial invoice prices, confirmation of the prices shown on the invoice. This confirmation is given by a declaration being made before the consul of the country to which the goods are being sent. The goods must be invoiced on a special form provided for each country, and on the back full details of the goods must be given. This is signed by the consul, and is now known as a **Consular Invoice**. Penalties for wrong information are very heavy, and it should also be clearly understood that goods sent with Consular Invoices are still liable to be examined by the customs authorities abroad.

No duties are payable on goods exported in the country of origin, but a declaration of the goods must be made by the exporter to the customs authorities for statistical purposes. A special form known as an **Entry Outwards Form**, or **Customs Specification Form**, is used for this purpose.

Insurance

Goods sent by sea incur many risks, and the exporter will see that a **Marine Insurance Policy** is taken out, which will cover the majority of such risks. An insurance policy may be for **Particular Average** or **General Average**. If it is of the former kind, then possible loss of the specific cargo is covered, even where such loss does not affect other cargoes carried in the same vessel. The loss incurred, for example, by goods which are jettisoned in order to save the ship as a whole must be borne by all concerned—*i.e.*, the owners of other cargoes on board, the shipowners, etc.

The shipowners will naturally bear a proportion of the risk of carriage as shown in the Bill of Lading, but there are certain risks which they will not undertake; hence the marine-insurance policy should be so designed as to cover these extra risks.

Marine insurance policies are usually effected through a Marine Insurance Company, or through an insurance broker. Where insurance is covered through Lloyd's Underwriters the services of an insurance broker are necessary. The **Policy of**

Insurance will set out all the risks covered and conditions of payment should loss or damage occur.

Payment for the Goods

Where settlement for the goods is to be through the medium of a Bill of Exchange the following is usually the procedure:

The exporter will make out a Bill of Exchange drawn on the importer or agent, requiring him to pay the invoice value of the goods, plus all charges if the goods are sold at F.O.B. price. The bill is generally made out 'payable at sight,' and is thus known as a **sight draft**. It is attached to the Bill of Lading, the Policy of Insurance, and other documents. It will now be known as a **Documentary Bill**, and together with the documents is sent to the bank in the foreign country. On payment of the Bill of Exchange the document of title—*i.e.*, the Bill of Lading—will be handed over to the importer or agent, also the insurance policy. They can then take delivery of the goods. On the other hand, if the Bill of Exchange is made out not at sight, but payable at some future time, immediate payment is not required, and the Bill of Lading entitling the importer or agent to the goods will be handed over by the bank on acceptance of the bill. Such a transaction is known as delivering goods on **documents against acceptance (D/A)**. Should the importer or agent refuse to accept the bill the exporter can insure against possible losses of having the goods returned to him by instructing the bank to *sell* the goods for him. In such cases a **Letter of Hypothecation** is necessary, which will give the bank instructions to carry out this procedure and guidance as to value of the goods, etc.

Letters of Credit

The most common system of settling accounts, however, is through the medium of **Letters of Credit**. The system is very simple, and avoids many complications which the Bill of Exchange might involve. Briefly, the method is for the importer to arrange with his own bank for a **transfer** of a certain sum of

money, usually the value of the goods he wishes to purchase, to the exporter's bank. The Letter of Credit is sent with the order, and when the exporter has completed arrangements for shipping of the order he presents the Bill of Lading, to his bank and receives in exchange the money value of the goods. The chief drawback of Letters of Credit is that they tie up capital, since the money is transferred at the same time as the order, and thus extended period of credit is not obtained, as in the case of the Bill of Exchange.

Export Merchants

A brief note is necessary in connexion with the **export merchants**. Manufacturers do not as usual make use of their services, but appoint their own agents, as we have seen above, but at one time the export merchants were an important part of the export-trade organization. Their main function is to obtain orders from customers abroad, and to arrange for dispatch of goods. They work on a commission basis, and in a similar capacity to brokers.

British Standards

Standardization aims at reducing wastage, and in streamlining both administrative work and production methods. A standard method of accounting is adopted for most businesses. There are also standard forms and standard banking systems. The British Standards Institution, which began in 1901, has done a great deal to help in the field of standardization. To-day, apart from the standard weights and measures with which we are all familiar, we have standard sizes of paper, such as octavo, quarto, and foolscap. Envelopes are standardized as to size, such as Commercial and Foolscap. Keyboards for typewriters are standardized irrespective of their make, as is also the type used, such as pica or élite.

In the commodity markets standardization is a most important feature of buying and selling. Certain products where 'blending' makes a material difference are sold on a 'standard'

basis with definite classifications. In the field of engineering standardization has been developed to a fine degree.

As many of the products to-day go beyond the national frontiers, an International Standardizing Body has been established so that certain standards may become fixed.

QUESTIONS

1. What is an 'accredited agent'? Describe briefly the work of such agents.
2. Why do countries organize fairs and exhibitions?
3. What are the main criticisms against festivals being held in countries wishing to attract foreign visitors?
4. What is the difference between an 'open' and a 'closed' or 'specific' indent?
5. Give some of the main particulars an indent should contain.
6. What are 'markings' in connexion with the export trade? When are these used?
7. Describe briefly the work of forwarding 'agents'.
8. Explain the term 'charter party.' Show the difference between a 'voyage' and a 'time' charter party.
9. Explain fully what you understand by a Bill of Lading.
10. What is a document of title? Give examples of such documents.
11. In what way does an invoice for export purposes differ from an invoice used in the home trade?
12. Explain the following terms in connexion with the export trade: C.I.F.; F.O.B.; C. & F.
13. What is a 'Consular Invoice'? When are such documents used?
14. When is an 'Entry Outwards Form' used?
15. Why do exporters take out marine insurance policies?
16. Explain the terms 'particular' and 'general average' in connexion with marine insurance.
17. When is it necessary to employ the services of an insurance broker?
18. What two methods are used for payment of goods in connexion with the export trade? Explain briefly one of these methods.
19. Explain the term 'Letter of Hypothecation.'
20. Show how the banks help in the conduct of export business.

CHAPTER TWENTY

Insurance

RISKS are taken by most people, but from early times men have tried to guard against such risks affecting them. •During the Elizabethan period of mercantile expansion there arose the method of **joint ventures**, by which means several people would put their money into a venture such as a shipping expedition to the Indies, thereby pooling their profits, but also pooling their losses in the event of such taking place. If one man put all his money or capital into such a venture it would mean that should it fail he would be ruined, whereas the system of the 'joint venture' prevented this happening, and thus he guarded against the risk. Such a procedure might well be called 'insuring against total loss.'

Because sea-ventures presented the greatest hazard and possible losses, owing to the nature of the sea, marine insurance was one of the first kinds of insurance to come into existence. At first it was a haphazard kind of affair, with individuals **underwriting** ventures for a definite sum of money to be paid in the event of partial or total loss, and for which service a **premium** was charged. To-day it is organized on a more definite basis, with large insurance companies undertaking to insure against large losses, the premiums for which, of course, are very heavy. The underwriters still exist, however, at Lloyd's, and because their overheads are much smaller are able to offer policies at lower premiums than are the companies.

Tariff and Non-tariff Companies

So greatly organized is insurance to-day that the large companies have a precise understanding as to what premiums are to be charged, and have agreed among themselves to set up a

tariff, or scale of charges, below which they must not charge, nor must they charge more. The premiums of the tariff companies are high, but at the same time their solid position and the large capital resources which they possess are a guarantee that they will be able to honour any contract they enter into. Many people prefer to take out policies with the tariff companies, and to pay their higher premium, feeling more confident in so doing. Non-tariff insurances are usually carried out at Lloyd's by underwriters, who, as already mentioned, because of their lower overhead costs, are able to offer insurances at lower premiums. Whether these insurances can always be honoured is another matter, though most underwriters are able to do so, and thus build up a goodwill on their names.

Insurable Interest

It is not legal to take out an insurance policy unless the person so doing has a direct interest, and would benefit by the present state of affairs continuing as it is and lose by the materialization of the risk against which he insures. For example, a person cannot insure his neighbour's house against fire and theft, and in the event of a loss happening claim compensation, unless he has a direct interest in the property. If the house is his own, and he is letting it, so that the neighbour is a tenant of his, then it would be quite in order for an insurance to be effected, but if he has not such an interest and the house is owned by the neighbour the insurance would not be valid. Again, if such a person had a mortgage on the house, then insurance against fire or theft would, as a matter of course, be accepted.

Life insurance presents many complications, and insurance companies guard against people taking out policies on other people's lives unless such a direct interest exists. This interest is known as **insurable interest**, and it has been introduced to avoid insurance being taken on as a gamble.

Insurance for Risk, not for Profit

The object of insurance is not to make a profit, but to obtain

protection against a possible loss. Unless this element of possible loss exists insurances cannot be effected. It is for this reason that insurance companies will not insure articles or property for more than their real value—in fact, very often it is the capital value that is more than the insured value. A house worth, for example, £2000 may be insured for £2000, not for more; otherwise the destruction of the house would give a profit to the insured party. A motor-car worth, say, £400 cannot be insured for £500, and insurance companies are very careful to see that the true value is stated before accepting the risk.

Many Risks, Few Losses

Insurance is possible because, although a large number of risks are undertaken, only a few real losses materialize, so that the premium money paid by those who sustain no loss more than covers the company in paying out the losses sustained. The charge which an insurance company makes for covering a risk is calculated on the law of averages. For example, although large numbers of people insure their houses against fire, only a very small proportion of houses is actually destroyed by fire. According to the frequency of such losses, the charges are 'scaled,' and where such risks materialize more frequently the charges are proportionately higher.

This work of calculating these charges and of investigating the frequency of actual losses is carried out by people specially trained for the work. These specialists are known as **actuaries**, and their calculations have to be very accurate and their investigations very thorough. The cost of insuring a motor-car against possible accidents is much higher than insuring a house against fire, because the frequency of accidents is much greater. Accidents happen every hour of the day, but fires are much rarer. A house with a thatched roof will cost more to insure against fire than a house with a slate or tiled roof, and a wooden house more than a house built of bricks. Thus each risk is examined individually, and on the particular circumstances which exist the charge is made accordingly.

Kinds of Insurance

Generally speaking, provided an insurable interest exists, there is very little against which it is not possible to insure. The main classes of insurance, however, may be stated as follows:

Marine Insurance. Insurance against losses occurring at sea.

Fire and Theft. Losses incurred through property being destroyed by fire, or valuables or other articles being stolen.

Life Insurance. Insurance against accidents and whole life endowment.

Motor-car Insurance. Compulsory insurance of vehicles against possible accidents involving a **third party** and resulting in injuries or death.

Personal Insurance. Insurance against losses because of certain personal qualities—*i.e.*, a singer's voice, a dancer's legs, an actor's voice.

Profits. Insurance against loss of profits owing to certain conditions.

The Proposal Form

The first step in effecting an insurance is to complete a **proposal form**. This is a form setting out all the details of the proposed insurance, and showing clearly what the risk is likely to be. The proposal form must be filled in correctly and accurately, otherwise an insurance company may refuse to pay out on a claim which is made, and sometimes serious consequences may result through wrong information being supplied on a proposal form.

Covering Note

Because it takes time to prepare the final policy which shows acceptance of the proposed risk by the insurance company, and also the conditions in full under which the risk will be covered, insurance companies issue **cover notes**. These notes give

immediate cover to the insured party, and should a loss occur they can claim in the same way as if they possessed the policy, but the cover note does not take the place of the policy, nor does it go beyond the policy. The conditions set out in the policy are the terms under which the risk will be covered, and should a loss be incurred before the policy is ready the risk shall be deemed to have taken place as if such a policy existed, and its conditions adhered to.

The policy is a valuable document, and the insured party should read it very carefully. Many people do not bother to read their policies, with the result that they are often under the mistaken impression that the risk is covered in many ways which the policy does not include; hence when a loss is incurred they claim from the company and are very embittered when the company points out that their policy does not cover the circumstances in which the loss has occurred. It is important to know what the policy covers, and perhaps even more important to know what it does *not* cover, as it may happen that the premium is paid by the insurer for precisely those risks which (unknown to him) are excluded.

Policies and Premiums

An insurance policy is valid only provided the premiums have been paid or renewed, and when such premiums expire they must be renewed within the specified time. Usually an extended period of a week or fourteen days is given over the due date, and should a loss occur during this time the policy will be accepted as being valid. Insurance companies often send notes along in the form of reminders when a policy is about to expire, so that the premiums can be paid by the due date.

Comprehensive Policies

Policies are said to be **comprehensive**, or **all-in**, when they cover a number of possible risks. It is, for example, compulsory for all owners of motor-cars to have these insured against third party risks before they can be used on the road,

but it is not compulsory for them to insure against a number of other possible risks, such as fire, theft, or damage to their own cars, loss of articles from their car, etc.

All these risks, however, may be covered if they take out a **comprehensive policy**, and in the event of any of these losses materializing they can claim from their insurance company for compensation. Householders often take out comprehensive policies which give them protection not only against loss from fire or burglary, but also from damage to furniture through other causes. These comprehensive policies are very well favoured, but the premiums are much higher, and for this reason many people prefer not to take them out, being willing to assume certain losses themselves.

Extent of Insurance

The extent to which a person will take out insurance policies will depend on a number of conditions. In the first place, he will consider the cost of the premiums. If the premiums are very heavy he may decide not to insure. The cost of the premiums, however, is not just the actual monetary value of the premiums itself; it is the monetary value relative to the possible loss with regard to the risk involved. In other words, an interested party may be willing to pay a high premium for a possible loss which may be high and wherein the risk also is high. If, on the other hand, the premium is too costly he may decide to take the risk himself, and not insure at all. Premiums have to be competitive—*i.e.*, they have to be such as to make it worth while for the insured party to take on the policy; otherwise, if they are too costly, no business will result and the policies will be redundant.

Because business people will often shoulder the risks themselves separate policies are often taken out. A retailer, for instance, may insure only his stock against possible fire or theft, and not the actual premises themselves, considering that the possibility of fire is so remote that it is not worth his while paying a premium against this risk. A retailer dealing in glassware

may prefer to insure his goods against losses through breakages rather than through fire, and so on.

Reinsurance

Although insurance companies use the services of actuaries in working out their premiums, and usually cover themselves, they still prefer to lessen their possible risks themselves by re-insuring with other companies. In this manner they are able to spread their risks, and so cover themselves to some extent.

QUESTIONS

1. Give an example of one of the earliest forms of insurance.
2. "Insurance is the protection against possible losses." Discuss this statement.
3. What is a 'tariff company' in connexion with insurance? Are there any non-tariff companies?
4. What is an 'insurable interest'? Why is it necessary to have this in connexion with insurance?
5. Show how insurance helps the business community.
6. What do you understand by the phrase 'insuring for risk, not for profit'?
7. Upon what principle does insurance operate?
8. Why do premiums for different risks differ?
9. Name any form of compulsory insurance you know of. Give your reasons why compulsion is necessary.
10. Explain the terms (a) proposal form, (b) cover note.
11. Why is it necessary to read an insurance policy very carefully?
12. What is a comprehensive policy?
13. What considerations will a business person take into account when effecting an insurance?
14. What is reinsurance? Why is it used by many companies?
15. Under what conditions do you think an insurance company might refuse to accept a possible customer?

CHAPTER TWENTY-ONE

Communications

IN the chapter on transport we noted how important was the carrying of goods from one place to another, and how through the development of transport and road facilities the cost of goods decreased and the standard of living rose. We shall now examine how the development in the sending not only of goods, but also of messages, assists in reducing the cost of production, and in giving a community a higher standard of living.

Communications and the Market

We observed in the chapter on production how it was necessary for a commodity to be in the hands of the consumer before it could be said to be produced. The manufacture of an article in Scotland cannot be said to be of use to consumers in the South of England unless that article can be delivered to these consumers. The actual physical transporting of these commodities is one feature of production, but there is also another feature—that of knowing whether there are possible consumers who want this article. It is in the finding out of this second feature of the market that communications play an important part. It is furthermore a very important part of production, for it enables the producer to plan his campaign of distribution and to gauge the extent of the markets. Whether he uses special messengers or travellers to study market conditions or the services of established agents who have a knowledge of the area and possible demand for his product he will need to communicate with them. Furthermore, he will need to get in touch with his prospective customers, and personal

communications may be far too long or expensive. Hence contact by letter will be the obvious solution.

The Post Office

It was in 1840 that Rowland Hill introduced the **penny post**, which made facilities for postal communications available to the public in general. Since then the Post Office has enlarged its activities beyond the scope of letter communications, and is to-day one of the most profitable of Government departments, and also one of the most valuable to the public.

Letter Post

To send an ordinary letter through the post requires very little formality. The address should be written clearly, and where a postal district or area number or letter is part of the address, this should be shown.

John Jones, Esq.,
14 High Street,
Clapham, S.W.4

A person should be addressed either as 'Mr' or 'Esq.,' but not both, and any designations after his name inserted. The number of the house, in preference to merely the name, should be indicated. A great deal of time is wasted by the postal authorities in this manner, the postman often having to search a long while before finding, for example, Mon Repos in Acacia Avenue.

In addition to the address to which we wish the letter to be sent, we should also put our own address on the back of the envelope. This is known as the **sender's address**, and is very *useful to the Post Office* in the event of their being unable to deliver the letter.

Registered Letters

In order to assure greater safety in the delivery of letters, particularly those containing money, the **Registered Letter**

System was introduced. A registered letter is not put into an ordinary letter-box, but handed over the counter at a post-office and a receipt for it obtained from the clerk. In the event of loss a claim on the Postmaster-General can be made by the sender for compensation. The amount of compensation varies according to the **registration-fee**. Money or jewellery must not be sent through the post in unregistered envelopes. If such articles are found in an unregistered envelope it will be **compulsorily registered**, and the fee charged at the other end. In order that a claim may be made for any loss, the letter should be sent in a special **registered envelope**, which can be obtained at the post-office.

Express Letter Post

Where it is required to send letters more quickly the **Express Letter Service** can be used.

Posting and Late Fee

If it is too late for a letter to be sent by the last ordinary post it may be taken to the central offices in the town where a late service is in operation.

Railex

This is a combined service agreed upon between the postal authorities and the British railways by which means a letter may be conveyed by the next available train to be called for at the station of delivery, or transferred to the post by the railway officials.

Air Mail

For overseas letters the **air mail** is the quickest and most convenient form of dispatch. A special air-mail letter form can be used on which the letter may be written.

Printed-paper Rate

Newspapers, magazines, or letters such as circulars which are printed or duplicated from a stencilled copy may be sent through the post at a specially reduced rate, known as the **printed-paper rate**. They must be open to inspection, not sealed. Magazines and illustrated papers must be registered with the G.P.O.

Business-reply Service

This service is used by many firms in order to encourage replies to their quotations or offers. The reply may be in the form of a postcard, a folder, or an envelope. No postage is required, this having been paid by the sender, and no address need be written, a business-reply index no. being printed.

Surcharge

Where insufficient postage has been put on a letter the addressee will have to pay the difference, or if no postage has been paid, then he must pay this at **double cost**.

Telegrams

There are two usual ways of sending a telegram, as follows:

1. By filling in a telegraph-form obtainable at any post-office.
2. By telephone.

The second method is used when the post-offices are closed, and is also very convenient generally. Telegrams should be clear and concise, containing nothing that is not essential.

Telegraphic Addresses

In order to save time and money many firms have what is known as a **telegraphic address**—that is, the name and address of the firm is expressed in two words. The first word can be anything which the firm chooses, but the second must be the name of the town in which the firm is situated, thus a

firm dealing in cotton in Manchester whose name is Messrs John Terry, Ltd, might select as its telegraphic address "Terry Manchester" or "Cotton Manchester." This address must be registered with the Post Office authorities. The name must not contain more than ten letters, and must be easy to pronounce.

Codes

Instead of writing out a message in ordinary words a **code** may be used. There are recognized codes, such as the ABC codes, which may be used, or a firm can use a code of its own, known as a **private code**.

Redirection

A letter sent to a person who has moved from an address may be **redirected** to that person by writing the new address on the envelope and crossing out the old one. No charge is made for this service by the Post Office. In the event of a person's moving from an address to a new one the service of redirection will be given free for six months.

Poste Restante

This service is very useful to people travelling in a country who are not certain where they are likely to stay. Letters can be addressed to the post-office of the place in which they are temporarily staying, and marked **Poste Restante**. The addressee can then collect the letter by calling at the post-office. No charge is made for this service, but the words **Poste Restante** must be clearly shown on the envelope.

Other Post Office Services

In addition to dispatch and delivery of letters, postcards, telegrams, etc., the Post Office also carries out a large number of other services. Licences for motor-cars, dogs, and wireless-sets may be obtained at a post-office, and money may be

deposited in the Post Office Savings Bank. The **cash on delivery** service is also operated through the Post Office, and is very useful to firms which sell most of their goods through the post, and which are known as **mail-order houses**. These firms advertise their wares in newspapers and magazines, and also send out large numbers of circulars to prospective customers. The customer is usually requested to send a deposit on the goods he wishes to purchase, and to pay for the rest when he receives the goods. By means of the **C.O.D.** service he pays the money through the Post Office when the goods are delivered to him. The cost of the goods is known as the **trade charge**, and the Post Office base the fees they charge for the service upon this amount. The Post Office will also dispatch and deliver parcels, and these may be sent by unregistered or registered post.

Certificate of Posting

In order that proof that an unregistered letter has been posted may be obtained the Post Office will issue a **Certificate of Posting**. A small charge is made. The issue of such a certificate does not mean that the letter will receive any special attention, such as it would if it were registered, nor can compensation be claimed because such a certificate has been given.

Overseas Letters

The above information refers to **Inland Postage**, but most of the facilities offered in this respect will also be found to apply to overseas mail. The charges for sending letters abroad are, of course, higher than those for inland services.

“Post Office Guide”

The *Post Office Guide* gives all information relating to the Post Office services, and copies may be obtained from most

post-offices. The *Guide* is comprehensive, and contains all the rates and charges which the Post Office makes for any of its services.

QUESTIONS

1. In what way does an efficient system of communication help in expansion of a market?
2. Give examples of three forms of communication which have helped greatly in development of marketing.
3. Draw rectangles to represent envelopes and address letters to the following :
 - Mr S. Howard, The Elms, 19 Hightree View, Holmwood, Surrey.
 - Mrs N. Nelson, 24 Newton Lane, Leeds.
 - L. T. Tawney and Co., Ltd, 15 Blackfriars, S.E.1.
 - Swift Products, Ltd, 108 High Street, Lewisham, S.E.
4. Why is it necessary to insert the sender's name and address on a letter?
5. How should money be sent through the post?
6. What formalities should be observed in using the method described in Question 5?
7. What is 'express-letter post'? In what circumstances might such a facility be used effectively?
8. What is 'Railex' in connexion with the Post Office service?
9. What method of posting can be used in sending newspapers or circulars?
10. What is 'surcharge'? Why should it be avoided?
11. Send a telegram to a firm cancelling an order you have placed. Not more than twelve words should be used.
12. What is a telegraphic code? Why is it not used more frequently?
13. What is 'redirection'? Show some of its uses.
14. What happens to letters addressed 'Poste Restante'? Do you think this is a useful service?
15. What proof can you obtain of having posted a letter?
16. Write an account of the 'cash on delivery' service which the Post Office operates.

17. What is the *Post Office Guide*? Give some account of the information you are likely to find in this.
18. Write a letter to the Postmaster-General claiming compensation for loss of a registered letter.
19. Describe briefly the 'business-reply' service which the Post Office operates.
20. Write an essay entitled "The Post Office and the Business World."

Examination Papers

ROYAL SOCIETY OF ARTS EXAMINATIONS, 1954

STAGE I—ELEMENTARY

1. What activities of man are classified as commercial? What causes give rise to these activities?

2. State the broad differences that exist in this country between the methods of marketing *either* (a) market garden produce and groceries; *or* (b) engineering plant and household goods such as furniture. Suggest reasons for the differences in the methods of distribution.

3. In what ways has the development of transport over the last hundred and fifty years contributed to the extension of commerce?

4. What do you understand by the term 'mark-up'? What factors must a trader take into account in determining his 'mark-up'?

5. "Small profits and quick returns" is a policy advocated for traders. Explain its meaning, and give any examples you can of retail-trading firms that employ this method of trading.

6. What are the main services that banking renders to commerce?

7. For what purposes does a commercial undertaking require capital? Will the fixed capital or the working capital be the bigger? Give reasons for your answer.

8. Suggest a method by which a retailer may keep records of his credit sales. What use for the conduct of his business can the retailer make of such records?

STAGE II—INTERMEDIATE

1. In what ways has the ability of the Joint-stock Company to trade with limited liability affected the growth and organization of marketing in England? Are there commercial activities not usually carried on by Limited Liability Companies? If so, can you suggest reasons why they are not?

2. What do you understand by 'ploughing back profits,' and what is the object of so doing? Consider the degree to which the practice is possible to-day in different types of business unit.

3. "Mass production entails mass distribution." In what ways do manufacturers seek to achieve mass distribution in the home market?

4. Show how market research may be used to assist in the marketing of a new product.

5. What factors since 1945 have made it more difficult than before the War for the United Kingdom to achieve a favourable balance of payments?

6. A manufacturer in the Midlands proposes to distribute sweets direct to retailers throughout England and Wales. What transport arrangements would you expect him to make to ensure the *prompt* fulfilment of orders with *economy* in transport costs?

7. The cost of manufacture of goods made in anticipation of demand has to be met some time before their ultimate sale to consumers in this country provides the money for that purpose. In what ways can the necessary finance be found and who bears the cost of it during this period?

8. In what way does forward dealing on organized produce markets act as a form of insurance and against what risk? Do you know of any recent addition to forward dealing facilities?

9. What services does the shipping and forwarding agent render in international trade?

THE LONDON CHAMBER OF COMMERCE

(Incorporated)

Certificate Stage

SPRING EXAMINATION, 1954

1. Give a definition of trade. How does trade help production?
2. What risks are carried by (a) the manufacturer, (b) the wholesaler, (c) the retailer, in the marketing of a commodity which each one handles in turn? Is there a difference in the degree to which such risks are carried by each of the business-men mentioned?

3. (i) What is the *purpose* of (a) cash discount, (b) trade discount?

(ii) A retailer sends a cheque for £66 6s. *od.* to his wholesaler in settlement of a purchase of goods which was subject to $33\frac{1}{3}$ per cent. trade discount and $2\frac{1}{2}$ per cent. cash discount. What was the gross value of the purchase?

4. How does an ordinary branch bank help trade in its locality?

5. Mention the various documents which might pass between a wholesaler and a retailer from start to finish of a transaction. Explain why the documents are used.

6. (a) Why are customs duties levied on imported goods?

(b) What is a bonded warehouse?

(c) What is a commission agent?

7. A. James, who banks with the Manchester Bank, Ltd, draws a cheque for £250 in favour of S. Green, who is a customer of the Western Bank. A. James crosses the cheque specially. (i) Draft the cheque; (ii) What is the effect of the crossing?

8. (i) Why is it important to distinguish between gross profit and net profit?

(ii) How is turnover of stock calculated, and why is it useful to know?

(iii) Why is it useful to calculate profits as a percentage of turnover?

UNION OF EDUCATIONAL INSTITUTIONS

GRADE SI

1. Distinguish carefully between: (a) Invoice and delivery note; (b) Multiple shop and departmental store; (c) Debit note and credit note; (d) I.O.U. and promissory note.

2. How do insurance companies assist the business-man?

3. (a) Write a letter of inquiry for the supply of a stated quantity of specified goods for a business with which you are familiar.

(b) Draft a reply to the above, in the form of a quotation.

4. Explain carefully how a current account at a bank is opened. What are the advantages of such an account to a trader?

5. What are the functions of a wholesale warehouseman? Discuss the tendency to eliminate the wholesaler in certain classes of business.

6. "All advertised goods are good." "Good goods require no advertising." Discuss these statements.

7. (a) What effect have the words 'not negotiable' on a cheque?

(b) What is a post-dated cheque? Detail the procedure to be adopted upon receipt of such a cheque.

(c) In what ways can the recipient of an 'open' cheque obtain value for it?

8. Explain the meaning of gross profit and net profit. What is the purpose of calculating gross and net profit per cent. on turnover, and net profit per cent. on capital?

9. Describe the advantages of Bills of Exchange to both debtors and creditors. Draft a specimen Bill of Exchange and show the acceptance.

10. What steps would you suggest in order to collect the following overdue accounts: (a) Several small accounts ranging up to £5 each; (b) One account of £600?

EAST MIDLAND EDUCATIONAL UNION EXAMINATIONS

SPRING 1953

GRADE S1

1. (a) Distinguish between an invoice and a statement of account. Explain clearly what is the purpose of each of them, both to the seller and to the buyer.

(b) What is a Credit Note and for what purposes is it used?

[Note. Answers should be illustrated by simple examples.]

2. Explain clearly what is meant by 'commerce' and show by means of appropriate examples how 'commerce' differs from 'industry.'

3. What are the main services which the public may expect from a retail trader? Do you consider that an independent retailer

renders these services more satisfactorily than does a multiple shop? Give reasons for your answer.

4. Compare a wholesale warehouse with a retail shop from the following viewpoints: (a) location, (b) size and nature of premises required, (c) staff employed, (d) methods of publicity normally used.

5. Assuming you are in business as a retail trader, (a) what factors would influence you when deciding whether to sell for cash or to allow credit to your customers, and (b) what particular points would you consider in determining the size of the order you would send to a wholesaler or manufacturer?

6. (a) What does an independent retailer usually mean by the term 'capital'?

(b) How may business expenses affect his capital?

(c) For what reasons does a trader have a bank current account?

7. Explain the difference between: (a) Delivery note and Consignment note; (b) Open cheque and crossed cheque; (c) Gross profit and net profit; (d) Trade discount and cash discount.

8. Give a clear description of the methods which are provided by the Post Office for sending money from one person to another. Compare each method as to convenience and security.

9. Explain what is meant by: (a) Mail order firm; (b) overhead expenses; (c) bank overdraft; (d) Chamber of Commerce.

10. (a) How does the rate of turnover affect a trader's profits?

(b) What is meant by 'stocktaking'? Why is it important that stocktaking should be done periodically by a trader?

Index

ACCOMMODATION BILLS, 205

Accounts, 53, 67
Accredited sole agent, 224
Actuaries, 235
Advertising, 46-47
Advice Note, 145-146
Agencies, 56, 144
Agent(s), 50, 224
Agriculture, 28, 29
Arbitration, 218
Assemblers, 33
Assembly shop, 29-30
Assets, 77, 170
Auctions, 51-52

BALANCE OF TRADE, 213
Balance-sheet, 170, 172, 173, 174
Bank(s), Banking, 78, 109 *et seq.*
Bank of England, 90, 95
Bank overdraft, 114
Bank Pass Book, 111
Bankruptcy, 77-78, 171, 175
Barter, 7-9, 11, 37
Basic necessities, 26-27
Bears, 221
Bill of Exchange, 200 *et seq.*; dis-
counting of, 205; legal defini-
tion of, 209
Bill of Lading, 227
Board of Directors, 82
Branded goods, 193
British Standards, 231-232
Brokers, 53
Bulk buying, 86-87
Bulls, 221
Business registration, 66

CANALS, 180
Capital, 33-37, 40, 55, 170, 195,
215; fluctuating, 41; fixed, 41;
depreciation of, 41-42; turn-

over, 43-44; liquid, 44; profit
and, 61, 169; large-scale, 74-76,
79-80; business and personal,
77; division of, 81; working
(banks), 120-121; working
(general business), 170-171;
Bills of Exchange and, 208-209
Carriage, 183-184
Caveat emptor, 10, 13
Chain of productivity, 23, 28, 29,
33, 47, 51
Chambers of Commerce, 74
Charter party, 227
Cheque(s), 109 *et seq.*, 119; cross-
ings, 111-112; parties to, 113-
114; bearer, 123; order, 123;
endorsement of, 123-125; lost
or stolen, 125-126; marked,
126; negotiability of, 126-127
Clearing system, 119, 121-122
Closed market, 11
Closed shop, 18
Coincidence of wants, 7
Combination, horizontal, 96;
vertical, 96
Commercial travellers, 23, 27, 52
Commission, 53, 71
Commodities, 8, 15, 27, 31, 46-
47, 51
Common carriers, 182-183
Companies, Private Limited, 79,
156-157; Joint-stock, 80-81;
management of, 81-82
Companies Act (1948), 79
Company's risk, 184
Competition, 13, 65, 191; perfect
and imperfect, 194-195
Composition, 171
Consignee, 183-184
Consignor, 183-184

- Consignment note, 183-184
 Construction, building, 29
 Consular Invoice, 228-229
 Consultative Councils, 97
 Consumers, 23, 24, 31, 34; pro-
 ducers and, 25-26, 58, 192;
 manufacturers and, 46; retailers
 and, 49, 59; hire purchase and,
 195
 Co-operative market, 193-194
 Co-operative Store, 87-89
 Credit, 102-103, 196, 200
 Credit Note, 104, 152
 Creditors, 77, 213
 Cross-reference system, 150
 Current account, 120
- DAYS OF GRACE, 207
 Dealers, 51
 Debentures, 82
 Debit Note, 108
 Decentralization, 94
 Deferred-payments system, 195-
 196
 Deficiency, 175
 Delivery Note, 146
 Deposit account, 120
 Depreciation, 42
 Direct services, 31-32
 Discount, trade, 49-50
 Discount Houses, 205
 Distribution and distributors, 27-
 28, 58
 Dividend, 171
 Division of labour, 20-21, 35, 48
 Dock Warrant, 227-228
 Docks and Harbours, 189
 Document of title, 227
 Documentary Bill, 230
 Domestic system, 38
 Duty, Ad Valorem, 201; Stamp,
 201
- ENDORSEMENT OF CHEQUES, 123-
 125
 Exchange, 7 *et seq.*, 35-36
 Exports, 211 *et seq.*; invisible, 215
 Extractive industries, 28
- FILING SYSTEMS, 129-132
 Finance Companies, 196-197
 Forged cheques, 112
 Forwarding agent, 226
 Free Trade, 211
 Freehold, 62-63
 Futures, 216-217
- GILT-EDGED SECURITIES, 220
 Goldsmiths, 118-119
 Goodwill, 13, 44, 60-62
 Guilds, 11, 12-13
- HEDGING, 217-218
 Hire charge, 195
 Hire purchase, 195-196; interest
 on, 197
 Home Trade, 214
- IMPORTS, 211-212
 Income, 56, 156-157; national,
 160-161
 Income tax, 67, 161-162
 Indents, 225-226
 Indirect production, 33; services,
 31-32
 Industry, 19, 28-30
 Insolvency, 171
 Insurable interest, 234
 Insurance, 196, 233; tariffs, 233-
 235; kinds of, 236-237, policies,
 237-239; reinsurance, 239
 Interdependence, 21-22, 25, 28,
 29, 31
 Intermediaries, 23, 27, 30, 213, 216
 International Standardizing
 Body, 232
 International Trade, 213
 Invoices, 104, 105, 148 *et seq.*
- JOINT-STOCK COMPANIES, 80-81
 Joint ventures, 233
- LABOUR, 16-19; division of, 20-
 21, 35; machinery and, 39-40
 Leasehold, 62-63
 Legal tender, 126-127
 Letter reference, 148

- Letters of Credit, 230-231
 Liabilities, 170
 Limited liability, 77-78, 175
 Litigation, 75
 Loan Companies, 197
- MACHINERY, as capital, 37-38, 41; and labour, 39-40; depreciation of, 42
 'Managerial Revolution,' 94
 Manufacturer(s), 23, 29; and advertising, 46-47; and wholesalers, 48, 50, 51, 52, 59; and retailers, 49, 50, 51, 59, 64; and capital, 103
 Manufacturing industries, 28
 Market research, 73-74
 Marketing Boards, 99-100
 Markets, 7 *et seq.*, 41, 88; buyers' and sellers', 191-193, 195; communications and, 240-241
 Medium of exchange, 8
 Memorandum of Association, 80
 Microfilm, 184
 Middleman, 50
 Money, 11, 27; purchase of, 15-16; and capital, 35; records of, 67, 129; ploughing back of, 74; investment of, 80; banking of, 118 *et seq.*
 Monopoly, 192-193
 Multiple shops, 71 *et seq.*
- NATIONAL COAL BOARD, 91, 92
 Nationalization, 90 *et seq.*, 184-185
 Negotiable instruments, 127, 200
 Net profit, 166-168
- OPEN MARKET, 11
 Optimum size of business, 72-73, 75
 Order(s), 53; repeat, 56; forms, 142-144
 Order Book, 52
 Order cheque, 123
 Organized market, 11-13, 219
- Overdraft, 114
 Overheads, 53, 68-69, 103
 Owner's risk, 184
- PARTNERS, 75-76; active, 76; dormant, 76; liability of, 76-77; limited, 77-78
 Partnership, forms of, 74; Deed of, 75; dissolution of, 75-76; disadvantages of, 77-78
 Passenger trains and goods, 187
 Paying-in Slip (Book), 107-111
 Payment, methods of, 108-109, 153
 Petty Cash Book, 135, 136
 Planned economy, 95
 Pool of London, 189
 Postal-orders, 109
 Poste Restante, 244
 Poundage, 109
 Primary needs, 26-27
 Pro Forma Invoice, 148-149
 Produce markets, 219
 Producers, production, 22-23, 58-59, 192; and consumers, 24, 33; State control and, 25; branches of, 30; and direct and indirect services, 31; and capital, 36, 74; machinery and, 38, 39; travellers and, 53; large-scale, 95-96; transport and, 179
 Profits, 68, 72, 73; ploughing back of, 74; sharing of, 75, 76, 81; net and gross, 159, 166, 167-168; and capital, 169
 Promissory Notes, 207
 Public Corporations, 92-93
 Purchase Tax, 198
- QUOTATIONS, STOCK EXCHANGE, 220
- RAILWAY RATES, 185-187
 Railways, 180-181
 Rationalization, 96
 Receipts, 114-115, 119
 Receiving order, 175
 Records, keeping of, 129 *et seq.*

- Restrictions, 25
 Retail trade, 58 *et seq.*
 Retailers, travellers and, 23,
 52; wholesalers, manufacturers,
 and, 50, 51, 55, 64-66, 103-
 104, 108⁷; dealers and, 50;
 certainty and, 59; unit, 60;
 and the keeping of records, 67-
 68; and overheads, 68; and the
 multiple shop, 71; and hire
 purchase, 195
- SALES, 53
 Sea freight, 226-227
 Share(s), 80; kinds of, 81
 Shareholders, 16, 81, 156-157
 Sheltered market, 12
 Sole trader, 74, 76
 Solvency, 171
 Specialization, 27
 Spot cash, 102-103
 Stamp Tax, 114
 Standard of living, 34, 35, 36, 37,
 182^c
 Standardization, 231-232
 State control, 25
 State monopolies, 97
 Statement of Account, 104, 107,
 129, 151
 Statement of Affairs, 175
- Status Inquiry Agency, 144-145
 Stock Exchange, 219-220
 Stock-book, 67-68
 Stock-taking, 165
 Stock-turn, 164-165
 Stockbrokers (stockjobbers), 220
- TARIFFS, 221-222
 Trade journals, 56, 74
 Trade name, 66
 Trade unions, 17, 158
 Transport, 54, 55, 179 *et seq.*
 Transport Act (1947), 185
 Transport Commission, 185
 Travellers, 52-53, 64
 Turnover, 164, 168, 169
- UNDERWRITERS, 233
 Unproductive worker, 23, 24-25
- WAGES, 68, 157-158, 192
 Warehouse, 52, 53-55, 189-190;
 bonded, 190
 Wealth, 36, 74
 Wholesalers, manufacturers, re-
 tailers, and, 47, 48-49, 50, 51,
 59, 64-65, 67, 103, 104; and
 'territories,' 52; and storage of
 goods, 53; and return on
 capital, 55-56

